Vantage Towers H1 FY22 Results Live Q&A

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Introduction

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Welcome

Good morning, everyone, and welcome to our Analyst Call Following our Half Year Results Announcement this morning. We are going to jump into Q&A pretty fast. I just thought I would share a quick summary of what we think are the key takeaways. As usual, I am joined by Thomas Reisten, our CFO. I am Vivek Badrinath, the CEO of Vantage Towers. It is great to be with all of you this morning.

Overview

First things first, the commercialisation of our business continues, and we are having more business with MNOs on one hand, and also, I would say, quite nicely expanding our footprint on IoT and DAS, that is the adjacencies beyond the MNO business. There are a number of proof points that we put out in the press release this morning and the release this morning that show some progression in a number of geographies.

From a commercial point of view, we have added in this first half more than 670 non-Vodafone tenancies, of which more than 370 are the non-committed ones, which continues to show our progression. If you recall, these numbers were 200 and 100, respectively, in the first quarter. You can see, the good momentum in our commercial activity. That means our tenancy ratio is now at 1.42, whereas it was 1.39 in the prior year, so once again, progression of our tenancies through our commercial activity.

If you look at the other side, which was the area that impacts the most, the cost structure, our ground lease buyout programme, is progressing well; now 250 signed contracts in Spain and Germany, and over 60 in the other markets. We have many more to come because it is a pipeline. There is the commitment that we get from the landlord, and then there is the administrative steps that take us to this signing figure, which, as I said, is 250 in Spain and Germany and 60 in other markets.

Financials

In terms of financials, a 2.5% revenue increase to €494 million in H1 and are well-positioned to accelerate in H2. Our EBITDA margin is at 54%, in line with our guidance. If you look at our recurring free cash flow, it is at €284 million in H1. That is because the tax and interest payments are scheduled for the second half.

Nevertheless, we announced on Friday night that we were increasing our recurring free cash flow guidance for the fiscal year 2022 from the previous range of €390 million to €400 million to a range of €405 million to €415 million. That is a combination of our borrowing cost of being optimised and cash tax expenses. We do expect to retain these benefits over the medium-term.

At the same time, we reiterate our unchanged revenue and EBITDA after leases margin guidance for this financial year, as well as we reaffirm our medium-term targets.

That is the short summary of this half year results session. With this, I would like to turn it over to you for questions, requesting you kindly to limit your questions to one question per analyst, so that we can go through the questions that each and every one of you may have. With this, I would like to open the floor for your questions. Thank you very much.

Q&A

Georgios Ierodiaconou (Citigroup): It is actually based on the OpEx side. We have seen two lines have a slight increase in cost. One was maintenance cost, which you highlight in the presentation, and the other one was a ground lease expense. Is it possible to give us an idea of where the similar drivers will be in place in the second half of the year? Also any comments as to how this could face into next year. Practically one thing I wanted to understand is how does it work with the decommissioning of sites in Spain, whether the benefits of that are coming with a delay or not.

Vivek Badrinath: Sure. Maybe I will turn this one to Thomas, because he has been going through that bridge pretty much indeed.

Thomas Reisten: Yeah. Overall, it is important to say that, obviously, we are very much on track to achieve our guidance on EBITDA as much as obviously we have been talking about as well the revenue guidance and now upgrading our cash flow guidance. Broadly stable versus the last years our EBITDAal margin guidance and that is what we feel very confident that we can actually achieve that.

Talking a little bit about the individual cost components on the maintenance costs, we have commented on that as well. We have seen some one-off costs and actually other costs that are in that line as well that are related to the ramp-up of our activities. I will give you an example, like understanding actually our sites that are doing analysis on our sites in terms of actually how much lease potential do we have in that context. Expenses like this we have actually seen coming through in the first half. That obviously should leave us in a very good situation for the future to be well prepared to capture actually the growth in that.

On the ground lease side then, what we've seen here is actually the full year impact of the lease-term reassessment coming through. You will remember that, in particular, on Greece, they were actually only coming in December last year there. We have seen actually some incremental costs coming through from that least term reassessment as a full year effect. There is no incremental lease term reassessment, just to deal with that potential question as well coming our way. No further cost increases actually on that.

Then secondly, one other important aspect of the ground lease cost is, if you look at the phasing, they are actually developing very, very well and very stable, i.e., not inflating. That is, I think, very important to note in the context of our programmes, the GLBO programme in particular that is starting to ramp-up, obviously as we were saying in our announcement as well.

I mean, 310 sites, GLBOs we have now signed, which means contractual agreements finished and savings, as a consequence, immediately coming through. The pipeline of deals that we have agreed is now close to 600. We are making very good progress in a number of territories. Spain and Germany, 250 of those signatures, 60 in the other markets, so that is really good progress on those initiatives. That should leave us, and consequently, if you just take the trajectory into the future of achieving actually high 50s percentage EBITDA after leases margin on a very good trajectory to achieve exactly that guidance over the medium term.

Georgios Ierodiaconou: I will ask a clarification on the maintenance cost. You mentioned that you are spending more in trying to have a better analysis of your sites. Is what we have seen in the first half of this year typical of what you will be spending in the future, or is this a one-off? I understand we should assume the growth keeps accumulating, but is the level you are spending now typical what you will in the future?

Thomas Reisten: No. What we are saying is actually that we have one-off cost in the first half and that we have investment costs that are necessarily repeating into the future basically.

Andrew Lee (Goldman Sachs): Just had a question on your guidance. It is almost a year since you set your guidance and we are still in acceleration mode. It is a bit harder maybe for us to get a real sense as to what is going on in terms of underlying growth. Just wondered if you could comment on how your underlying drivers are progressing versus how you anticipate things when you set mid-term guidance? Your core terms growth looks pretty decent this quarter as do other revenues like IoT. Maybe if you just run through what is going better and what is not versus your original expectations of your core revenue drivers?

Vivek Badrinath: Broadly speaking, we are in the corridor of what we were setting out to achieve, and that is why as you can see, we are reasserting our guidance for this year and for the medium term. You put it very well, it is in acceleration mode. You see first half 670, first quarter 200, so that is the non-Vodafone activities. The work that we are doing in terms of setting up commercial team engaging with customers, looking for opportunities, progressing well; I would say, good clip.

We did start in March 2020 to stand up that team, and I am very proud of them because they really go out there. They are with the customers. We have been seizing all the little windows of opportunity to travel that we could seize in the last few weeks and months to go into countries as a leadership team and meet with some of our larger customers. Good reception. Always ideas beyond the 'Let us get the work done on the existing contracts,' 'Let us make those new contracts future proof in terms of making them into proper master services agreements;' good progress there. On the other hand, 'Can we do something more, let us explore new areas,' I would say that space is healthy.

In terms of production and the build-to-suit programmes, the acceleration, as we have always said there was a level of seasonality. If you look at the first quarter, we are finishing some of the sites of the previous budgetary year. Now we were ramping up. And you will see the acceleration in the second half in terms of production of items. It is fair to say it is a lot of work. We are professionalizing the teams, working with the teams and their vendors because the ramp-up is pretty significant to make sure that those volumes that we are putting into the market are well managed by our construction, tower building, the cement needs to dry, and all that stuff needs to get done. However, we are on it at a very analytical level detailed side by side. We are making that industrial progress. It is work ongoing, so that is good.

GLBOs, as you can see good ramp-up now, because I gave the numbers for the signed ones. There is the limit to how much you can squeeze the time between signing and authorising a land type of deal in any country. I cannot say the times are that easy for that, but the pipeline is healthy. We have got commitments that are coming in at the right pace for us to ramp up. I would say the acceleration is ongoing pretty much within those boundaries of what we were setting out to do. I mean, we went into an IPO with an ambitious plan, but I think we are on track. That is what I would say. No more, nor less.

That said, then you did see the guidance fiscal 2022, recurring free cash flow there on that aspect, which is less operational, but more the CFO's happy zone, of taxes and borrowings. Some good uplift, €150 million up on the range that we were able to confirm last Friday.

Usman Ghazi (Berenberg): I just wanted to touch base on the tax optimisation measures that you have outlined, which obviously come as a positive surprise. Could you talk through what is actually happening here? Is it just a phasing effect where you are paying taxes a bit later for the year, or is it the effective tax rate you expect lower than what you anticipated at the IPO?

Thomas Reisten: What we are expecting in terms of the effective tax rate is still at 26%, but overall, in terms of the calculation of cash taxes, actually we are now, in absolute terms, lower. That is actually what is then leading to us being able to upgrade our guidance together with obviously the lower interest costs that we are incurring as well.

Overall, you are right that there is a phasing impact if you just look at our cash flow for the first half versus the second half overall. In the first half, in fact, it is lighter on actually cash payments for leases. The interest costs are due in March, and the bulk of the taxes actually get paid in the second half as well.

Having said that, having gone through our analysis, we can confidently now upgrade actually our guidance because of lower absolute tax payments and lower interest costs. We have actually re-ascertained our working capital movements and all of the other aspects of obviously coming up calculating our recurring free cash flow. As a consequence, we believe we can both, first of all, upgrade our fiscal year 2022 guidance and as well as very clearly state that this is actually in effect that we will actually retain. It does not reverse.

Usman Ghazi: Just I follow-up, you would expect that cash taxes in any one year are not equivalent to the full P&L tax effect; is it that the cash tax as a percentage of the P&L tax would be lower in any given year?

Thomas Reisten: Over the long-term, obviously, this will equal out in any case. However, I think what is really important to note here is that we continue to make efforts on really tax optimisation as well as we have been flagging in the previous quarters and for the full year as well. The 26% is still, at this stage, the guidance that we have given, but we will continue to work on further initiatives that will hopefully help us to drive down that percentage even more.

Simon Coles (Barclays): It is just focused on Germany. We see the tenancy ratio increased slightly and we have heard potential customer say that it is difficult to share rooftops in Germany. I was just wondering if you could give us an update on how negotiations with the landlords are going about being able to increase the tenancy ratio on rooftops. Then if you can give any colour on increase in the tenancy ratio, whether that was more weighted to your rooftops or your ground-based towers, that would be really helpful.

Vivek Badrinath: It is fair to say that these tenancies that we have achieved so far in Germany are more skewed towards ground-based at this point, because that is where the existing MNOs have expressed more needs at this point. That said, we have gone through quite a lot of analysis, work, calling the landlords, discussing with them. I would say we are seeing good feedback. I mean, people understand the need to improve the use of these assets and there is good response overall.

It is one of our projects, one of our action plans. You remember that we came out in the IPO and then were followed, in fact, by American Towers when they brought into Telxius Germany on the fact that there is opportunity on the rooftops in Germany. We are working through it. We have done a lot of work on the engineering to make sure that you put up the right number of poles and the angles that work well so that you are able to accommodate different combinations of configurations.

You will have operators who won big antennas, some who just want to fill in off a smaller antenna for higher bands and so on. We have got now a pretty extensive portfolio of engineering designs that support this work. I would say good progress to be ready to sign as we get gradually over time more requests for rooftop sharing. It has been an area of homework in the backside for us.

Vivek Badrinath: Landlords are responsive. We called a bunch of them and the response is that they are open to conversations. There are pockets, not geographic pockets, but there will be landlords who maybe more or less inclined or interested, but overall very normal economically sound response..

Jerry Dellis (Jefferies): Just looking at your full year revenue guidance range. I think for the second half that implies a growth range of between 3.5% and 6.5%, which is obviously a relatively wide range. I would be interested if you could comment on what are the scenarios that will determine where you come within that guided range.

Vivek Badrinath: You see the step-up between Q1 and Q2, obviously, by difference. You see where we are at this point.

Thomas Reisten: If you look at our trajectory at this point in time, you have seen us growing roughly around 2% actually for Q1, just over 3% actually for Q2. You will see that acceleration. Really important to note that between Q1 and Q2, we obviously have grown revenue by 1.1% already. You continue that trajectory with an incremental acceleration which we are clearly intending to achieve, and, as we have just been commenting on, are set up to actually push as well. Then you will see us obviously in the range to achieve that full year guidance, the confidence we have reiterated to achieve full-year guidance as well actually the medium-term growth ambition of mid-single-digit CAGR over the medium term. Then obviously, there is a number of aspects that in terms of BTS rollout as much as continuing into our tenancy increase that will support that.

Vivek Badrinath: However, we are not narrowing the range at this half year. It is our first year. We need to get everything. It is about getting things into the year in the revenue in. We are learning all that this year. We thought that we would keep this range of €995 million, €1,010 million and bear with us.

Thomas Reisten: If you just take another angle to this topic as well, I mean, we have been saying it for the medium term, we do need incremental tenancies and 2,100 out of these overall 15,500 that we would require are non-committed tenancies. 15,500 to achieve actually passing the 1.5x tenancy ratio. With this 2,100 non-committed, we are now just over 1,000 of those already achieved. You clearly see that acceleration of commercial momentum on the tendency side coming through.

Akhil Dattani (JP Morgan): If I could maybe just ask on inflation. Obviously, very topical at the moment, given what we are seeing across the broader market. Maybe if you can just remind us of when your contracts reprice. I guess, given we are close to year-end you probably have a decent sense of what the escalators then kick in into next year? I guess at the same time, if maybe you could give us a bit of colour around costs. What sort of cost inflation should we think about both in terms of energy exposure and also in terms of your leases?

Vivek Badrinath: You want to take that?

Thomas Reisten: Yeah, sure. I mean, if you start with the revenue side of this equation, you have heard us saying already at the last quarter and that is still where we are, by the way, that we believe we are in fact actually in inflation hedge. Now why is that the case? Let us go a little bit into the revenue side.

Obviously, our MSA with our anchor tenant is inflation-linked. We have been discussing that. The repricing of this one happens always for the fiscal year. That actually steps on the 1st of April on this.

Overall, if you just look at our base of revenue contracts, we can comfortably say that over 95% of our contracts are inflation-linked. You take the 83% of Vodafone plus the remainder. In that context, we can actually say over 95% of our contracts are inflation-linked. That gives us already a lot of certainty over the future revenue growth from an inflation point of view.

Then take that and you go through our cost lines and how we can actually impact our cost lines. Maintenance costs, a lot of renegotiations; that actually happens every year on that one where we feel comfortable that we can actually push these contracts into the right direction, and that is something that is obviously happening on an ongoing basis.

On top of that, we keep on pushing our initiatives of remote monitoring of sites which will eventually bear fruits as well. Then on the energy side, by the way, which is the key driver of inflation, as you see it today, this is actually a pass-through for us. Whilst, on the one hand, our results would not be impacted, of course, to a very minor part, actually of our own energy costs, we are still working for our customers on energy efficiency solutions in order to drive down these costs as well.

Then last but not least, you have seen the lease costs. The cost increase that you have seen in the first half is still down to obviously the lease term reassessment, the full year impact as I have outlined a moment ago.

If you look at the phasing really months-by-months over the course of our existence, actually the costs have not inflated to a large extent; and our initiatives are starting to obviously mitigate that. We believe that GLBO can obviously help us in other initiatives actually renegotiating of contracts as well to moderate these costs over the medium-term so that we do, indeed, achieve our high 50 percentage margin on that one.

You take all of that into account, then we have the ability to manage actually in an inflation environment our cost base, and we have actually the positive impact onto the revenue side.

Vivek Badrinath: It is worth flagging that indeed we have had the question several times on what proportion of our revenue is inflation indexed, and so, we went through this scan. What I mentioned at the beginning, the fact that we sit down and have a more structured relationship with each operator in every market, that has yielded good results in that space, which is why we are now at above 95% of our revenues inflation indexed.

Akhil Dattani: That is really helpful. Can I just ask one quick clarification? Correct me if I am wrong here, but I seem to remember the IPO point, you flagged that some of your third-party contracts were not yet inflation-linked, because it is the way that Vodafone had reciprocal relationships with obviously other tower cos. Where are you in the process of renegotiating those contracts into inflation-linked contract? I guess that was part of, obviously, the journey for the IPO.

Vivek Badrinath: That is the answer. You are spot on, Akhil. That is exactly what we are talking about. That is a bit under 85% is Vodafone. Okay, fine, that is inflation index as we know. We are telling you today that 95%-plus of our total revenue is on the other side, which is with inflation. A lot of it is actually that we move the needle during this period. When I say we sit down with them, we say, okay, we had these old contracts that were like single site type of contracts, we pile them up, let us put them into a framework, let us agree what the framework looks like, let us agree the escalator on this framework and all those sort of things. That work has been progressing at good pace. It is kind of a door-opening conversation with MNE, MNO when you start to engage with them in the market.

We have managed to put it quite successfully on top of the conversation. Hence, now the comfort we have by saying 95% of our revenue already inflation indexed. I think that subject is, by and large, behind us is the way to look at it. We are on the good side now.

Emmet Kelly (Morgan Stanley): I have a question, please, on towers' M&A. If I look at the European towers landscape, it looks like the M&A side has definitely gone a little bit quiet over the last eight or nine months. Can you maybe just say a few words about how you see the European towers landscape? In particular, if you could maybe just say a few words about Liberty Global and their tower intentions? They said they would look at strategic options for their stake in CTIL in the UK, whether that is something that interests you? Also maybe entering new markets were Liberty to put up their towers for sale in the Netherlands and Belgium, please?

Vivek Badrinath: Sure. It is a bit quieter but there is actually some rumbling always going on. I mean, the tower market is a happening market. No concrete. If there were indeed, we would have had a conversation on whatever deal that would be by now. Nothing to disclose at this point. However, it is fair to say that, as you know, I mean Liberty has a JV in the Netherlands with Vodafone. CTIL, obviously we are already a 50% shareholder. I have never made a secret that we would be interested in consolidating CTIL. It is a good asset in a country with a very good customer base. Obviously, two anchor tenants is always a desirable situation to be in, like we have in Greece. We would have been very happy to offer to VMO2 the same, let us say, satisfactory service that we offer to Wind Hellas in Greece. We are very motivated. I mean no mystery of it to anyone. I think I have said it publicly, I said it to our customers there. However, at the end it is a transaction and there are other parameters in terms of price and the sales, etc., that may come into consideration. It is in their gift. It is for them to say when they want to move and how they want to move. We have stated our interest clearly.

Any broader conversation with Liberty is obviously something that we welcome, and these are people with whom transactions have happened before, so there is good, let us say, dialogue and interaction.

The broader space, you have also heard our majority shareholder Vodafone state clearly that they were supportive of us playing a role in the tower industry consolidation in Europe that they would be supportive going forward. I think they went all the way up to say that combinations with like-minded operator-originated tower cos are things that they could consider going all the way up to core control if need be. I would say the optionality is definitely there, it is multi-faceted, and we are active engaging, or ready to engage with any opportunity that comes up in this space. I think everybody is looking at their options. There is lot of optionality in the market right now.

Emmet Kelly: A very quick follow-up, if I may, Vivek. Just on the antitrust side. Do you believe that maybe the antitrust environment has maybe become a little bit more challenging or difficult, given the ruling that Cellnex had from the Autorité de la concurrence in France, or do you believe that it is largely specific to Cellnex because they have been gathering three, four, even five portfolios in some of their markets?

Vivek Badrinath: Regulation decision commentary is a very dangerous sport, so I try to veer away from that. However, it is fair to say that in France, the Cellnex portfolio is basically based on three out the four players in the market; the Iliad portfolio, the Bouygues portfolio and the SFR portfolio. There, competition authority would be looking at it. I think each case is going to be different. Let us recall that INWIT was agreed that the Greek situation for us was agreed. I mean, the CMA is looking at the Cellnex-Hutch conversation in the UK, but that is still open-ended, so we do not know which way that will go.

On the French side, the remedy was pretty straightforward. It was linked to a market analysis that the Autorité de la concurrence did while splitting the market into four boxes and trying to get a feel of each one of them. I do not hear a resounding let us stop consolidating towers in Europe. I think the common understanding is that strong tower companies with good economics are favourable to the downstream market, which is the MNO market, because it does reduce the unit cost of delivering network to their customers.

It is pro-competitive at a certain level. You have got a backlog of transactions that are going through the regulatory process. That is what we are seeing now post the very active period before. I think the philosophy just needs to be around that. I would not over-read into it, but it is fair to say that we watch very carefully all these regulatory decisions because they are important for us to understand what is the art of the possible.

Luigi Minerva (HSBC): I wanted to ask your comment, your views on the tower strategy of 1&1 in Germany. They gave more details last week. I think to recap, they are willing to work with many tower cos. They mentioned three. They are looking for one tower co to be a sort of coordinator. Then they are also looking for a build-to-suit partner. I was wondering what are your views, what is your appetite given this disclosure, and what kind of contribution from a business with 1&1 is in your guidance?

Vivek Badrinath: Okay. So, quick point first. It is fair to say that the contribution from our 1&1 in our guidance initially was moderate to low.

Thomas Reisten: Fairly low, actually. Very moderate.

Vivek Badrinath: Because, well, it is in their gift, so you do not bet on a single-unit contract when you put it in your guidance. It is also fair to say that engagement with 1&1 is extremely important to us. We feel that on the colocation space, typically we have a lot to bring because we have a very attractive grid in Germany with an experienced team to deliver on that grid. Typically, we have sites in places which are relevant to 1&1 rollout plans because they rollout starting from zero to a certain level of coverage to another broader level of coverage. For that, using existing sites is the most cost-effective and time-effective way to deliver the network. We are engaging actively with them. As you heard from their announcements last week, they are very actively in the process of negotiations. Those negotiations are obviously private between 1&1 and the various tower cos. I am not at liberty to give more disclosure. If and when there is something that needs to be disclosed, we will, of course, make the disclosures appropriately. However, it is still ongoing.

Colocations were relevant, we think we have a strong value proposition. I think we are credible to our company in the German market. We hope that we can do something valuable and interesting with 1&1. We have appetite, to your question.

James Ratzer (New Street): Question I had, please, was just regarding your lease optimisation that is going on at the moment. You have disclosed around 600 ground lease buyouts. Can I just confirm these are all transactions where you are going to be taking legal ownership of the land under the tower site is what I was interested in. If just that is the case is, what other optimisations you are taking on? Are you taking on any policies to go back to landlords and just renegotiate lease terms lower even if you are not actually taking on overall ownership of the ground? If you could give some update on that would be much appreciated.

Actually as a follow-up, if I have time, from Luigi's last question just on 1&1. They were quite sceptical on the ability to actually get access to rooftop tenancies in Germany in urban areas. I believe you have about 15,000 rooftops sites in Germany. Could you just confirm how many of those 15,000 would now be open to a second tenant coming on, assuming there are no issues with landlords or with space requirements.

Vivek Badrinath: Maybe on GLBO, there is a variety of things we are doing on leases more generally. It is a continuum between outright purchase, price terms renegotiation and unit price renegotiation. Maybe, Thomas, you can walk us through that.

Thomas Reisten: Absolutely. Basically, within the GLBO programme, albeit, the name of obviously says ground lease buyout what we have been guiding towards is that this is not only the straight buyout of leases. We do that, absolutely. About 600 are actually a mix of those and acquiring long-term rights of use. That is the other element obviously within the GLBO programme that we are actually using effectively; where you would then obviously buy a ground and then right of use at a lower margin than the total payment over the contract period as you be. That is one other tool that we are using.

Then, you are absolutely right, we do use as well outside even the GLBO programme other tools where we just simply renegotiated contracts with landlords for, on the one hand, strategic reasons to get better terms and conditions into it even outside the pricing but on the other hand try to as well limit either cost increases or even go into cost decreases in fact as well. That is absolutely true.

It is a really broad range of tools that we have available to optimise our leases overall. That is why we are saying very confidently that we can actually achieve our mid-term goal of high 50s percentage points driven as well by running at GLBO and lease optimisation in general amongst other tools obviously on the other cost lines.

James Ratzer: Are you able to help quantify that at all, Thomas? I mean, so outside of the 600, how many have you been able to renegotiate with landlords on lower lease fees? I suppose I am asking this because INWIT seems to have had quite a bit of success on this front.

Thomas Reisten: We have not made this public, but we will certainly take it away whether actually we consider others. However, having said that, overall, I think you do see that in our lease cost development outside this one effect that I have been explaining earlier, we are actually over the course of the year actually this very well managed.

In terms of lease cost increases, you will actually see this coming maybe effects of these renegotiations as much as actually the GLBO programme coming through.

Vivek Badrinath: It is fair to say that we use the INWIT to our playbook quite a lot and we try to put in place same methods. It is single site landlords that we have been large majority which is conducive to driving that process at a unitary conversation level on an ongoing basis. It is one of the core activities of our local operating teams to make sure that each renewal is well-managed ideally at an improved price with better terms and conditions that also enables further growth, which links me to your second question on rooftops.

We would not be disclosing that percentage. I think it is kind of the game in the German market to build it now this opportunity of rooftop sharing. You have heard American Towers saying that they were like us thinking that there is opportunity to grow. Certainly, all the sampling that we have done in preparation for more rollouts in urban areas that customers may have do tell us that landlords are open to these conversations by and large and we just need to work through it.

I am not sure if 1&1 really referred to – they mentioned I think that it is not a slam dunk as an activity, the multiple tenants or rooftops, but it is also worth mentioning that there are quite a few rooftops that do have multiple tenants, albeit through separate tenancies. Then at that point if you are bringing a tenant to the site, you have a very natural conversation with the landlords saying, well, actually I would like to build a second one here.

For them, in the physical world, it does not really change much to what is happening which is there are two poles or two equipments in two different sides of the rooftop or on the same corner of the rooftop depending on where it is. I think there is a continuum of situations but I would say we are making good headway. As I said earlier, it has been an area of homework for us where we invested more the engineering time, modelling time, calling the landlords time and we are making good headway there. Obviously that is one of the things that makes our grade attractive when we are in conversations with 1&1.

Sam McHugh (Exane BNP Paribas): One question and one small follow-up, if I could be cheeky. Just on the M&A front, I think Vodafone has made no secret recently of saying that they were keen to deconsolidate Vantage and talked about it being one of their high strategic objectives in the near-term. I just wondered how much time you are spending on M&A discussions versus what you thought you would be doing six months ago. Then a hypothetical scenario. What are Vodafone looking to do to deal with someone like Totem? Can you just talk through what kind of approval it would need from your supervisory board and whether there would be a shareholder vote on that?

The follow-up was on energy costs. I think you said they were pass-through. I have some long memory of three-year fixed price contracts. I do not know if you could clarify around that energy costs?

Vivek Badrinath: That was bit more than one question, but just marginally more. I will leave the energy question to Thomas to cover. Look, on deconsolidation, first of all, I think Vodafone, indeed, has been no mystery that they felt that deconsolidating us was certainly not a taboo. It is something that could make sense.

To be very fair to Vodafone and to our shareholders in general, we have not seen the negative impact of not being deconsolidated so far. I mean, we are getting all the support. We have the capital, we have the cash, we have the balance sheet structure that has been setup if you look at it, that allows us to embark on organic and inorganic opportunities in a very natural way for a tower company at this point. Thus, it is not that being deconsolidated is an on/off button to unlock more things for us in our current journey. However, fine, it is still something that Vodafone was looking at and it is in their gift, so I think those questions are more probably towards them than towards the company itself.

If there were to be a combination, I think we are a bit early in any cycle whatsoever to be commenting on structure and approvals for an hypothetical transaction, because you could go different ways; you could go combinations, depending on the shareholding of who becomes a shareholder at the end and so on. However, it is fair to say that from a Vantage Towers point of view, we feel that one thing we bring is we have got some industrial scale. We are rationalising our operations on towers pan-European. We are getting some commercial deals that are multi-country. We have got a lean team at the centre. In terms of the industrial efficiency that we can deliver by being multi-country, we are beginning to feel that benefit. Expanding to more geographies, putting those best practices to play on more than 82,000 towers would be something that I think could be relevant, both for speed and efficiency on the cost side. I would say we are open to any of such conversation and I am sure our supervisory board will take the same read of it which is that if it makes business sense, we should embark it.

We also know that European tower industry has come along way in the last 18 to 24 months, but we are about 75% of the towers externalised from MNOs as we speak. That journey is not over pointing to the US where it is 90. Obviously, these conversations are taking place in every boardroom of every MNO across Europe on what do we do with our towers. I would say the supervisory board is acutely aware of the fact that this is the journey that is happening in front of our eyes or let us say will happen in the coming months and years probably but low number of years. Ready to seize those opportunities.

For the rest, transaction structure, approval structure, if anything, it is more than premature because everything is every hypothetical. On the energy side, Thomas?

Thomas Reisten: Absolutely. On the energy side, there is two parts of the energy cost that are just a bit different treated, obviously. I mean, first of all, there is the bulk of it. By far, most of the energy is being consumed in the active part of the equipment, which is a straight pass-through.

Then you are right that on the passive side, there is actually some fixed fees over a period of time, but they then after some period of time actually do get adjusted then as well. That is obviously for passive equipment itself, which is by far the smaller amount of the energy cost. That is the part that we have besides obviously continuing to drive energy efficiency initiatives in general, but where we actually have our own initiatives in place as well to manage that very well. I mean, passive cooling is one of the energy efficiency initiatives that we have as an example. That is how it works out. Hope that answers your question, I think.

Robert Grindle (Deutsche Bank): My question is about macro site revenue growth, which slowed a bit approximately halving in Q2 versus Q1. What is driving that, please? Is it a base effect due to commissions, though you are protected to the downside on revenues in those markets, or is there an underlying slowdown in macro site revenues in any country?

Thomas Reisten: No, there is not an underlying macro site slowdown in countries. Obviously, what you see as well is that we have the optimisation in Spain actually still which you see only in the numbers because we are protected obviously on the revenue side. However, it protects us rather than obviously giving it the upside now. When you go through the decommissioning in Spain, then we keep the revenue equal to where it was before. However, the upside online comes when we would rollout more tenancies as a consequence.

It is fair to say that we are in the acceleration phase, and that there is more revenue growth that we are anticipating actually for the second half to come in that context, underlying, we continue to build our sites and obviously ramp-up the rollout speeds in order to then achieve that ramp-up or an acceleration of revenue growth for the second half, as much as on the tendency side as we were actually pointing out, we are making really good progress and continue to be very optimistic for future growth actually of tenancies as well.

Vivek Badrinath: It is fair to say in this business when you are adding 200 sites in a quarter and they get ramped up over the three months, you are talking small amounts at the time. It is a run rate business not a in-quarter business to a large extent. Sometimes you really need a magnifier to catch the in-quarter impact or something. As we are ramping up, that is what you will see.

David Wright (Bank of America Merrill Lynch): It was just some commentary from Deutsche Tel on the potential for towers mergers. They talked about partners looking for entrepreneurship, and I am struggling to understand quite what they mean by that. But I guess my question to you guys is, how do you feel that you are evolving this towers model? How do you feel that you are sort of leading the industry in evolving the towers model, whether that be efficiencies on energy costs, whether that be looking at going beyond the passive infrastructure? I guess I just want to understand how Vantage is entrepreneurial just against some of the Deutsche Tel commentary. That would be appreciated.

Vivek Badrinath: Yeah. Entrepreneurial is as much a word about the culture as it is a word about what you do. Let me parse the two. I do not want to dodge the question. Probably, there is a third dimension, which is entrepreneurial typically refers you to the kind of structures that, I would say, private equity type of organizations with those kind of incentive drives and so on you could refer to. However, I would not go there in specifics because I am not sure how you can qualify that conversation.

Let me take the first two. Culture-wise, we are really working hard on this, and this is something that does not usually come on financial analyst calls. But we are really working to stay lean. I would say there is some mindset of big and small in our organisation. We are big. It is a €15 billion market cap, so it is a pretty serious player. However, at the same time, it is just north of 500 people working in the organisation, and we try to keep the decision layers light. We decide extremely frequently. We do not have monthly review sessions that slow things down. We have seen this over the last few months.

If you look at the number of commercial deals that we have done and you see them in our release, I mean, these are lots of individual transactions with different people in different countries that we just power through during the quarter with people who are indeed in spaces beyond MNO.

If you look at what we are doing in terms of building new things, sure, we are rationalising our relationship with MNOs. You will recall the conversation on inflation/indexation of our contracts. It means we are very disciplined about getting the right framework with each MNO to make sure that we can develop farm and develop that business. That is straightforward B2B sales straight to a large extent. However, we are also testing new ground. As early as last year, we signed with Sigfox which is an IoT player that needed sites.

We are now working with Stadtwerke München, which is the city services of the city of Munich, to put sensors on sites. We are innovating on the technological side. We have got a bunch of, I would say, talented engineers who are looking for the opportunity to try new things on sensors, on IoT. We are building out new DAS in the neutral host model of very interesting buildings with the right innovations in terms of antennas.

I would say my response to what is the entrepreneurial culture, it is really a culture of trying to innovate as much as we can, try new things. I mean, the sentence we should try this out because it might be the next thing that a tower co can do is something that is very well accepted within the organisation. We have got a pretty experienced leadership team which has done telecoms for a long time. However, at the same time, we know that projects can be done with a bit of energy too to develop new things.

You see that on our roadmap of beyond MNO, which is quite interesting, lots of exciting one-offs or firsts. We have one-offs today, but they could be first tomorrow. If you can do a nice sensor deal with Munich, what is telling how many cities across Europe could find that relevant, for instance. Those are all the things that we are doing.

Then we would stop short of competing with customers who give us 80% plus of our revenue. That is a line that when you are in 32-year contracts, you want to think carefully about, but there are things that we can do, as you can see on DAS, which is a neutral host solution, where everybody is very happy to find us able to bring the signal of multiple operators. Whenever there’s sharing, I think we are relevant and we can be front foot forward, and that is what we are doing.

If you look at the energy model, what Thomas mentioned earlier, we have got models to partner with our customers to bring down their energy costs by investing into equipment for them, where we have put in place a number of pilots on solar, on wind, on the modernisation of the energy machine inside a site when it is a pretty big site and you need to change to new technologies on batteries or power supply, all those things we have just the right size of little sub pizza teams going after these innovations, and I think that is what we are trying to keep as our flavour and our culture.

Thank you so much, and thanks for your attention and your great questions this morning. As you can see, we are continuing our journey, progressing well on the commercial front. The tenancy ratio at 1.42 is one step more and good tenancies from the non-Vodafone site. Also, GLBO, progress. We share the signed version of it. However, of course, the pipeline has ramped up pretty well.

As you can see on the inflation discussion, we are also quite happy with the progress we have made on formalising the inflation indexation in a number of our contracts. Once again made announcements in terms of guidance reiterating medium-term guidance, reiterating revenue and EBITDA for fiscal 2022 and upping our range for recurring free cash flow to €405 million to €415 million. That is an increase of €15 million on both sides of the range for our recurring free cash flow.

All in all, that is the current summary of state of affairs after the first half of fiscal 2022. Thanks a lot for your interest and supporting our company. Have a very good day.

[END OF TRANSCRIPT]