Telefónica

Results 2023 Q4

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Fecha: 22/02/2024 09:40:12 a.m.

GPS

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Q4 23 & 2023 Summary

Mr. José María Álvarez-Pallete
Chairman & CEO

Transform, Deliver and Commit

WE TRANSFORM

Continued streamlining
Building a stronger TEF

WE DELIVER

2023 guidance **delivered, FCF beat**

WE COMMIT

On track for GPS ambition, **FCF 24 >10%**

Stronger Telefónica

Next Generation NETWORKS

- **More fibre, +10m FTTH PPs** to **74m**
- **More 5G, 62%** coverage in core markets (Germany 94%, Spain 87%)
- **More APIs**

Enhanced CUSTOMER experience focus

- **More customers, +5m** to **388m**
- **More satisfied, 31 NPS** score
- **AI** driven **customer engagement**
- **More digitised, +3pp** of **revenue from BB & SoC** to **76%**

Leaner OPERATIONS

- **Operating leverage +1 p.p. to** 19%, OpEx+CapEx efficiencies
- **3,420 employees** joining Spain's redundancy program
- **Legacy shut-down** (1.9k Spain COs)

Guidance delivered

	Initial 2023 guidance	Upgraded 2023 guidance	FY 23
Revenue y-o-y organic	"Low single digit growth"	**~4%**	**3.7%**
OIBDA y-o-y organic	"Low single digit growth"	**~3%**	**3.1%**
CapEx/Sales	~14%	**~14%**	**14.0%**
FCF	Former definition	**~€4bn ex-spectrum**	**€4.2bn**
	New definition	**~€2.1bn**	**€2.3bn**
Dividend		**€0.3/sh. (cash)**	**Dec-23 €0.15/sh. Jun-24 €0.15/sh.**

1.4% treasury stock to be canceled in the next AGM

We delivered and we commit

GPS

Growth	Profitability		Sustainability
+1.6%	+1.4%	+5.7%	€4.2bn
Revenue	EBITDA	EBITDAaL-CapEx	FCF

Reported FY 23; FCF ex-spectrum; EBITDA adjusted and EBITDAaL adjusted

Q4 23 Results: Core Markets

Mr. Ángel Vilá
COO

Telefónica Group: strong Q4 results with exceptional FCF

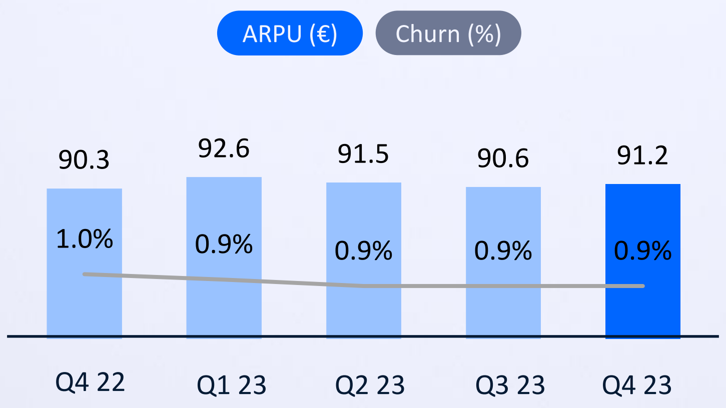
GPS
Growth
Profitability
Sustainability

Revenue	Service revenue	B2B revenue
€10.2bn	**€9.0bn**	**€2.2bn**
+4.1% y-o-y organic	**+4.2%** y-o-y organic	**+4.9%** y-o-y organic

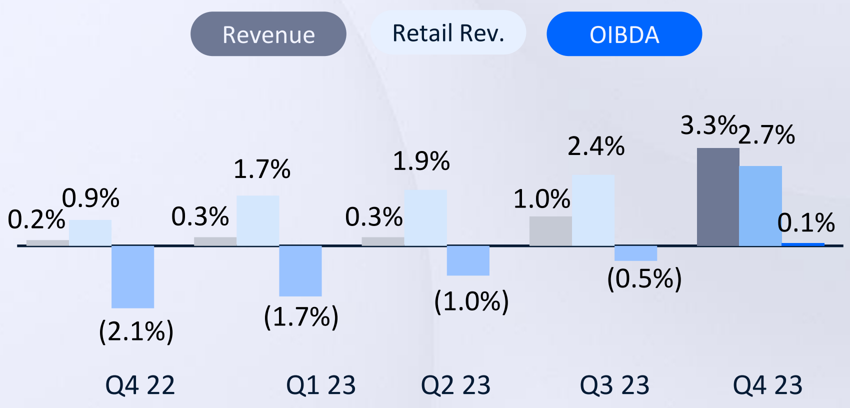
OIBDA	OIBDA - CapEx	FCF
€3.5bn	**€1.9bn**	**€1,562m**
+4.5% y-o-y organic	**+18.7%** y-o-y organic	**+€432m** q-o-q

Spain: continuing to improve and execute

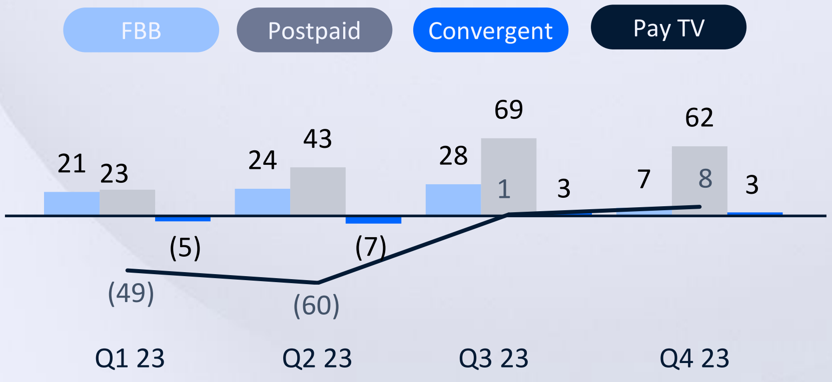
Convergent KPIs



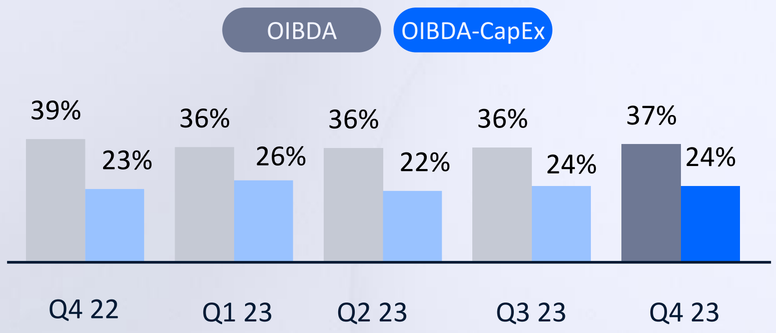
Revenue & OIBDA growth (y-o-y organic)



Net adds (k)



Margins (organic)



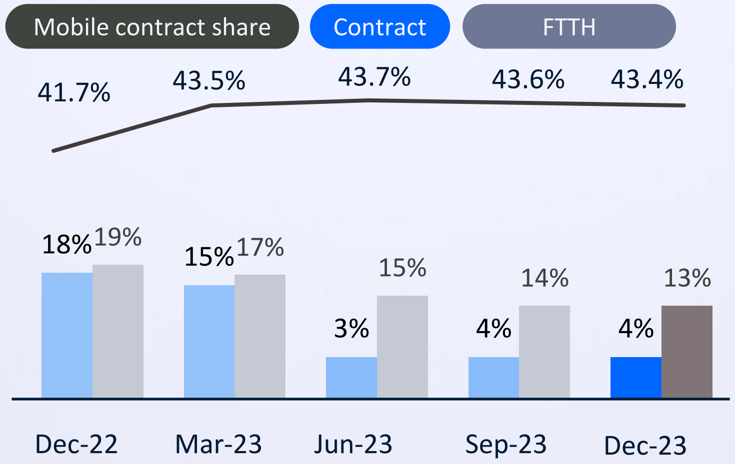
Highlights powered by GPS

- Accelerated retail revenue growth: strong trading momentum and record IT
- Net adds in all accesses for 2nd straight Q on record-low churn since 2013
- Pay-TV turnaround completed; de-regulation gives us back flexibility
- Stabilised OIBDA leveraged on top line growth and efficiencies
- Tariff upgrade in Jan-24
- Redundancy program in 2024 and collective agreement until 2026

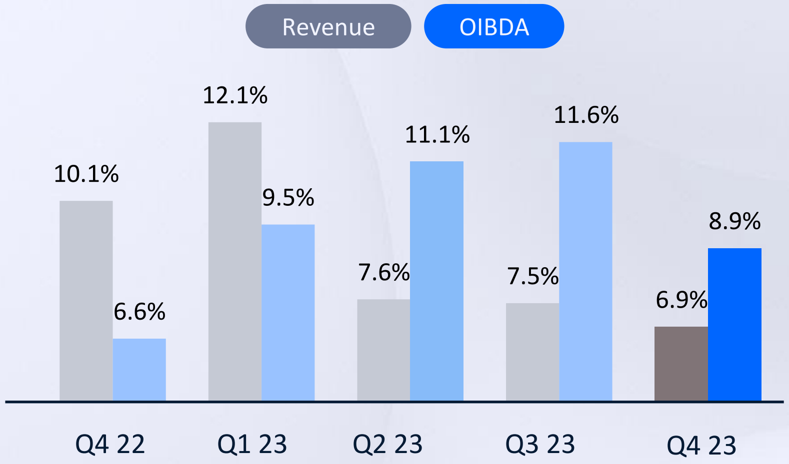
Net ZERO EMISSIONS 2025 100% neutralisation Scopes 1 & 2 2040 Scope 3

Brazil: keeping up the strong momentum

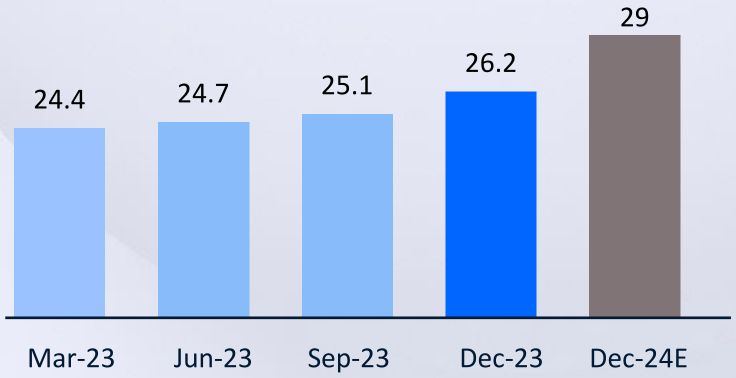
Accesses growth (y-o-y)



Revenue & OIBDA growth (y-o-y organic)



FTTH Premises passed (m)



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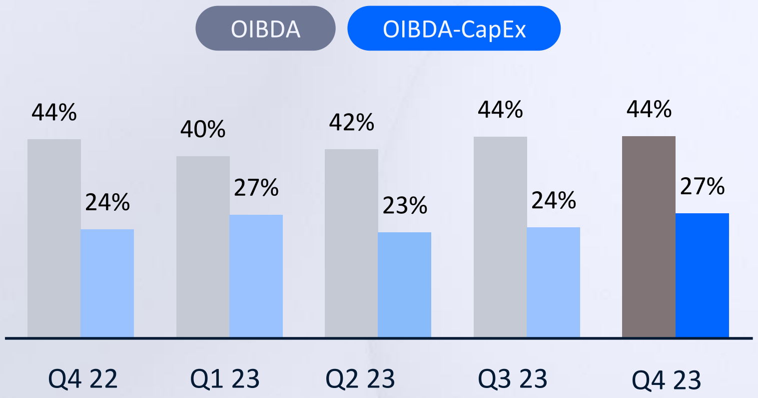

Highlights powered by GPS

- Growing above inflation on differential value proposition
- Highest mobile ARPU & lowest churn in 4 years on rational market environment
- Fixed revenue grew for the 10th consecutive Q
- Record OIBDA-CapEx margin ever, supported by operating efficiencies
- Growing sales and improved operating leverage supercharge future cash growth
- Leader of ISE-B3 Corporate Sustainability Index

vivo Day 2024

Net ZERO EMISSIONS

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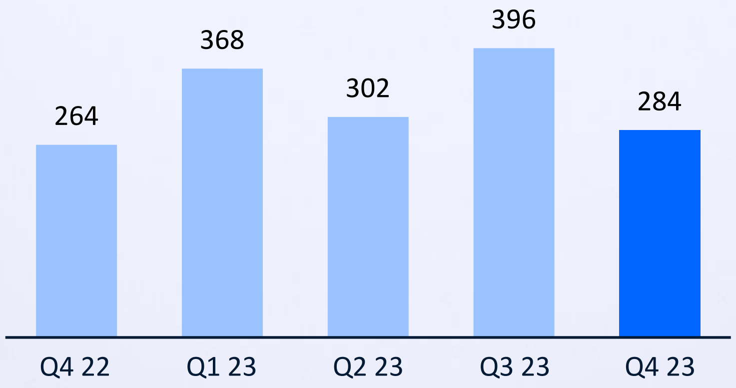
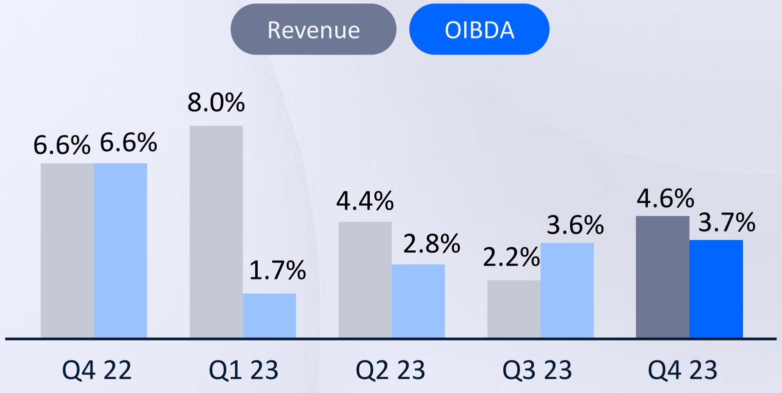
Germany: healthy trends in a growing market

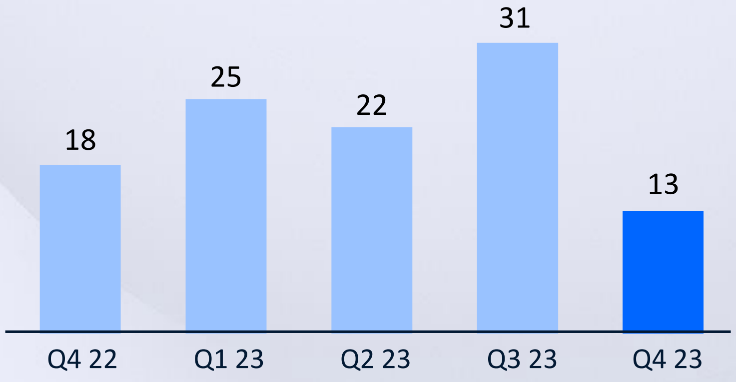
Postpay net adds (k)



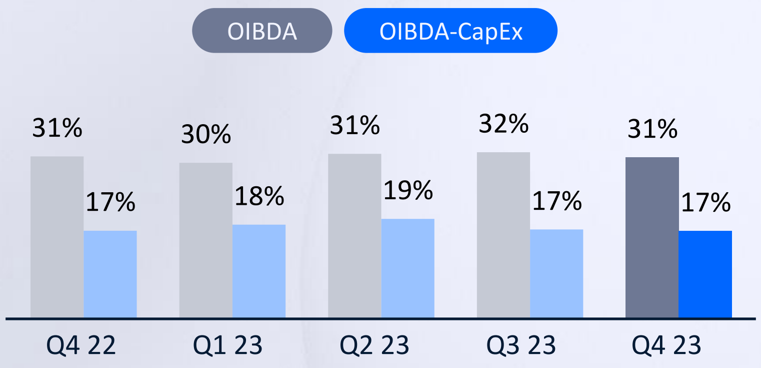
Revenue & OIBDA growth (y-o-y organic)



Fixed BB net adds (k)



Margins (organic)

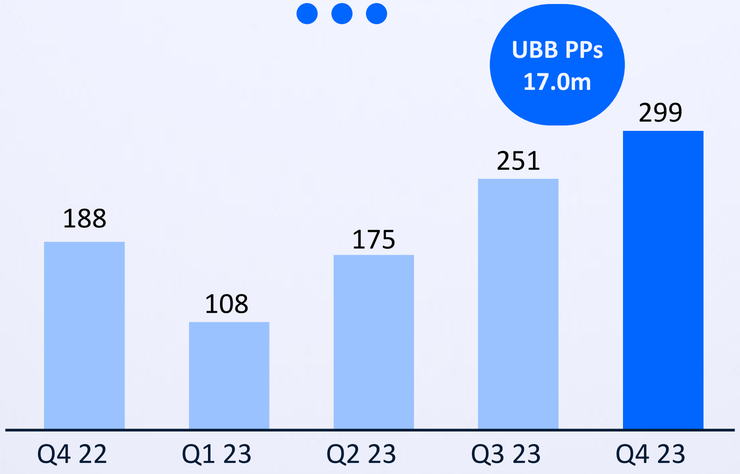


Highlights powered by GPS

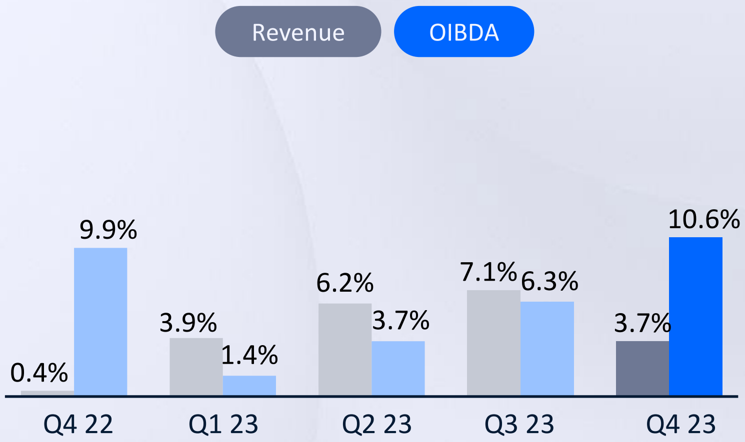
- Sustained financial momentum on robust commercial traction; >1.3m 2023 postpaid net adds
- O2 postpaid ARPU +1.9% vs. Q4 22
- 5G pop coverage ~95% at YE 23 (>80% Dec-22), on track with expectations
- "Very good' rating in Connect test; improve in network quality
- #1 telco worldwide on 'Sustainalytics ESG Risk Score'

Virgin Media O2: increasing customers, fibre and 5G reach

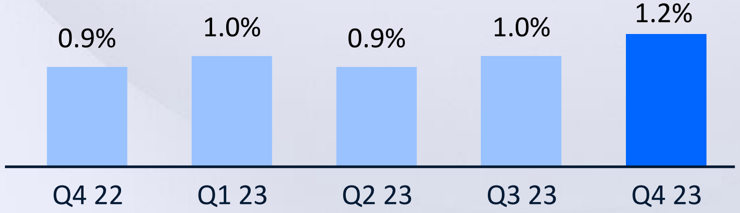
Fixed network build (k PPs)



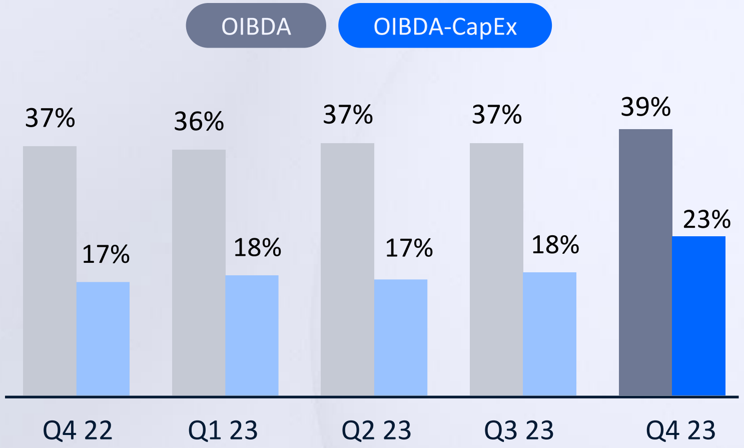
Revenue & OIBDA growth (y-o-y organic)



Mobile contract churn (%)



Margins (organic)



Highlights powered by GPS

- Solid commercial traction
- Record fixed network expansion; +833k PPs in 2023, contributing to net adds
- Realised ~2/3 of annualised £540m run-rate synergies, ahead of plan and on track to fulfil by mid-2026
- O2 owned stores now National Digital Inclusion Hubs (free services to communities in need)

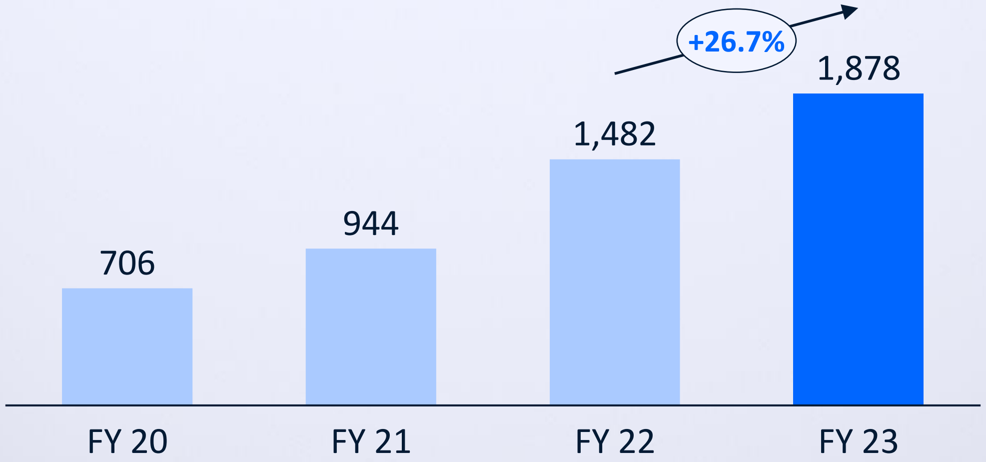
Net ZERO EMISSIONS 2040 Scopes 1, 2 & 3

T. Tech: keeping above industry momentum, cornerstone of strong B2B

T. Tech Revenue

Reported (€m)

Constant Perimeter
+21.7% vs FY 22



- **Solid double-digit revenue growth in constant perimeter**
- **Well-balanced revenue mix**
- **Strong commercial activity, large revenue visibility**

Operational Highlights

New operating model delivering value

- Key driver to increase share of wallet

Highly skilled and diversified team

- 6.3k professionals; >60 nationalities; 80% in Europe; ~4k certifications

Partners awards

Hewlett Packard Enterprise
"Best Computing Partner 2023"

Google Cloud Next
"To infinity and beyond"

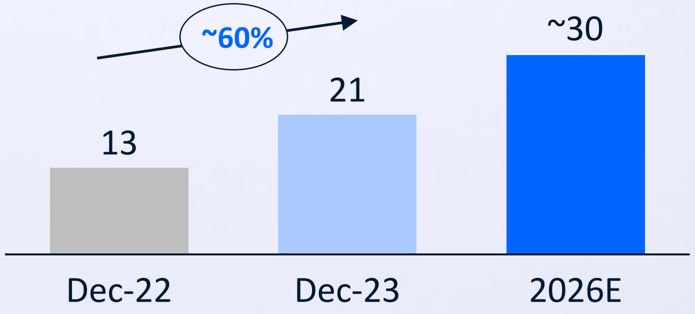
NetApp
"Top Selling Partner 2023"

Akamai
"Top Performance Partner 2023"

T. Infra: strengthening Telefónica's infrastructure to support growth and efficiency

Accelerating FTTH deployment

Total FTTH
Premises Passed[1] (m)



Leveraging wholesale to increase reach

~30% of 23-26 of TEF's FTTH rollout

Bluevía
UG UNSERE GRÜNE GLASFASER
ONNET FIBRA
nexfibre
FIBRASIL
Pangea Co

Telxius >110k km international network by 2026

TELXIUS

Solid profitability

51.4% OIBDA margin (FY 23)

Joining Firmina subsea cable

Providing three redundant routes to connect US, Brazil and Argentina

Fully invested capital base

No material additional renewal CapEx required

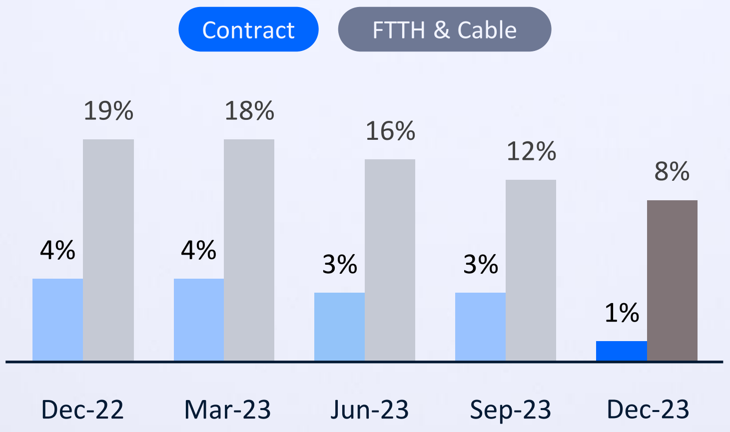
[1] Included in the total Group's FTTH PPs. Dec-23 and 2026E includes Pangea PPs.

Q4 23 Results & Capital Allocation

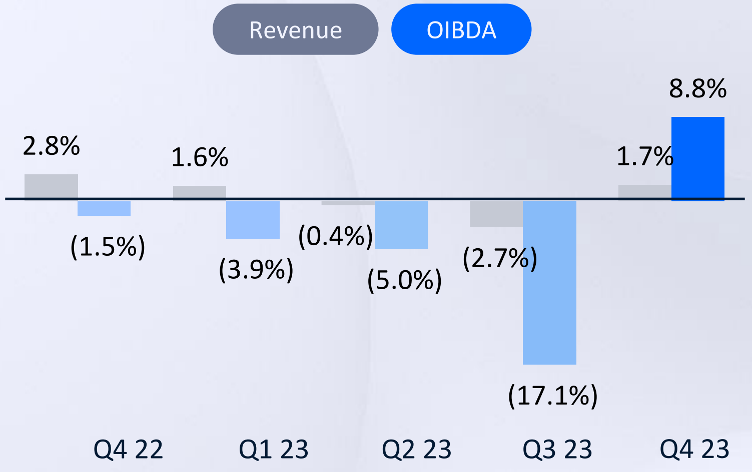
Mrs. Laura Abasolo
CFCO & Head of T. Hispam

T. Hispam: progressing in “asset-light” model

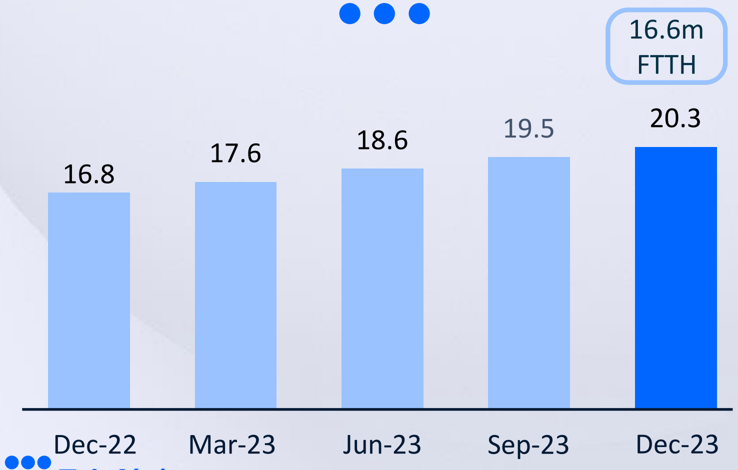
Accesses growth (y-o-y)



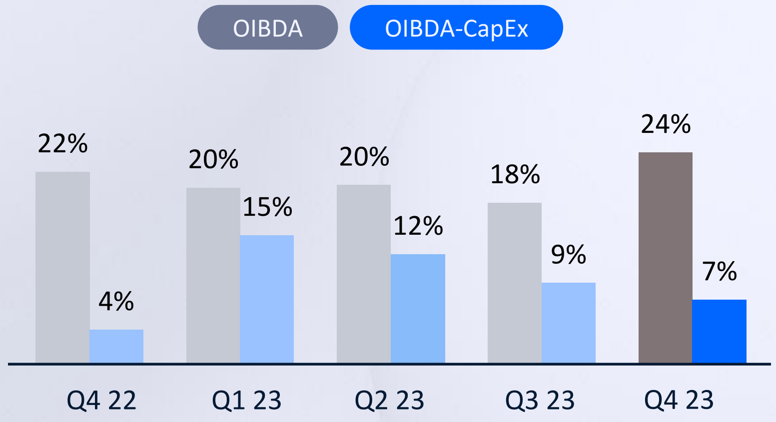
Revenue & OIBDA growth (y-o-y organic)



FTTH & Cable PPs (m)



Margins (organic)

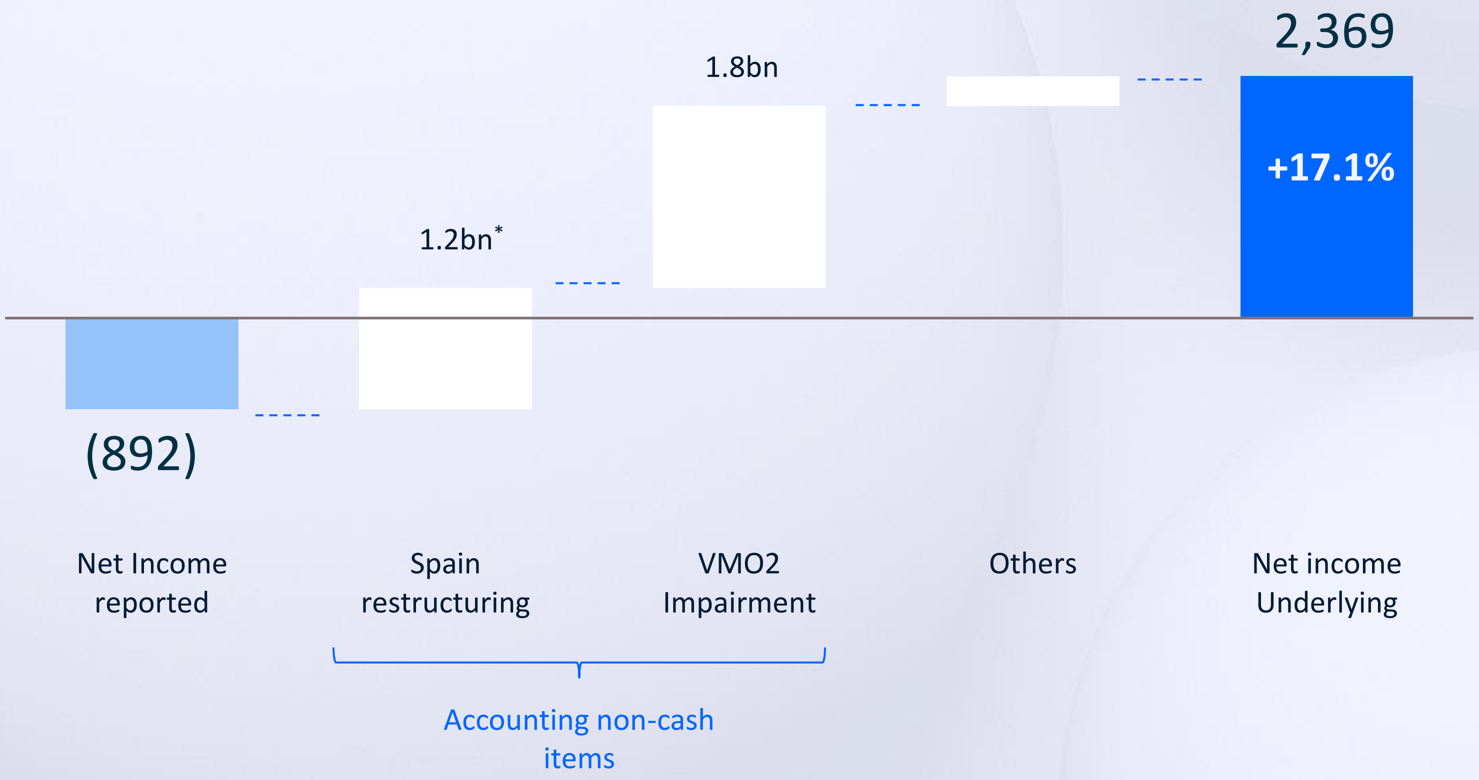


Highlights powered by GPS

- FiberCo model allows FTTH accesses +8% while reducing CapEx
- COL: 5G Spectrum acquired jointly with Millicom
- Cooling down competition in a tough environment
- CapEx/Sales FY 23: 9.4% (-1 p.p. y-o-y)

Net 2040 ZERO EMISSIONS Scopes 1, 2 & 3

Double-digit growth of underlying EPS



Underlying EPS

€0.37

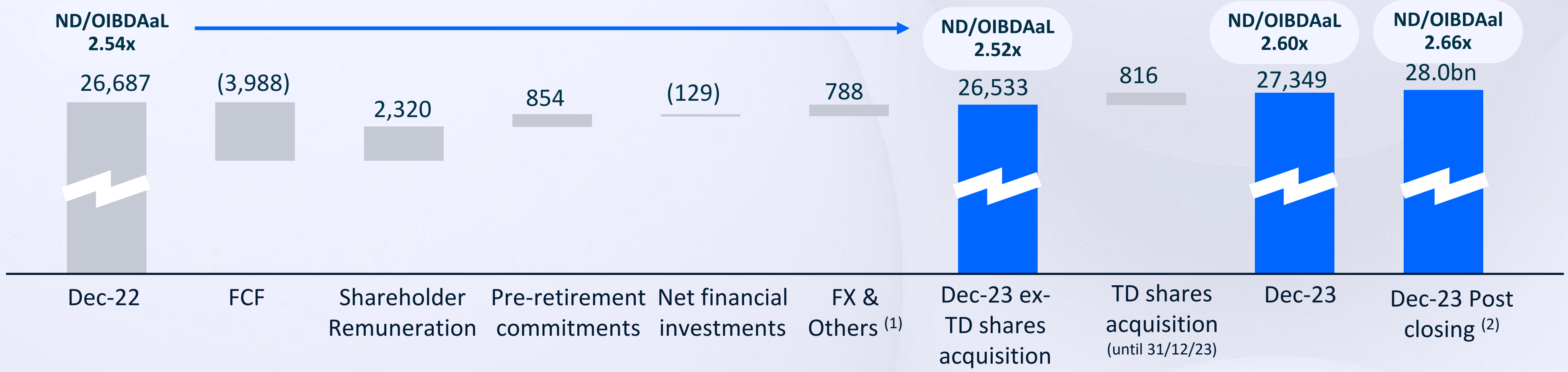
+18.6%

(*) net of taxes

Solid balance sheet to face any market environment

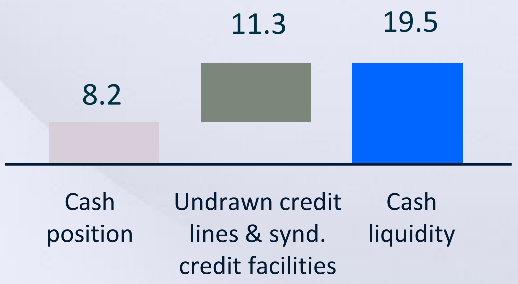
Net Financial Debt

€ in million

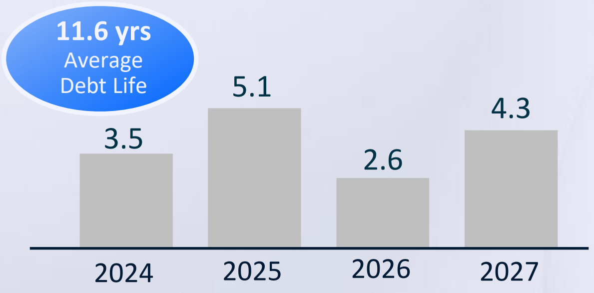


Comfortable liquidity position

Liquidity cushion, Dec-23 (€bn)

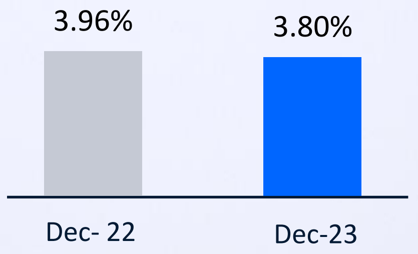


Gross debt maturities, Dec-23 (€bn)



Contained interest payment cost

Total debt related interest payment cost ex leases



>80% Total debt fixed

+100 bps in short-term rate = +€25m in interest payment

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(1) Argentina impact on debt amounts to €274m
(2) Including full T. Deutschalnd shares acquisition (94.1%), partially compensated by the income for the sale of a stake in Pangea

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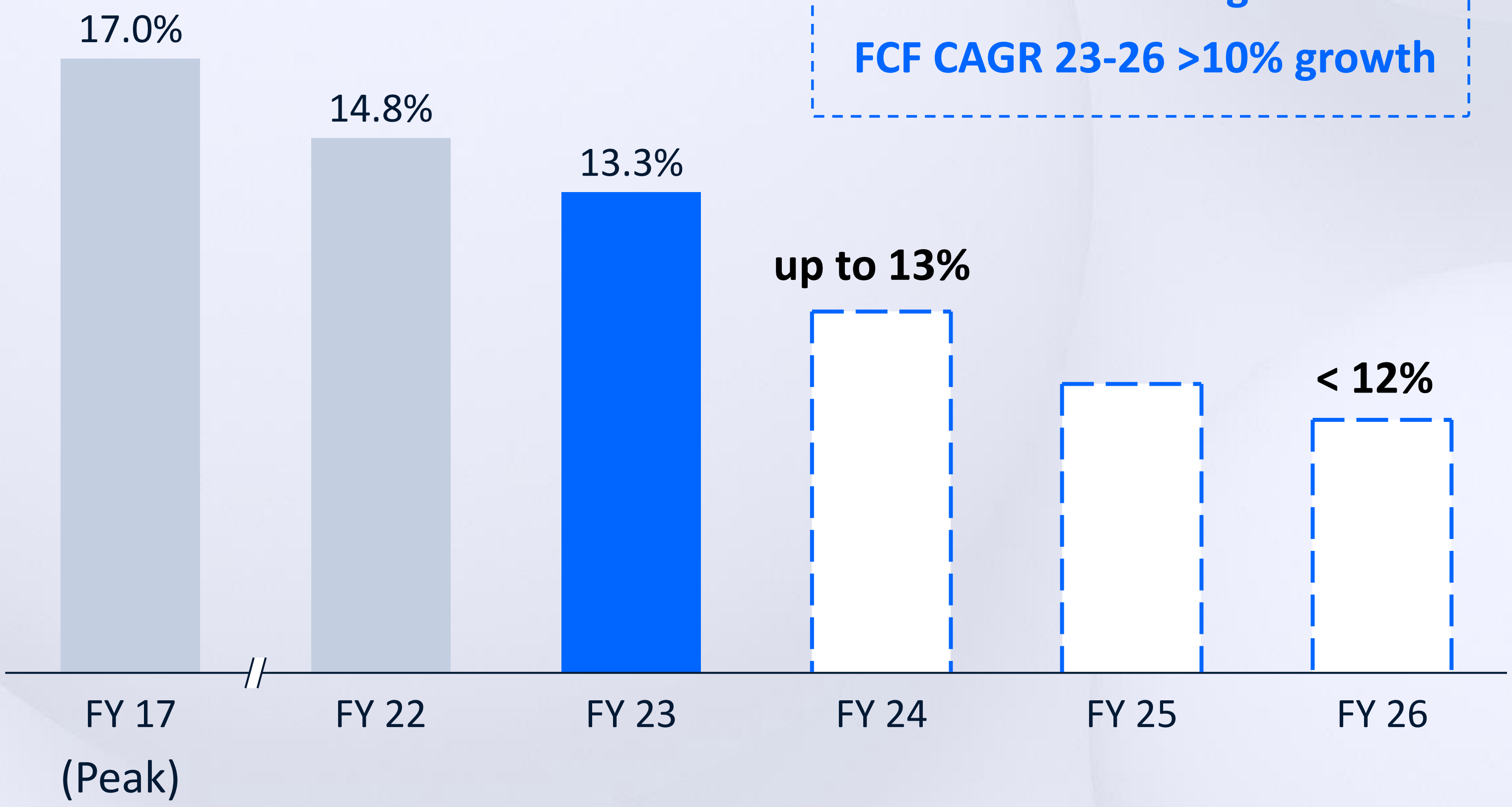
Capital allocation: investing in our business whilst maximizing shareholder value

CapEx over Revenue

FCF 2024 >10% growth

FCF CAGR 23-26 >10% growth



Capital allocation priorities GPS

- Investing in networks; i.e fiber and 5G
- Paying DPS with a floor of €0.3/sh
- Reducing leverage to our target
- Starting share repurchases
- Considering other strategic opportunities

ND / EBITDAaL 2.2-2.5x in 2026

2024 and Beyond

Mr. José María Álvarez-Pallete
Chairman & CEO

ESG: We keep transforming

	Environmental	Social	Governance
Key targets	**Net-zero** by 2040 **100% renewables** by 2030 **Zero-waste** by 2030	**> 90% MBB rural coverage** by 2024[1] **37% women executives** by 2027 **Zero adjusted gender pay gap**[2]	**Parity**[3] in top governing bodies by 2030 **Zero-tolerance** of corruption **~40% sustainable financing** by 2026[4]
Progress	**On track for net zero:** -51% in total carbon emissions in last 8 years **Leading actor in climate:** CDP Climate A-List for 10th consecutive year **Decarbonising the economy:** enabling customers to avoid 86.1m tCO2 emissions	**Aligned with SDGs**: >€100bn contribution to society via connectivity **On track for gender diversity:** 33% women executives. 0.7% adj. pay gap **Customer centric:** 31 NPS +1 pp. y-o-y	**Balanced and diverse Board:** 40% women and 67% independents Directors **Zero corruption:** 0 confirmed cases FY 23 **Leaders in sustainable financing:** €18.8bn as of Dec-23; 33.6% o/total

[1] Core markets.
[2] Adjusted pay gap: equal pay for jobs of equal value. Achieved in 2022. Objective is to maintain zero pay gap.
[3] Parity defined as not less than 40% of each gender represented
[4] Financing linked to sustainability criteria includes balance sheet debt, hybrids and undrawn committed credit lines based on ICMA sustainable bond principles, LMA Sustainability Linked Loan Principles and other ESG criteria. Not necessarily linked to EU Taxonomy aligned activities

Going forward, we keep transforming

Next generation **NETWORKS**

Enhanced **CUSTOMER** Experience focus

Leaner **OPERATIONS**

- **More fibre, FTTH PPs** to ~106m in 2026 (74m 2023)
- **More 5G, 70% 5G coverage** in core markets by 2026 (62% 2023):
  - ~90% Spain, ~60% Brazil, ~99% Germany, UK ~70%
- Increasing **Return on Invested Capital, programmable networks monetisation**

- **>60% convergent customers** 2026 (>50% 2023)
- **~50% IT/B2B Service** rev in 2026 (~40% 2023)
- **Personalised Digital Supermarket**
- **AI** driven **customer engagement**

- **Legacy Switch off**
  - **Spain retail copper** in 2024
  - **2G and 3G before YE 26**
- Free up spectrum to **more efficient 4G/5G**
- Continue **right-sizing**
- **Network sharing**

We keep commiting

	2023 Actuals	2024 Guidance	2023-26 CAGR
Revenue y-o-y reported	1.6%	**~1%**	~1% B2C ~1.5%; B2B ~5%
EBITDA y-o-y reported	1.4%	**1% to 2%**	~2%
EBITDAaL - CapEx y-o-y reported	5.7%	**1% to 2%**	5%
CapEx/ Sales	13.3%	**Up to 13%**	<12%
FCF y-o-y reported	€2.3bn	**>10%**	>10%
Cash Dividend	€0.3/share	**€0.3/share** 2 tranches €0.15;Dec-24, Jun-25	€0.3/share floor
Leverage	2.66x post-closing	**Reduced**	2.2-2.5x (2026)

Key Takeaways

- Delivered solid Q4 results to close out 2023, meeting our upgraded FY guidance and exceeding FCF target
- Positioned well for 2024 and on track with the GPS plan to achieve our 23-26 FCF CAGR target of >10%
- Good momentum across our business units; Spain growing and continued strength in Brazil and Germany
- Building best-in-class next-gen networks while streamlining our operations for the best customer experience
- Disciplined balance sheet management with focus on lowering CapEx intensity, deleveraging, and paying dividend

Results presentation and Q&A Session

Telefónica's management will host a webcast on
22 February at 10:00 AM (CET), 9:00 AM (GMT), and 4:00 AM (EST)

Participants from Telefónica

- **José María Álvarez-Pallete** l Chairman & CEO
- **Ángel Vilá** l COO
- **Laura Abasolo** l CFCO & Head T. Hispam
- **Lutz Schüler** l CEO Virgin Media O2
- **Eduardo Navarro** l Chief Corporate Affairs & Sustainability Officer
- **Adrián Zunzunegui** l Global Director of Investor Relations

Webcast

- To access the webcast: click here
- The webcast replay **will be available on Telefónica IR's website** after the event

Q&A Session

- To **participate in the Q&A session,** please register using the following link to receive the dial in and PIN details. click here.

Climate A
List 2023

Bloomberg
GEI 2023

Member of DJSI
Europe

1st in sector
2022

1st company worldwide in 2023
Digital Inclusion Benchmark

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