

# GRUPOMASMOVIL

## COMMUNICATION OF A RELEVANT FACT

October 1<sup>st</sup>, 2019

In accordance with article 17 of the Regulations (UE) number 596/2014 on market abuse and article 228 of the Securities Market Act passed by Legislative Royal Decree 4/2015 of October 23 and concordance rules, we inform the market about the following Relevant Fact referred to MASMOVIL IBERCOM, S.A. (“MASMOVIL” or the “Company” or the “Group”).

**MASMOVIL has signed comprehensive agreements with Orange Espagne S.A.U. (“Orange”) that cover all future 5G needs, significantly increase the cost efficient FTTH network footprint and generate €40M Opex runrate savings.**

**Consequently and in light of the current operating momentum, MASMOVIL increases EBITDA guidance to €465M for 2019, €570–600M for 2020 and €670–700M for 2021.**

MASMOVIL reaches the end of its fixed & mobile network investment phase – the FTTH network will cover cost efficiently c.14.2M BUs by the end of 2020 or 2/3 of all current Spanish FTTH BUs with no need for significant additional investments in the mobile network. Therefore, future annual Capex will decline significantly and Op.FCF forecasted to reach €415–445M by 2021.

The agreements with Orange are beneficial to MASMOVIL due to the following reasons:

- Mobile cost stability: mobile roaming contract renegotiation risk is eliminated with contract extension until 2028 -2033, includes 5G, attractive options and economics and the change of the NRA to a future proof and sustainable network capacity based model.
- Nationwide 5G coverage: solves in a single transaction all future 5G needs across the entire country with sufficient flexibility to accommodate MASMOVIL’s growth.
- FTTH network improvement: cost optimized fiber network increases from 8M to >13M BUs in 2019 (+62%) in a single transaction (and to >14M BUs by 2020), with quick time to market and payments spread over 4 years through a vendor financing scheme.
- Capex visibility: required future 5G & FTTH investment very limited and materially below any standalone deployment solution, while MASMOVIL significantly increases its infrastructure in terms of access to mobile sites, spectrum and FTTH network.
- Leverage: MASMOVIL deleverage plans on track to reach c.3.0x by Dec 2020 with a new target of <2.4x by YE 2021.
- Guidance increase: continued commercial momentum (also in Q3) combined with the new agreements lead to increased EBITDA and Operating FCF guidance.
- Equity FCF: New Equity FCF target of more than €2 per share for 2021

€M	2019			2020			2021
	Former	Updated	Delta	Former	Updated	Delta	New
Adj. EBITDA	450	465	15	530 - 550	570 - 600	40 - 50	670 - 700
Adj. EBITDA Margin	27%	27%	---	29%	30 - 32%	200 bps	32 - 34%
CAPEX	360	457	97	285	295	10	255
Adj. EBITDA-CAPEX	90	8	-82	245 - 265	275 - 305	30 - 40	415 - 445

## The Agreements and their impact

### **1. Mobile: Orange agreements cover all future 5G needs via new NRA, Virtual Active Sharing and RaaS option.**

- National Roaming Agreement ("NRA"): MASMOVIL extends its nationwide NRA with Orange Espagne, S.A.U. ("Orange").
  - The new NRA becomes effective in 2020 and includes 5G services and attractive economics.
  - The current consumption based model will switch to a network capacity based model.
  - The new NRA expires in 2028 while MASMOVIL has the option to extend the agreement by another 5 years until 2033.

Moreover, Orange will densify its mobile network with at least 1,500 new sites by 2021 to assure best-in-class network coverage.

- 5G Virtual Active Sharing: in addition to the new NRA, MASMOVIL will benefit from the deployment of a homogenous high quality 5G network (using all frequency bands suitable for 5G) with up to 4,500 sites across Spain's top 40 cities (covering 35% of the Spanish population) including Madrid, Barcelona, Valencia, Sevilla, Zaragoza, Malaga and Bilbao among others.

There is no need for further deployment Capex, incremental Opex will gradually increase to €10M by 2023 and will remain stable thereafter.

The virtual active sharing agreement includes potential additional spectrum licenses (700MHz) and has an initial term of 10 years with an option for another 10 year extension.

- Additional Option: MASMOVIL has the option under a Radio as a Service (RaaS) or IRU agreement to use on a site-by-site basis all mobile technologies in up to 6,000 sites of Orange. That allows MASMOVIL to manage the onnet data consumption of its clients in a cost-effective manner. The RaaS agreement has an initial term of 10 years with an option for another 10 year extension.
- Conclusion: future 5G needs for MASMOVIL are fully covered without incremental Capex. Any 5G Capex risk or uncertainty has been eliminated.

### **2. FTTH: Agreement comprises an additional c.5.2M BUs**

- FTTH Network: MASMOVIL receives by YE2019 a right of use on c.5.2M building units ("BUs") for which Orange currently offers bitstream services. MASMOVIL's cost optimized FTTH network will thereby increase to 14.2M FTTH BUs by 2020.
- Capex: The upfront Capex/BU under the agreed hybrid model is around 50% of a traditional co-investment scheme while the recurring monthly charges per line (including maintenance) are set at around 50% of the current market rates.

This results in incremental FTTH Capex of c.€180M while adding 5.2M BUs efficiently to the already communicated 2020 target of 9M own FTTH BUs.

- Payment Terms: the Capex will be booked in 2019, but payments will be spread over 2020-2023 through vendor financing.
- Additional Option: from 2030 onwards, MASMOVIL can acquire a complete network IRU for the 5.2M BUs (with full ownership economics) for a payment per BU similar to the above mentioned upfront Capex/BU.

### 3. Financial implications: €40M Opex savings, reduced Capex and uncertainty eliminated

- Net Opex Savings: The right of use for additional 5.2M FTTH BUs and attractive terms for mobile services will generate c.€30M of Opex savings in 2020 and c.€40M full run-rate savings from 2021 onwards.
- Capex: Total incremental Capex is limited to c.€180M with payments spread over 2020-2023, which is just a fraction of any standalone FTTH or mobile network solution. Therefore, MASMOVIL has been able to eliminate the uncertainty around its future Capex needs for 5G and FTTH deployments.

### 4. Guidance Update

- Increased Guidance: the commercial momentum for MASMOVIL during the first part of the year has been very positive, leading to an improved outlook for the full year 2019 and, in combination with the Orange agreements, also for the following years:
  - Adj. EBITDA guidance increased by €15M for 2019 and €40-50M for 2020, with an additional €100M EBITDA YoY growth expected in 2021 to €670-700M. Adj. EBITDA Margin expectation is increased by >200 bps in 2020 vs previous guidance, with further margin expansion expected to 32% - 34% for 2021.
  - 2019 CAPEX guidance up by €97M to €457M mainly due to higher client growth (€31m) and c.€44M extra net investment in FTTH network buildout (achieving 5.2M additional FTTH BUs), which will reduce significantly in 2020 and 2021 resulting in overall lower Capex.
  - Operating FCF (EBITDA – CAPEX) generation increases throughout the years, reaching >€415M by 2021.

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- Leverage: MASMOVIL anticipates no impact on its deleverage profile, with a clear improvement from 2020 onwards due to higher EBITDA and Operating FCF generation, with leverage expected to be below 2.4x by 2021.
- Equity FCF per share: Recurring FCF per share is expected to increase significantly over the next years to reach more than €2 per share in 2021.

Madrid, October 1<sup>st</sup>, 2019.

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