Telefonica Deutschland Holding AG

Germany / Technology
Hamburg Stock Excange
Bloomberg: O2D GR
ISIN: DE000A1J5RX9

Special Situation

RATING	**BUY**
PRICE TARGET	**€ 3.00**
Return Potential	42.9%
Risk Rating	Medium

WHEN 1&1 ADDS UP TO €3

We view the valuation impact on Telefónica Deutschland from the 1&1 contract loss as a temporary set-back. We expect it will gradually be offset by a stabilising German Telecoms market, improving industry capital productivity, and the completion of the last vestiges of rate of return-influenced segmental regulation. Based on a two-pronged valuation approach using DCF valuation and peer group comparison for 2026E, when we see the likely point of maximum impact of the 1&1 loss, we reach a target price of €3 per share, equal to 43% upside. We start coverage with a Buy rating.

Opportunistic offer The 1&1 contract loss proved to be a major shock for the Telefónica Deutschland share price and presaged an offer for the minority from Telefónica Group. We believe the share price reaction was overdone.

Improving market backdrop Ex-incumbent German Telecom market revenue growth has accelerated from 0.6% over the 2015-2020 period to 1.7% over the 2020-2023 period. Despite its heavy weighting in the competitor group Telefónica Deutschland has continued to outgrow its peers, delivering a 4.6% CAGR over the 2020-23 period.

A temporary set-back We view the loss of 1&1 revenues simply as a temporary adjustment in this longer-term trend. The erosion in revenues will be gradual at least until mid-2025, and Telefónica Deutschland has already made progress in filling the MVNO traffic gap, dramatically expanding the scope of its freenet MVNO agreement, winning the Lyca Mobile MVNO contract, and announcing the Simyo MVNO relaunch.

European Telecom Sector comparable valuations, together with cross sector comparables, point to the longer-term upside potential with the (historically) heavily capital intensive European telecoms industry trading at a discount to more lightly regulated, higher growth sectors and also to the European utility group. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2021	2022	2023	2024E	2025E	2026E
Revenue (€m)	7766.0	8223.0	8615.0	8609.7	8284.7	8191.4
Y/Y growth	n.a.	5.9%	4.8%	-0.1%	-3.8%	-1.1%
AEBITDA (€m)	2410.0	2538.0	2617.0	2667.6	2488.2	2359.0
AEBITDA margin	31.0%	30.9%	30.4%	31.0%	30.0%	28.8%
Net income (€m)	211.0	230.0	273.0	300.3	230.6	141.7
EPS (diluted) (€)	0.07	0.08	0.09	0.10	0.08	0.05
DPS (€)	0.18	0.18	0.18	0.00	0.00	0.00
FCF* (€m)	964.0	495.0	652.0	767.4	591.6	748.5
Net gearing	65.6%	70.3%	73.0%	73.3%	60.7%	46.9%
Liquid assets (€m)	1017.8	778.4	584.0	456.2	986.0	1679.0

** FCF after lease obligations*

RISKS

Risks are typically regulatory surprises surrounding spectrum auctions.

COMPANY PROFILE

Telefónica Deutschland is one of the leading integrated telecommunications providers in Germany, with 45.1m mobile telephone lines and 2.4m broadband lines. The company offers mobile and fixed network services for private and business customers as well as innovative digital solutions based on its infrastructure and mobile data analysis.

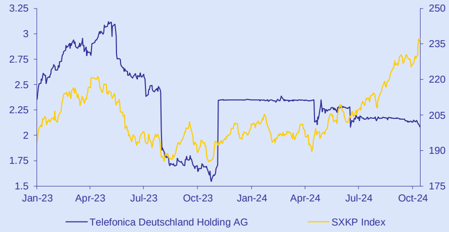
MARKET DATA

As of 22/10/2024

Closing Price	€ 2.10
Shares outstanding	2,975m
Market Capitalisation	€ 6,199m
52-week Range	€ 1.55 / 3.12
Avg. Volume (12 Months)	3,622,346

Multiples	2023	2024E	2025E
P/E	22.9	20.8	27.1
EV/Sales	1.2	1.2	1.2
EV/AEBITDA	3.9	3.9	4.1
Div. Yield	8.6%	0.0%	0.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2023

Liquid Assets	€ 584m
Current Assets	€ 2,733m
Intangible Assets	€ 4,518m
Total Assets	€ 15,447m
Current Liabilities	€ 4,467m
Shareholders' Equity	€ 5,535m

SHAREHOLDERS

Telefónica Gemany Holdings Ltd	69.2%
Telefónica Local Services GmbH	27.6%
Free Float	3.2%

Analyst: Kevin Sheil, Tel. 030 8093 9680

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INVESTMENT CASE

Stable backdrop Telefónica Deutschland has benefited from a more stable industry backdrop. As Deutsche Telekom's (DT) share of industry revenues has stabilised in recent years, counterintuitively this has benefited both incumbent and competitor revenue growth. Industry revenue growth ex-DT has accelerated from 0.6% over the 2015-2020 period to 1.7% over the 2020-2023 period. Despite its heavy weight in the competitor group Telefónica Deutschland has continued to outgrow its peers, delivering a 4.6% CAGR over the 2020-23 period, and recent performance remains robust especially in the post-paid segment.

1&1 a temporary adjustment We view the loss of 1&1 revenues simply as an interruption in this longer-term trend. The erosion in revenues will be gradual at least until mid-2025 and Telefónica Deutschland has already made progress in filling the MVNO traffic gap, dramatically expanding the scope of its freenet MVNO agreement, winning the Lyca Mobile MVNO contract and announcing the Simyo MVNO relaunch.

Industry capex is falling Overall European Telecoms industry capex fell by 5.5% in 2023 as expenditure on fibre to the home and 5G peaked. Based on operator industry data this should be the beginning of a marked trend of improvement in capital efficiency with a further one third fall anticipated in the capex to sales ratio by the end of the decade.

Network virtualisation Due to moderating 5G spend and the benefits of the trend to network virtualisation, we expect mobile operators to be prime beneficiaries of the capital productivity improvements. Telefónica Deutschland is at the forefront of the existing infrastructure operators' move towards network virtualisation and we expect the benefits to ultimately be visible in both capex and opex, raising the probability of a positive mid-term capex surprise.

Reducing cash burden - additional positive developments: BNetzA's inclination to extend spectrum licenses in multiple bands for 5 years potentially removes the cash burden of additional spectrum auctions for Telefónica Deutschland. As one of the big 3 industry players, strict coverage obligations will already fit, to a significant degree, with 02's network roll-out. **Cash accumulation will be an increasing feature of the business as the suspension of the dividend means Telefónica Deutschland will accumulate an additional €535m (0.18c, or 8%, per share) cash/value annually.**

Valuation implications The negative valuation impact from the uncertainty created by the 1&1 contract loss should be offset by two positive structural trends: (1) the improving German Telecoms backdrop; and (2) the completion of the move away from implicit segmental regulation of returns to a more competitive market structure. We believe that these factors are consistent with a gradual re-rating of the German telecommunications market away from the utility-like model to a more typical competitive market valuation. Improving capital efficiency should only reinforce this trend.

Telefónica Deutschland valuation We take a two-prong approach to Telefónica Deutschland valuation using both a DCF model and Telecom industry multiple comparisons. We attempt to build conservatism into both approaches, keeping capex to sales above our best expectations and applying comparative 2026 industry multiples (likely the point of maximum impact of the 1&1 loss). Based on this two-prong method we target a per share Telefónica Deutschland valuation of €3.0, compared to a standalone DCF valuation of €3.3. We start coverage with a Buy rating.

VALUATION

We use a three-phase DCF model to help value Telefónica Deutschland Holding with a blended absolute and relative approach. This DCF is well suited to the business, which has historically delivered good, stable cash flows. We expect this trend to continue.

The first phase is based on explicit production forecasts through 2026. Subsequent phase 2 projections run through 2036 and are based on growth as well as normalised earnings assumptions, while phase 3 reflects TV (terminal value).

Our WACC of 6.4% is common to the telecom sector and reflects the risks generally associated with operators. Our base case scenario, which assumes CapEx investment of 13.1% of sales, points to fair value of €3.3 per share. We have run EBITDA and CapEx sensitivities below as a reference.

Figure 1: DCF model

In EURm	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Sales	**8,610**	**8,285**	**8,191**	**8,281**	**8,372**	**8,463**	**8,556**	**8,647**
NOPLAT	**328**	**254**	**170**	**275**	**330**	**474**	**555**	**637**
(+) depreciation & amortisation	2,247	2,162	2,138	2,099	2,114	2,010	1,946	1,881
Net operating cash flow	**2,575**	**2,417**	**2,308**	**2,374**	**2,444**	**2,484**	**2,501**	**2,518**
(-) Total investments (CapEx, RoU & WC)	-1,856	-1,863	-1,587	-1,806	-1,750	-1,762	-1,726	-1,769
(-) Capital expenditures	1,119	1,277	1,065	1,093	1,097	1,109	1,121	1,133
(-) Lease obligations	637	613	606	613	611	609	616	623
(-) Working capital	-99	27	84	-100	-42	-43	10	-14
Free cash flows (FCF)	**719**	**554**	**722**	**568**	**694**	**723**	**775**	**749**
PV of FCF's	**711**	**515**	**631**	**467**	**536**	**525**	**529**	**480**

In EUR '000	
PV of FCFs in explicit period	6,542
(+) PV of FCFs in terminal period	7,403
Enterprise value (EV)	13,946
(+) Net cash / (-) net debt	-4,041
(+) Investments / minority interests	0
Shareholder value	9,905
Fair value per share (€)	3.33

Terminal EBITDA margin

WACC	30.0%	30.5%	31.0%	31.5%	32.0%	32.5%	33.0%
3.4%	7.90	8.33	8.77	9.20	9.63	10.07	10.50
4.4%	5.26	5.53	5.80	6.08	6.35	6.62	6.89
5.4%	3.82	4.01	**4.20**	**4.38**	**4.57**	4.76	4.94
6.4%	2.91	3.05	**3.19**	**3.33**	**3.46**	3.59	3.73
7.4%	2.29	2.39	**2.49**	**2.59**	**2.70**	2.80	2.90
8.4%	1.83	1.91	1.99	2.07	2.14	2.22	2.30
9.4%	1.48	1.54	1.60	1.66	1.73	1.79	1.85

Terminal growth rate	1.0%
Terminal EBITDA margin	31.5%
Cost of equity	8.1%
Pre-tax cost of debt	5.0%
Tax rate	20.0%
After-tax cost of debt	4.0%
Share of equity capital	57.4%
Share of debt capital	42.6%
WACC	6.4%

CapEx / sales ratio

WACC	11.6%	12.1%	12.6%	13.1%	13.6%	14.1%	14.6%
3.4%	10.50	10.07	9.63	9.20	8.77	8.33	7.90
4.4%	6.89	6.62	6.35	6.08	5.80	5.53	5.26
5.4%	4.94	4.76	**4.57**	**4.38**	**4.20**	4.01	3.82
6.4%	3.73	3.59	**3.46**	**3.33**	**3.19**	3.05	2.91
7.4%	2.90	2.80	**2.70**	**2.59**	**2.49**	2.39	2.29
8.4%	2.30	2.22	2.14	2.07	1.99	1.91	1.83
9.4%	1.85	1.79	1.73	1.66	1.60	1.54	1.48

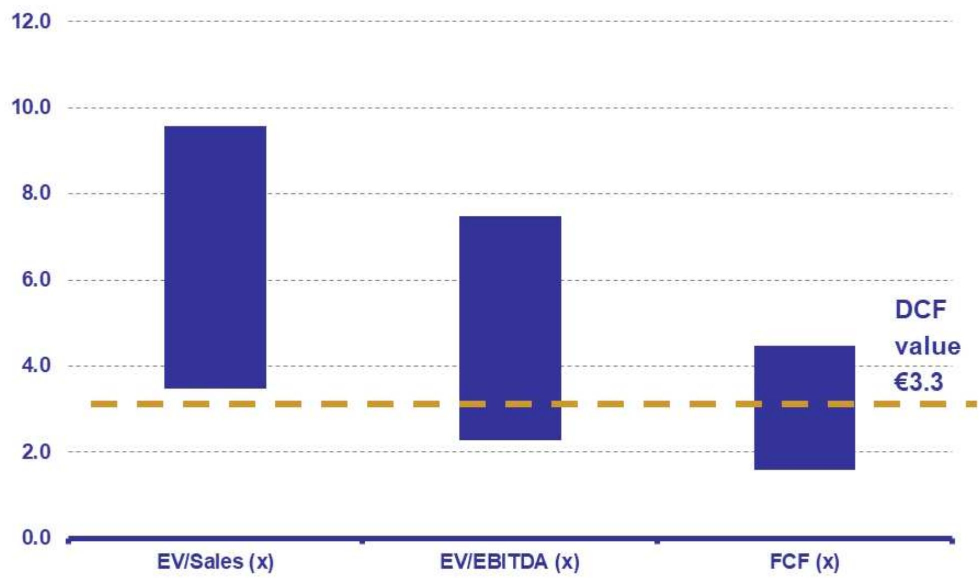
**Please note our model runs through 2036 and we have only shown the abbreviated version for formatting purposes*

EUROPEAN COMPARABLE VALUATION

Our Telefónica Deutschland comparable valuation range is based on 2026 industry metrics. We choose 2026 as it is the last year of major adjustment to the 1&1 contract loss. The three metrics we use are EV/EBITDA, FCF yield and EV to sales, and we generate a high and low range based on the equivalent multiples for the European Telecom Services universe.

We position our Telefónica Deutschland central case valuation of €3 slightly below our standalone DCF valuation of €3.3, marked as a horizontal line on Figure 3. Figure 3 shows the valuation range for Telefónica Deutschland's European Telco peers according to EV/sales, EV/EBITDA and P/FCF. On a composite basis, our price target places the company at the bottom quartile of this valuation range. We weight the cash flow-driven DCF approach more heavily than the multiple ranges in reaching our price target. DCF captures the true FCF to the business unlike the metric-based approach. For example, FCF multiples don't adjust for near-term tax assets, the incidence of which can vary widely across the sector and possibly flatters Telefónica Deutschland.

Figure 2: Telefónica Deutschland multiple-based per share valuation range



Source: First Berlin Equity Research; company annual reports, Bloomberg
Data cleansed by excluding inputs >1.5x and <0.5x

Tickers: BT/A LN, CLNX SM, DTE GR, ELISA FH, FNTN GR, KPN NA, ORA FP, TEF SM, TEL NO, TEL2B SS,TELIA SS, TIT IM, SCMN SW, VOD LN

We also see the potential for material upward pressure on this target valuation. Our estimates are based only on partial mitigation of the 1&1 impact, but Telefónica Deutschland has already made considerable progress in its remediation efforts.

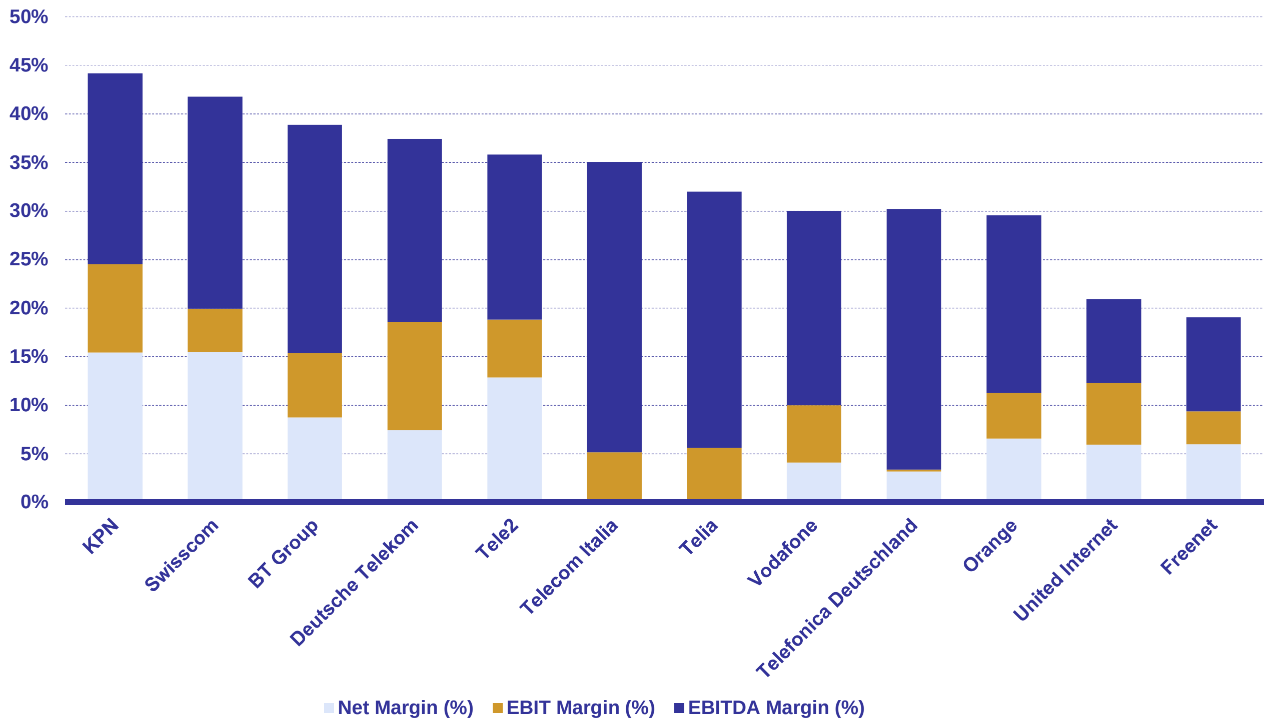
We also allocate around €200m of spectrum assignment fees to 2025 Telefónica Deutschland capex. We have no visibility on the quantum, or indeed if fees will be levied, but view this as akin to a general capex contingency.

In addition, we identify several forces that could exert upward pressure on average European Telco valuations: (a) the completion of a transition from elements of rate of return regulation to a more competitive model with a lighter regulatory hand on the tiller; and (b) improving capital productivity manifested in projections of a material reduction in industry capex to sales over the balance of the decade.

Valuation is of course the result of complex growth and profitability factors. A snapshot of the margin structure of the European Telecoms Services industry is instructive. The chart below shows EBITDA, EBIT and net margins for the principal European operators. The highest EBITDA margins to the left of the chart (Figure 3 overleaf) are delivered by the former incumbent operators, and cable providers which typically benefit from the diversified revenue streams and residual tariffing bounty that comes from incumbency. Telefónica Deutschland is positioned to the right of the chart along with other new entrants.
The narrow width of the gold (middle) band between EBIT and net margins in the Telefónica Deutschland case reflects the fact that the operator benefits from the tax shelter stemming from material tax losses carried forward. This is one reason we have not focussed on net profit-based valuation benchmarks.

The heavy weight of depreciation relative to sales for Telefónica Deutschland speaks to both the cost of insurgency - first you have to build a network - and the eventual benefits, when you move to more of an optimisation phase. Capex can fall significantly relative to depreciation unleashing the business' FCF generating power. In this note we review some of the more secular trends which we believe may deliver longer term improvements in capex to sales and FCF for Telefónica Deutschland.

Figure 3: European Telecom industry margins

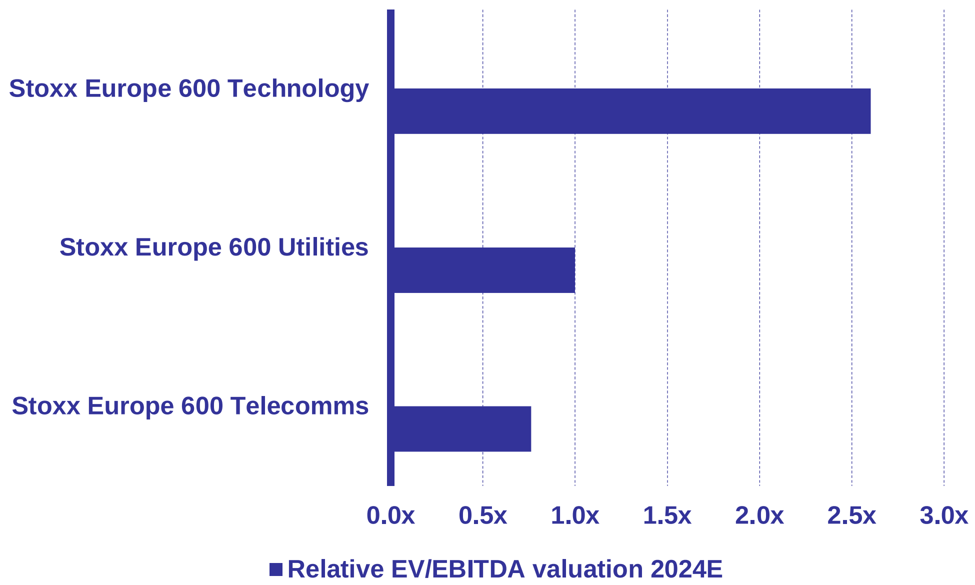


Source: First Berlin Equity Research; company annual reports

SECTOR VALUATION UPSIDE

The chart below benchmarks European telecom valuation based on EV/EBITDA multiples relative to the European utility and technology Sectors (Technology is taken as a proxy for a higher growth sector with a light regulatory touch). The utility multiple is indexed at 100. On this metric, average European telco valuations are below utility levels and dramatically below the technology analogue. Whilst we would not expect European telecommunications to significantly narrow the technology valuation gap any time soon, the potential direction of travel is evident if our thesis of a move to more competitive market norms with a lighter regulatory touch, and improving capex/sales is borne out. A 1% point capex/sales reduction would equate to a DCF valuation increase to €3.6 (base: €3.3).

Figure 4: European sector relative EV/EBITDA comparisons



Source: First Berlin Equity Research; Bloomberg October 2024

TELEFÓNICA DEUTSCHLAND - INTRODUCTION

LEADING PLAYER

Telefónica Deutschland is one of the leading integrated telecommunications providers in the German market. Operating primarily under its parent Telefónica's O2 Brand, but with a multi-brand strategy, the company provides mobile, fixed network and next generation digital products with a particular emphasis on its Internet of Things (IoT) offerings, which include connected cars, smart cities, and industrial applications.

GERMAN MARKET EVOLUTION

Telefónica Deutschland is benefiting from a more stable industry backdrop. As Deutsche Telekom's share of industry revenues has stabilised in recent years, counterintuitively this has benefited both incumbent and competitor revenue growth. Average insurgent revenue growth has accelerated from 0.6% over the 2015-2020 period to 1.7% over the 2020-2023 period. Despite its heavy weight in the competitor group, Telefónica Deutschland has continued to outgrow its peers, delivering a 4.6% CAGR over the 2020-23 period. The outlook remains positive. As recently as 10 October, Deutsche Telekom announced at its Capital Markets Event that it is targeting a 2.5% - 3.0% Service Revenue CAGR for its non-US businesses (i.e. Europe) and a 3% - 4% EBITDA CAGR.

Table 1: German telecom market (€bn)

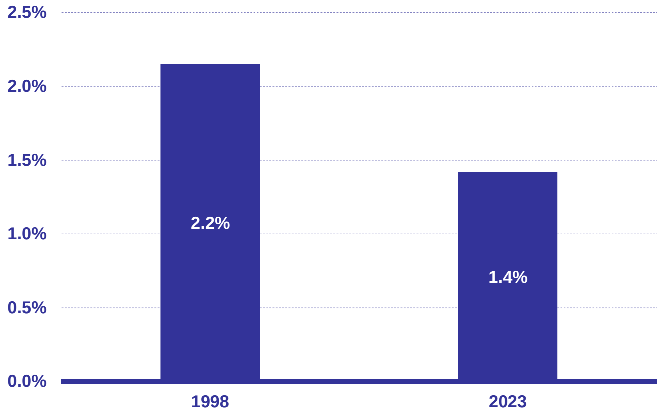
Year	DT	Competitors	Total Market	DT Share	Competitor Share
1998	32.3	11.4	43.7	74%	26%
2000	33.2	23.0	56.2	59%	41%
2005	34.2	33.1	67.3	51%	49%
2010	27.3	31.9	59.2	46%	54%
2013	25.4	31.6	57	45%	55%
2015	25.1	32.3	57.4	44%	56%
2018	24.4	32.6	57	43%	57%
2020	24.7	32.5	57.2	43%	57%
2023	25.7	34.2	59.9	43%	57%

Source: First Berlin Equity Research; Financial reports, BNetzA, Statista

THE LONGER HAUL

Over the longer haul, German Telecoms growth has been pedestrian. Between 1998 and 2023, the industry delivered average compound revenue growth of 1.3% p.a. and the industry share of German GDP fell from 2.2% to 1.4%. This backdrop contributed to the industry's gradual de-rating and the perception that it was ex-growth.

Figure 5: Telecom share of German GDP



Source: First Berlin Equity Research; St Louis FED, BNetzA, Statista

In fact, the longer timeframe contains several distinct periods. Between 1998 and 2005 industry revenues compounded at an average of over 6% per annum driven by the explosion in the mobile market and industry revenues peaked at just under 3% of GDP in 2005.

The following 10 years saw a reversal of this trend. The industry contracted at an average 1.6% per annum as regulatory pressure and the entry of lower priced competitors eroded the overall tariff level and volume growth eased as mobile passed peak growth. Despite dramatic market share gains it was still a challenging period for insurgent growth. Between 2005 and 2015 Deutsche Telekom's share of the German telecommunications market fell from 51% to 44%, but due to tariff erosion, competitor revenues declined from €33.1bn in 2005 to €32.3bn in 2015**.**

Post 2015 the market environment has gradually improved. Deutsche Telekom's market share declined a further 1% point between 2015 and 2018 but has been quite stable since. Over the 2015-2020 period industry revenues were flat compared to a 0.6% average annual contraction over the previous 5 years.

Table 2: Growth in the German Telecoms Market 1998-2023

	DT	Competitors	Market
CAGR 1998-2005	0.8%	16.4%	6.4%
CAGR 2005-2015	-3.0%	-0.2%	-1.6%
CAGR 2015-2020	-0.1%	0.6%	0.0%
CAGR 2020-2023	1.3%	1.7%	1.5%

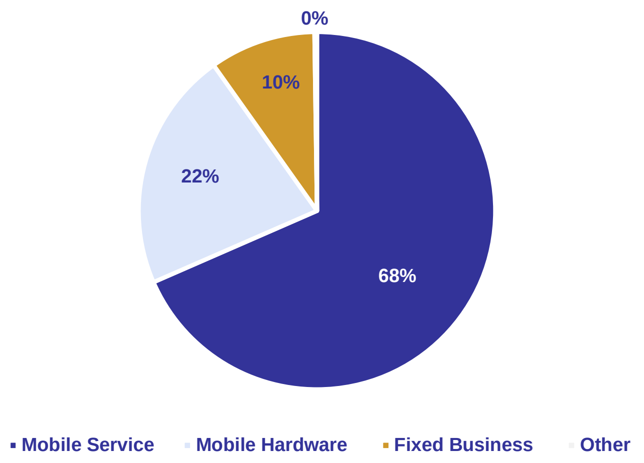
Source: First Berlin Equity Research; St Louis FED, BNetzA, Statista

Interestingly, for the newer entrants the benefits of market stability have outweighed the impact of slowing share gains. Competitor revenues edged up at 0.6% per annum over the 2015-2020 period but grew by 1.7% per annum over the 2020-23 period.

MOBILE ORIENTATION

Telefónica Deutschland is a full-service provider in the German market, but its key strength is in the mobile market. In 2023 mobile accounted for 90% of group revenues as can be seen from the chart below.

Figure 6: Telefónica Deutschland 2023 revenue breakdown (€m)



Source: First Berlin Equity Research; Telefónica

Given the importance of mobile to Telefónica Deutschland, in this note we focus on the main competitive, technological and regulatory developments in the mobile space and their implications for the economic development of Telefónica Deutschland over the medium term.

MOBILE BRANDS & MVNO

The German mobile phone market, while dominated by the three primary Mobile Network Operators (MNOs) — Deutsche Telekom (T-Mobile Germany), Vodafone Germany, and Telefónica Deutschland (O2) — also hosts a dynamic ecosystem of Mobile Virtual Network Operators (MVNOs) **with 1&1 somewhat of a hybrid as both MNO and MVNO.** MVNOs do not own their own network infrastructure. Instead, they lease access from the MNOs, allowing them to offer competitive pricing and target niche segments that the larger MNOs may overlook. This model has enabled MVNOs to gain traction in Germany, especially among price-sensitive consumers, specific demographic groups, and those looking for flexible plans.

STRENGTH IN THE MVNO SPACE

The German landscape is diverse with players ranging from independent companies to supermarket chains offering their own branded mobile services. The major MVNOs include 1&1, ALDI Talk, freenet Mobile, Lidl Connect, and Congstar. Each of these MVNOs targets specific segments of the market. Led by the core O2 offering in Mobile, Telefónica Deutschland has successfully utilised and leads on the multi-brand and partner approach, via brand names including Ay Yildiz, Blau, Ortel Mobile, AldiTalk, Simyo, and Tchibo mobil. Blau offers a simple price and performance offering, Ay Yildiz an ethnic appeal and SIMYO a SIM-only product without smart-phones or other devices. The expansion of the freenet agreement and the addition of the well-established Lyca Mobile last month are the company's most notable recent wins.

1&1 CONTRACT LOSS & OFFER FOR THE COMPANY

BACKGROUND

On 2 August 2023, Telefónica Deutschland was taken by surprise when it was announced that the Company's major wholesale customer 1&1 was entering exclusive talks to move its National Roaming business to the network of Telefónica Deutschland competitor Vodafone.

THE 1&1 CONTRACT TERMS AND ONGOING OBLIGATIONS

1&1's new Agreement with Vodafone is a contract for a long-term, exclusive national roaming partnership. The agreement covers all current and future mobile technologies (2G, 4G, 5G and future standards). Vodafone stated that it will start providing roaming services by 1 October 2024 at the latest. The initial contract period is 5 years with an option to extend for up to 13 additional years. 1&1 will pay Vodafone a fixed price based on the percentage of Vodafone's network its customers use.

The agreement allows for "non-discriminatory provision" of national roaming services in areas not yet covered by 1&1's own network.

1&1'S ONGOING OBLIGATIONS TO TELEFÓNICA DEUTSCHLAND

1&1 has existing contractual obligations to Telefónica Deutschland from its MVNO/National Roaming agreement. The current roaming deal between 1&1 and Telefónica Deutschland is expected to expire in June 2025.

Under the existing contract, 1&1 customers with 4G tariffs will continue to use Telefónica's network for nationwide roaming. For the transition period before Vodafone's 5G national roaming is available, 1&1 will provide 5G services to its customers under the existing MVNO model with Telefónica Deutschland. Once all 1&1 customers have been migrated to Vodafone's national roaming, 1&1 will exclusively use Vodafone for national roaming services during the contract term

The 1&1/Vodafone agreement retains and secures ongoing revenue streams for Telefónica Deutschland until the migration is complete. By virtue of the 1&1 customer migration, Telefónica Deutschland will be able to use the released capacity for its own customers and wholesale business.

THE VOLUNTARY OFFER OF 7 NOVEMBER 2023

The unexpected announcement of this contract loss was a clear negative surprise and saw the share price drop from a close of €2.42 on 1 August 2023 to €1.86 the following day. This wiped off c. €1.7bn of market value, and the share price eventually fell to a closing low of €1.55 on 26 October, 2023.

Telefónica Deutschland and Telefónica S.A. were clearly assessing options but neither responded officially to the 1&1 announcement until three months later on 7 November, 2023, when Telefónica Group through Telefónica Local Services GmbH announced the launch of a partial voluntary public tender offer for shares of Telefónica Deutschland. This was the same day that the company reported nine-month results.

The shares were trading at €1.73 on the day before the Offer. At the commencement of the Offer, Telefónica held directly or indirectly 71.81% of Telefónica Deutschland. On 13 December, 2023, it was announced that Telefónica Deutschland's Management Board and Supervisory Board jointly recommended accepting the voluntary public offer. Following the end of the offer period on 17 January, 2024, Telefónica Deutschland announced on 26 January that, through a combination of the Offer and acquisitions on-market, Telefónica held 94.12% of Telefónica Deutschland.

THE EXCLUSION OFFER OF 7 MARCH 2024

On 7 March 2024 Telefónica launched the "Exclusion Offer" with the aim of acquiring the remaining shares in Telefónica Deutschland and delisting the Company. The Exclusion Offer was for a consideration of €2.35 per share in cash. The last date for acceptance of the offer was 18 April 2024 and following this, Telefónica AG announced that they owned 96.85% of Telefónica Deutschland and the shares ceased trading on the Frankfurt Exchange. Despite the Frankfurt delisting, the shares continue to be traded on the Hamburg Exchange. The non-Telefónica-held shares equate to a current market value of approximately €210m. Telefónica Group also announced that it does not intend to support the distribution of dividends beyond the €0.18 paid on 18 June 2024 for the financial year 2023.

Figure 7: Telefónica Deutschland share price development and events

Source: First Berlin Equity Research; Bloomberg

THE MINORITY PROBLEM

In the absence of full 100% parent company control, without a Domination Agreement or Squeeze-Out, there are binding legal restrictions on the behaviour of the parent company governed principally by sections 312 to 318 of the German Stock Corporation Act (AktG). In practical terms, this may constrain the parent's ability to remit cash from the subsidiary. If there is any suspicion in this regard, a special audit in accordance with section 315 AktG can be initiated, and the parent company along with its governing bodies are liable in accordance with sections 317/318 of the AktG.

MITIGATING THE 1&1 CONTRACT LOSS

Telefónica Deutschland has not given any detailed official guidance on the impact of the 1&1 loss, but has said that "The existing contract between Telefónica Deutschland and 1&1 AG is material to Telefónica Deutschland, as it represents a significant portion of its annual operating cash flow". "Significant" is a non-specific (accounting) term that may be used in many contexts to imply importance, while "materiality" is typically specific in its meaning and relates mainly to accounting information and its impact on decision making. In November 2023 management volunteered a €200m cash-flow impact from the loss but the extent of any cost, or revenue, remediation in that number is uncertain.

It is difficult for the market to be more specific on the pace at which the company might mitigate the adverse effects without more precision on the quantum of the impact. We do however know a large part of the 4G roaming agreement between 1&1 and Telefónica Deutschland remains in place until mid-2025 which offers a more extended period for Telefónica Deutschland to pursue mitigation measures.

Replacing the lost network traffic is at the centre of Telefónica Deutschland's mitigation efforts. Indeed, the Company's 2024-2026 strategic mission "Accelerated Growth & Efficiency" outlines a plan consistent with progressive mitigation, through 1) Growing market share 2) Enhancing the network 3) Accelerating transformation. To this end the company also emphasised in the full-year 2023 results call on 21st February 2024 that they were seeing high demand for network capacity and their approach to utilising that available capacity will be "Under commercial, not regulated remedy terms", emphasising profitability as well as volume. 2024 capacity loading is essentially in place. The Company stated that it was in advanced stages of discussion for 2025 and 2026, with retail-centric and own channel customers the likely users.

EXPANSION OF THE FREENET CONTRACT

On 31 July 2024, we saw the first decisive move from Telefónica Deutschland to leverage its MVNO relationships to ameliorate the impact of the 1&1 contract loss. With the release of Telefónica S.A.'s Q3 2024 results, it was announced that Telefónica Deutschland had renewed its agreement and deepened its partnership with freenet. Whilst specific projections were not provided, Markus Haas, CEO of Telefónica Deutschland, clearly indicated the company's excitement in responding to an analysts' question in the following words:

> *''We renewed our agreement with Freenet, is a ten-year deal, with a steep customer increase and we foresee the full run-rate of this strong increase of customers on our network coming from Freenet already in 2026, clearly compensating some of the effects that we will see from 1&1. So, overall, it's a win-win deal that we signed, it is long-term and is substantial increase of the relationship and partnership that we have with Freenet going forward''*
>
> *''It's a significant increase. I think we should respect that Freenet is also listed company and that is all we can share on this call''*

LYCA MOBILE CONTRACT WIN

This notable contract win is a clear demonstration of Telefónica Deutschland's execution focus and ability. On 25 September, the company announced effective immediately that Lyca Mobile Germany would become its newest MVNO partner. Lyca Mobile is one of the world's largest MVNOs operating in over 20 countries (with over 16m Worldwide subscribers), and will be moving its German traffic over to Telefónica Deutschland from Vodafone.

SIMYO RELAUNCH IN AUGUST 2024

Telefónica Deutschland and mobilezone announced that they have entered into a strategic partnership to relaunch the SIMYO brand. Simyo was originally launched in 2005 as the second brand of e-Plus, and realigned in 2017 into Telefónica Deutschland's Blau brand.

SIM-only products continue to attract the young and discount market. Simyo's handset-free offering will have 5 tariffs with a data volume of 5 to 35 gigabytes available with a minimum term of 24 months or as a monthly variant (that can be cancelled) which requires a one-off €19.99 fee. Marketing of SIMYO will be extended to sparhandy.de and deinhandy.de customers.

Another incremental contract success came from a component of the Transatel IoT long-term cooperation announced in late 2023 which included an MVNO agreement with its operator Ubigi (MVNO award winner 2023).

NETWORK AND CAPITAL MANAGEMENT

The Company can also cushion and replace cash flow through continued operational advancements. Telefónica Group has historically excelled at cost management through optimal network management, recently evidenced by the pre-emptive action to begin replacing Chinese-produced technology from its network following the Government policy decision in July 2024.

NETWORK VIRTUALISATION

A substantial cost mitigation opportunity may arise through network virtualisation.

Rakuten Mobile in Japan has shown how a virtualised mobile network infrastructure can be built from scratch using cloud-based, open radio access architecture (ORAN). In traditional mobile networks typically around 70% of capital expenditure is focussed on local radio access. Local radio base stations combine hardware and control software in a bundled product historically provided by a small group of four or so global companies.

The beauty of virtualisation is that it centralises the software layer on the cloud, facilitates the unbundling of hardware and software at the local level, and opens the market to multiple software vendors on a common platform. Ultimately it eliminates segments of access profitability, in theory, delivering material capex savings through a more competitive procurement process.

The benefits don't end there. By centralising the software layer and deploying advanced diagnostic techniques, virtualisation can also deliver material opex improvements. RadCom, a leader in 5G automated assurance, estimates that the virtualisation process can yield up to a 70% improvement in mean time to fault repair, 40% faster network issue resolution and a 55% improved resolution of customer problems, all of which can contribute to material improvements in labour productivity. Indeed, Rakuten Mobile claims to operate with 40% lower operating costs than the industry norm.

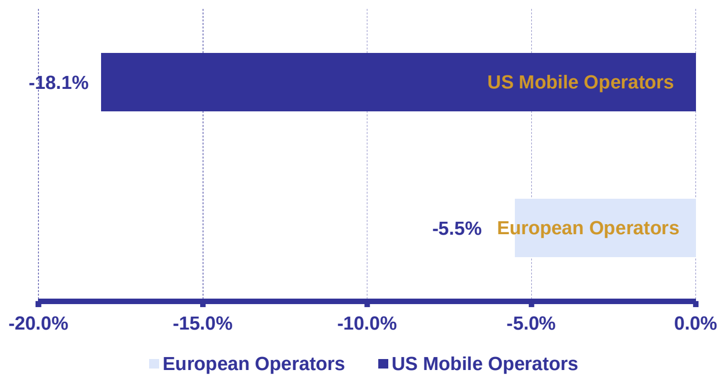
It is of course one thing to deliver the benefits of virtualisation as a greenfield entrant, like Rakuten, but quite another to overlay virtualisation on an existing network. The beauty of the virtualisation trend is that it delivers at two levels. The process of unbundling will increasingly expose pockets of excess supplier profitability and is likely to exert downward pressure on existing infrastructure. A slower roll-out of virtualisation solutions on incumbent networks should yield further capital and opex efficiencies over time.

Moreover, this process is already visible in the German market. 1&1 has partnered with Rakuten Symphony (the mobile software arm of the Rakuten group) to begin to unlock the benefits of virtualisation. More pertinently Telefónica Deutschland is also embracing this industry trend. In May 2024 the company announced that it has advanced its cooperation with Samsung, originally signed in October 2023, by launching the first of seven proposed virtualised RANs (VRAN) across Germany. In May Telefónica Deutschland said that it will migrate one million O2 5G customers to the Amazon Web Services cloud. This is a potential global first where an existing mobile operator is switching its core network to a public cloud. Telefónica Deutschland's Chief Technology & Information Officer, Rao Malik, said in an interview he wants to see the deployment working for a few quarters with a view to moving 30-40% of the customers by 2025-2026.

Productivity growth will also be underpinned by integrating more AI-driven customer service solutions. More than 4.8bn gigabits of data were transported on Telefónica Deutschland's network last year.

Wider industry trend of improving capital productivity The virtualisation trend is, in fact, only reinforcing the direction of falling capex in the global telecoms industry. According to Analysis Mason, aggregate European Telecom capex declined by 5.5% in 2023 as operators passed the peak in 5G spending and reached a similar point in expenditures on fibre to the pavement (FTTP). Interestingly, the data from the North American mobile market was even more striking with aggregate mobile network operator spend falling 18.1% in 2023.

Figure 8: Telecom operator CapEx trends 2023



Source: First Berlin Equity Research; company Analysis Mason

Analysis Mason's longer term capex projections for operators suggest, if anything, steepening declines. The consultant's forecasts imply a further decline of roughly 33% in the average operator capex to sales ratios by the end of the decade.

NEAR-TERM CAPEX TRENDS AT TELEFÓNICA DEUTSCHLAND

The company has guided for capex/sales of between 13% - 14% in 2024 with consensus sitting at 13.6%. Telefónica Deutschland's 5G deployment is advanced with over 96% of the German population able to access 5G services with the company. Capex/sales may have peaked in 2022. Short-term trends would seem to reinforce this view. Capex is traditionally second half-weighted, but with capex of just €466m in the first six months, H2 spend would need to be in the c. €665m - €752m range to equate to the 13% - 14% guidance. A 50bps beat would equate to savings of over €40m for the company.

FIXED NETWORK – INTEGRATED SOLUTIONS

In addition to its strong mobile position Telefónica Deutschland provides bundled integrated services to boost connectivity, via its O2 Homespot utilising a combination of Cable, DSL, fibre optics and 4G/5G.

Telefónica Deutschland utilises this largely capital light strategy via a long-term agreement allowing access to Deutsche Telekom's high-speed 770,000km fibre network, providing connectivity to millions of German homes. The original ten-year agreement signed with Deutsche Telekom in 2020/21 enables Telefónica Deutschland to market DTE's fibre to the home (FTTH) services especially in the larger German cities. In July 2024 a new purchasing model was agreed between the two parties offering Telefónica Deutschland the opportunity to map DTE's new fibre optic portfolio for its own customers at the same price as DSL or Cable. Telefónica Deutschland can market to around 7.5m homes through the cooperation growing by around 2m households each year. In addition to the DTE agreement, Telefónica Deutschland through separate agreements provides customers internet connectivity via Vodafone and Tele Columbus' via broadband cable, giving access to approximately 26m households.

GERMAN TELECOMMUNICATIONS REGULATION

Germany's mobile telecommunications regulatory landscape is shaped by its national regulatory authority, the Bundesnetzagentur (BNetzA). The Federal Network Agency plays a pivotal role in managing mobile spectrum, promoting competition, and implementing EU directives. BNetzA oversees several key regulatory activities, including spectrum allocation, infrastructure development, and consumer protection, which are critical for driving digital transformation in Germany.

The German telecommunications regulatory landscape has undergone significant development with the implementation of the Telecommunications Modernisation Act (TKMoG) in December 2021. The act represented the most comprehensive reform of the Telecommunications Act (TKG) since 2004, aligning German law with the European Electronic Communications Code (EECC). The updated framework was aimed at incentivising the expansion of very high capacity networks (VHCNs), ensuring sustainable competition, and reducing bureaucracy. A key focus was on promoting the rollout of fibre-optic networks and 5G technology, with regulatory easing for FTTH (fibre-to-the-home) network build-outs and revised spectrum regulations to support 5G deployment, where we have seen recent supportive developments.

CURRENT ENVIRONMENT AND STATUS

Mobile Termination Rates (MTRs) Whilst the European telecommunications market is well advanced in its transition from a regulated to a competitive model, rate of return-based regulation is still being enacted in certain segments where profitability is deemed to be excessive. The European Commission published a Delegated Act setting single maximum Union-wide mobile (MTR) and fixed-network termination rates. In July 2021 Commission Regulation set a single maximum termination rate of 0.2 eurocents and allowed the operators a three-year glide path which concluded in 2024. The impact of this on Telefónica Deutschland is expected to be in the range of €20m to €30m and is captured in guidance and forecasts. Mandated termination rate reductions should be less of a drag on revenue and profitability going forward.

SPECTRUM MANAGEMENT AND AUCTIONS

One of BNetzA's major regulatory activities is the management of spectrum allocation, which ensures that mobile network operators have sufficient resources to deploy next-generation networks like 5G. At the end of 2025, usage rights in the 800 MHz, 1,800 MHz and 2,600 MHz bands expire. The frequencies are currently used by the three established mobile network operators and contribute to the nationwide supply of all with high-performance broadband connections.

In 2024, the agency launched the consultation to examine the extension of the spectrum usage rights due to expire at the end of 2025. The extension aims to allow operators to continue using existing spectrum while harmonizing the timing of future spectrum allocations.

Licences for spectrum in the 800 MHz, 1800 MHz, and 2.6 GHz bands are now expected to be extended until 2030 On 13 May 2024, BNetzA published the draft consultation confirming that it intended to extend spectrum licences in the bands by five years and attach strict coverage obligations. The regulator has decided upon an extension to eventually auction the bands alongside other spectrum in bands of licences which are due to expire in 2033. The regulator’s president Klaus Mueller stated that “From our point of view, there are strong regulatory reasons why a competitive procedure (auction) should not be carried out today. The primary reason for this is that with an extension we can align the expiry of these usage rights with those that are expiring later”. Instead of holding an auction, BNetzA says it will implement strict coverage obligations for the country's existing three major mobile network operators (MNOs) with a focus on strengthening rural areas.

EACH OF THE THREE INCUMBENT MOBILE NETWORK OPERATORS PLANS TO:

- By 2030: Cover at least 99.5% of the country with 50 Mbit/s download speed;
- By 2029: Cover at least 99% of rural households with 100 Mbit/s;
- By 2029: Cover all federal highways with 100 Mbit/s;
- By 2029: Cover all secondary roads and waterways with 50 Mbit/s;
- By 2030: Cover all country roads with 50 Mbit/s.

The regulatory evolution will not be an unambiguous win. If auctions are deferred, there may still be network assignment costs, with extension fees of €800m expected for the industry. This is still to be resolved but we build a contingency into our Telefónica Deutschland capex forecasts in an attempt to provide conservatism in our modelling.

We do, however, feel that the overall regulatory path is consistent with the latter stages of a long term evolution from a utility style regulatory structure to a more competitive market model.

SHAREHOLDERS & STOCK INFORMATION

Stock Information
ISIN: DE000A1J5RX9
WKN: A1J5RX
Bloomberg ticker: O2D GR
No. of issued shares: 2,974,554,993
Stock exchange: Hamburg
Country: Germany
Sector: Technology
Subsector: Telecommunication

Source: Börse Frankfurt, First Berlin Equity Research

Shareholder Structure	
Telefónica Gemany Holdings Ltd	69.2%
Telefónica Local Services GmbH	27.6%
Free Float	3.2%

Source: Telefonica Deutschland Holding AG

INCOME STATEMENT

All figures in EURm	2020	2021	2022	2023	2024E	2025E	2026E
Revenues	**7,532**	**7,766**	**8,223**	**8,615**	**8,610**	**8,285**	**8,191**
Cost of goods sold	-2,434	-2,404	-2,524	-2,676	-2,648	-2,625	-2,679
Gross profit	**5,098**	**5,362**	**5,699**	**5,939**	**5,962**	**5,660**	**5,512**
Personnel expenses	-611	-585	-622	-670	-669	-644	-637
Other OpEx	-2,346	-2,526	-2,709	-2,826	-2,777	-2,672	-2,647
Other income	542	402	153	159	142	136	123
EBITDA	**2,683**	**2,653**	**2,521**	**2,602**	**2,657**	**2,480**	**2,351**
Depreciation & amortisation	-2,369	-2,381	-2,283	-2,310	-2,247	-2,162	-2,138
Operating income (EBIT)	**314**	**272**	**238**	**292**	**410**	**318**	**213**
Net financial result	-66	-62	-36	-90	-76	-62	-56
Other financial result	0	-3	-15	-10	0	0	0
Pre-tax income (EBT)	**248**	**207**	**187**	**192**	**334**	**256**	**157**
Income taxes	80	4	43	81	-33	-26	-16
Minority interests	0	0	0	0	0	0	0
Net income / loss	**328**	**211**	**230**	**273**	**300**	**231**	**142**
Diluted EPS (in €)	**0.11**	**0.07**	**0.08**	**0.09**	**0.10**	**0.08**	**0.05**
AEBITDA	**2,319**	**2,410**	**2,538**	**2,617**	**2,668**	**2,488**	**2,359**
AEBITDA (-) CapEx	**1,225**	**1,125**	**1,329**	**1,484**	**1,548**	**1,211**	**1,294**
Ratios							
Gross margin	67.7%	69.0%	69.3%	68.9%	69.2%	68.3%	67.3%
AEBITDA margin on revenues	30.8%	31.0%	30.9%	30.4%	31.0%	30.0%	28.8%
EBIT margin on revenues	4.2%	3.5%	2.9%	3.4%	4.8%	3.8%	2.6%
Net margin on revenues	4.4%	2.7%	2.8%	3.2%	3.5%	2.8%	1.7%
AEBITDA (-) CapEx margin on revenues	16.3%	14.5%	16.2%	17.2%	18.0%	14.6%	15.8%
Tax rate	-32.3%	-1.9%	-23.0%	-42.2%	10.0%	10.0%	10.0%
Expenses as % of revenues							
Personnel expenses	8.1%	7.5%	7.6%	7.8%	7.8%	7.8%	7.8%
Other OpEx	31.1%	32.5%	32.9%	32.8%	32.3%	32.3%	32.3%
Depreciation & amortisation	31.5%	30.7%	27.8%	26.8%	26.1%	26.1%	26.1%
Y-Y Growth							
Revenues	n.a.	3.1%	5.9%	4.8%	-0.1%	-3.8%	-1.1%
EBITDA	n.a.	-1.1%	-5.0%	3.2%	2.1%	-6.6%	-5.2%
Operating income	n.a.	-13.4%	-12.5%	22.7%	40.2%	-22.4%	-33.0%
Net income/ loss	n.a.	-35.7%	9.0%	n.m.	10.0%	-23.2%	-38.5%

BALANCE SHEET

All figures in EURm	2020	2021	2022	2023	2024E	2025E	2026E
Assets							
Current assets, total	**3,277**	**3,160**	**2,810**	**2,733**	**2,624**	**3,108**	**3,800**
Cash and equivalents	1,333	1,018	778	584	456	986	1,679
Trade receivables	1,297	1,498	1,359	1,452	1,462	1,407	1,391
Other ST assets	451	436	499	539	550	561	572
Inventories	129	138	140	148	145	144	147
ST financial assets	67	70	34	10	10	10	11
Non-current assets, total	**13,915**	**13,658**	**13,220**	**12,715**	**12,256**	**11,980**	**11,517**
Intangible assets	4,617	4,137	3,605	3,158	2,745	2,347	1,954
Property, plant and equipment	3,706	3,491	3,512	3,484	3,441	3,600	3,559
Goodw ill	1,616	1,360	1,360	1,360	1,360	1,360	1,360
Rights-of-use	2,852	3,348	3,277	3,203	3,167	3,133	3,101
Trade & other receivables	157	269	292	280	307	295	292
Other financial assets	301	396	448	414	416	418	420
Deferred tax assets	476	433	463	538	543	549	554
Other LT assets	190	224	263	278	278	278	278
Total assets	**17,192**	**16,818**	**16,030**	**15,448**	**14,880**	**15,088**	**15,317**
Shareholders' equity & debt							
Current liabilities, total	**4,490**	**4,287**	**4,292**	**4,467**	**4,139**	**4,118**	**4,183**
Trade payables (incl. Spectrum)	2,582	2,886	2,768	2,964	2,917	2,891	2,950
Deferred income	548	552	594	522	527	532	538
Lease liabilities	514	548	597	555	555	555	555
ST debt	715	89	128	286	0	0	0
Other ST liabilities	50	53	70	77	77	77	77
Provisions	66	66	67	55	55	55	55
Deferred tax liabilities	15	93	68	8	8	8	8
Long-term liabilities, total	**6,372**	**6,495**	**5,929**	**5,446**	**5,443**	**5,443**	**5,467**
Lease liabilities	2,326	2,781	2,663	2,559	2,559	2,559	2,559
LT debt	1,577	1,627	1,510	1,235	1,235	1,235	1,235
Trade payables (incl. Spectrum)	1,101	998	901	808	798	791	807
LT provisions	784	647	472	523	523	523	523
Deferred tax	365	255	247	229	236	243	250
Other non-current liabilities	219	187	136	92	92	92	92
Shareholders' equity	**6,330**	**6,036**	**5,809**	**5,535**	**5,298**	**5,527**	**5,667**
Total consolidated equity and debt	**17,192**	**16,818**	**16,030**	**15,448**	**14,880**	**15,088**	**15,317**
Ratios							
Current ratio (x)	0.7	0.7	0.7	0.6	0.6	0.8	0.9
Quick ratio (x)	0.7	0.7	0.6	0.6	0.6	0.7	0.9
Net debt	3,732	3,957	4,086	4,041	3,883	3,353	2,659
Net debt / EBITDA (x)	1.4	1.5	1.6	1.6	1.5	1.4	1.1
Net gearing	59%	66%	70%	73%	73%	61%	47%
Equity ratio	37%	36%	36%	36%	36%	37%	37%
Return on equity (ROE)	5.2%	3.5%	4.0%	4.9%	5.7%	4.2%	2.5%
Capital employed (CE)	6,223	5,649	5,239	5,300	4,943	4,677	4,159
Return on capital employed (ROCE)	5%	5%	5%	6%	8%	7%	5%

CASH FLOW STATEMENT

All figures in EUR '000	2020	2021	2022	2023	2024E	2025E	2026E
Net income	**328**	**211**	**230**	**273**	**300**	**231**	**142**
Depreciation & amortisation	2,369	2,381	2,283	2,310	2,247	2,162	2,138
Other non-cash items	0	2	14	11	0	0	0
Asset disposals	-408	-245	12	7	0	0	0
Income tax result	-80	-5	-42	-82	33	26	16
Financial result	66	62	36	90	76	62	56
Operating cash flow	**2,275**	**2,406**	**2,533**	**2,609**	**2,657**	**2,480**	**2,351**
Change in working capital	-83	-213	29	-12	-99	27	84
Tax paid	0	0	-56	-89	-33	-26	-16
Net operating cash flow	**2,192**	**2,193**	**2,506**	**2,508**	**2,524**	**2,482**	**2,420**
CapEx	-1,000	-1,167	-1,379	-1,176	-1,119	-1,277	-1,065
Disposal proceeds	17	4	6	4	0	0	0
Company investments / disposals, net	765	533	6	-15	0	0	0
Income from investments, net	-20	-1	-11	65	0	0	0
Interest income	5	4	7	13	0	0	0
Cash flow from investing	**-233**	**-627**	**-1,371**	**-1,109**	**-1,119**	**-1,277**	**-1,065**
Free cash flow (FCF)	**1,959**	**1,566**	**1,135**	**1,399**	**1,405**	**1,205**	**1,355**
Equity inflow, net	0	0	0	0	0	0	0
Repayment of lease liabilities	-547	-602	-640	-747	-637	-613	-606
Debt inflow, net	-199	-565	-79	-117	-286	0	0
Interest paid	-63	-64	-43	-95	-76	-62	-56
Dividend paid to shareholders	-506	-535	-535	-535	-535	0	0
Other adjustments	-92	-115	-77	-99	2	0	0
Cash flow from financing	**-1,407**	**-1,881**	**-1,374**	**-1,593**	**-1,532**	**-675**	**-662**
Net cash flows	**552**	**-315**	**-239**	**-194**	**-128**	**530**	**693**
Cash, start of the year	781	1,333	1,018	778	584	456	986
Cash, end of the year	**1,333**	**1,018**	**778**	**584**	**456**	**986**	**1,679**
AEBITDA/share (in €)	**0.78**	**0.81**	**0.85**	**0.88**	**0.90**	**0.84**	**0.79**
Y-Y Growth							
Operating cash flow	n.a.	0.0%	14.3%	0.1%	0.6%	-1.7%	-2.5%
Free cash flow	n.a.	-20.1%	-27.5%	23.3%	0.4%	-14.2%	12.5%
AEBITDA/share	n.a.	3.9%	5.3%	3.1%	1.9%	-6.7%	-5.2%

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First Berlin Equity Research

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Person responsible for forwarding or distributing this financial analysis: Martin Bailey

INFORMATION PURSUANT TO SECTION 85 (1) SENTENCE 1 OF THE GERMAN SECURITIES TRADING ACT [WPHG], TO ART. 20 (1) OF REGULATION (EU) NO 596/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF APRIL 16, 2014, ON MARKET ABUSE (MARKET ABUSE REGULATION) AND TO ART. 37 OF COMMISSION DELEGATED REGULATION (EU) NO 2017/565 (MIFID) II.

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CONFLICTS OF INTEREST

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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy[1]	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

[1] The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	Today	€2.10	Buy	€3.00

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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Legally required information regarding

- **key sources of information in the preparation of this research report**
- **valuation methods and principles**
- **sensitivity of valuation parameters**

can be accessed through the following internet link: https://firstberlin.com/disclaimer-english-link/

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