

INTERVIEW

EIGHT QUESTIONS FOR THE EXECUTIVE BOARD

Interview with Christoph Vilanek, Chief Executive Officer (CEO) of freenet AG, and Ingo Arnold, Chief Financial Officer (CFO), on the 2019 financial year



IN THE LONG TERM, WE WILL BENEFIT FROM THE ELECTRONICS STORES' IMPROVED SELLING POWER NOT JUST WITH OUR MOBILE COMMUNICATIONS PRODUCTS.

*Christoph Vilanek,
Chief Executive Officer (CEO)*

01 If you read the papers, the freenet Group's 2019 financial year was particularly affected by the turbulence surrounding Swiss telecommunications provider Sunrise and MediaMarkt/Saturn's holding company CECONOMY. How have both of these freenet equity investments performed as of the year-end?

INGO ARNOLD: "That is certainly the impression that has been portrayed. And, of course, we have invested a good deal of time and energy in both of these issues. However, it is important to differentiate between our two equity investments. As one of freenet's purely financial investments, Sunrise had been operating very much independently in recent years. In light of this, you have to ask yourself the same question you do for every acquisition: does it really make economic sense? After all, not every acquisition lives up to your initial expectations, particularly as in this case, the purchase price offered by Sunrise for cable operator UPC seemed

vastly inflated in our view. While this was one of the main reasons why we vehemently opposed the planned takeover, we also felt a particular responsibility our shareholders and those of Sunrise. Eventually, the other major shareholders took a similar view and the deal was scrapped.”

CHRISTOPH VILANEK: “Again, we saw our CECONOMY investment as a strategic investment from the start; Media-Markt and Saturn are very strong brands with considerable selling power and an important distribution channel for our main brand mobilcom-debitel’s products. Without wishing to go into more detail on the quarrelling and decision-making within the organisation, we used our influence to introduce important new courses of action via the Supervisory Board. Over the past few months and quarters, more rigid management of issues such as promotions and commissions is already paying off. In the long term, we want to and will benefit from the electronics stores’ improved selling power via our mobile communication products – particularly our products and services in the TV and Media segment.”

02 That brings us to freenet’s operating business. One new mobile communications product has also made huge waves over the past year.

CHRISTOPH VILANEK: “Yes – freenet FUNK. “Turning the mobile phone market upside down”, “a seismic shift in the industry” and “a revolution in mobile communications” from “Germany’s most exciting tariff” were some of the reactions from the trade press. Indeed, freenet FUNK marks a fundamental innovation in every respect – from the ordering process and the completely flexible and very inexpensive digital usage to the option to cancel the tariff on a day-to-day basis. The team, led by our Chief Technology Officer Stephan Esch and product manager Felix Bommer, have done an incredible job with this fully digital tariff.”

03 Has your innovation been as well received by customers as it has in the press?

INGO ARNOLD: “As we were entering completely uncharted territory with this tariff, we were initially cautious with our sales and marketing efforts. The option to cancel the tariff on a day-to-day basis also meant that the figures were difficult to fit into our system of long-standing postpaid customers, so they were counted separately. There were around 34,000 active users at the end of 2019. Nevertheless, freenet FUNK helped us to offset the slight dip in postpaid customer growth in the first half of the year. Notwithstanding this, however, our important postpaid customer segment ultimately ended the year with a slight increase to 6.903 million customers. This development is due not least to the excellent work done by the Executive Board divisions of Antonius Fromme and Rickmann von Platen.”

04 This once again suggests stable performance overall for 2019.

INGO ARNOLD: “That’s right. We can summarise our performance by saying that we have accomplished or, in some cases, slightly exceeded our annual targets – just like we did every year for the past decade. Revenue remained stable compared to the previous year as forecast at 2.93 billion euros. At 426.8 million euros, EBITDA fell exactly into the anticipated range for the financial year – which is also true for free cash flow at 249.0 million euros. One thing that is particularly pleasing is that the number of subscribers including freenet FUNK rose to 8.367 million across all business areas and segments as of the end of December. As already mentioned, 6.903 million of this figure is attributable to postpaid customers in the Mobile Communications segment. Postpaid ARPU is also stable at 18.7 euros, after 19.0 euros in the previous year. As in previous years, our shareholders were also able to profit from freenet AG’s quality and profitability-driven strategy, receiving a dividend of 211.2 million euros for the 2018 financial year – that’s 1.65 euros per share.”

05 How much did the TV and Media segment contribute to customer figures?

INGO ARNOLD: “Again, it’s important to differentiate here. freenet TV, our full-HD product with a platform operated by freenet subsidiary Media Broadcast, contributes 1,021,000 RGUs – that means active, revenue-generating users. This is a solid figure that we are happy with given the limited potential for traditional linear terrestrial television in Germany. Meanwhile waipu.tv is performing very well in the attractive IPTV growth market, significantly exceeding the targets we set for 2019. Our subsidiary EXARING AG registered 408,000 paying subscribers for waipu.tv as of the end of December, with the service also contributing higher revenues.”

06 Surely the continuous refinement of the product has also contributed to this success.

CHRISTOPH VILANEK: “Yes, and there have also been some absolutely spectacular developments. One particularly important breakthrough here is the sales collaboration with Telefónica Deutschland, which has been marketing “O₂TV – powered by waipu.tv” to their own customer base since May. EXARING entered into more new partnerships during the year with major media companies such as Springer and Burda, as well as hardware manufacturers Samsung, Sony, Philips and Sharp and, last but not least, Apple TV and Amazon. Our package of around 30 Turkish channels means we are now reaching millions of fellow citizens with a migrant background in Germany for the first time.

The Company also expanded its products, services and partnerships for freenet TV. In September, Media Broadcast agreed a technology partnership with MagentaSport for an initial four-year period. The collaboration with ARD Sportschau was also extended for another two seasons, enabling us to continue transmitting the TV signal for a total of 178 Bundesliga matches from the stadiums to the WDR broadcasting centre in Cologne using our own fleet of outside broadcast vehicles.”

07 Are there any other exciting developments within the company?

CHRISTOPH VILANEK: “Of course – in all areas and at all of our subsidiaries! We are working continuously on improvements big and small. In the Mobile Communications segment, for example, mobilcom-debitel reached a partnership agreement with Expert SE last summer, expanding the potential sales network to include Expert’s retail partners and around 420 electronics stores across Germany. Notwithstanding many other individual initiatives, in the second half of the year we also activated the LTE network free of charge for all customers whose contracts previously only allowed them to surf the Internet via UMTS. As a result of all of our activities and promotions, several of our individual brands once again came out on top in comparison tests and customer surveys.

Nor did we rest on our laurels in the area of services after our success in recent years. For example, mobilcom-debitel strengthened the insurance and service management services offered by its own chain of stores by entering into a partnership with Clickrepair. With more than 1,000 workshops across Germany, this online repair platform is the leading marketplace for mobile and smartphones, helping to significantly extend their lifecycle. As part of the “Digital dabei” (“Going digital”) initiative, mobilcom-debitel also hosted around 1,000 smartphone workshops aimed at the “Best Ager” target audience in around 525 of its shops on 1 October to mark International Day of Older Persons. A range of tariffs was also created specifically for senior citizens. However, our discount brand klarmobil also further enhanced its direct service for end customers, adding WhatsApp Messenger as a quick and direct support channel.”

**WE HAVE ACHIEVED
ALL OUR TARGETS FOR
THE YEAR, EVEN
EXCEEDING SOME OF
THEM SLIGHTLY –
ESPECIALLY WITH OUR
PRODUCTS IN THE TV
AND MEDIA SEGMENT.**

*Ingo Arnold,
Chief Financial Officer (CFO)*



08 These are also very positive signs for the current financial year. What are your plans and goals here for 2020?

INGO ARNOLD: “We are on the right track! This is why we are confident that, in financial year 2020, we will be able to sustain the overall performance seen in recent years, which has generally been marked by stability and continuity.

In Mobile Communications, we want to continue focusing on expanding the particularly valuable postpaid customer base and are anticipating moderate growth as in 2019. In the TV and Media segment, we are in good shape with around 1.43 million revenue-generating TV customers. We expect to expand this customer base further during the 2020 financial year. The waipu.tv IPTV project will once again drive growth in this segment. Overall, we expect EBITDA (at 415 to 435 million euros) and free cash flow (at 235 to 255 million euros) to remain stable.”