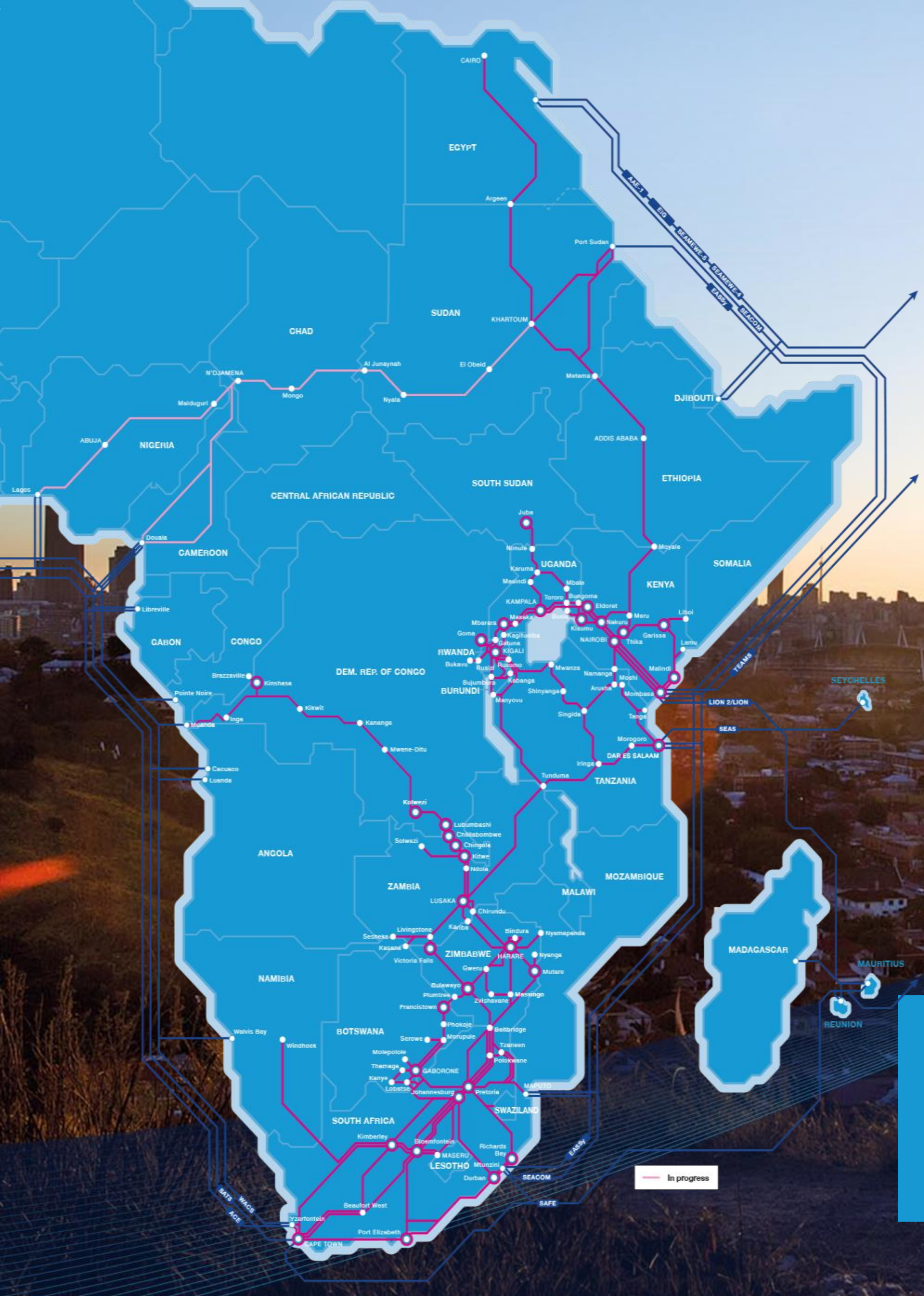
LIQUID TELECOM

Building Africa's digital future




# Liquid Telecom Q1 2021 Results

22 July 2020

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# Q1 FY21 Financial Update

Kate Hennessy, CFO of Liquid Telecom

# Q1 FY 2021 performance highlights

***Solid start to the new financial year, despite COVID-19 headwinds***

## Revenue (USD)

**166.6m**

**+ 7.8%**
**Q1 FY21 on Q1 FY20**

## EBITDA (USD)

**47.0m**

**- 6.9%**
**Q1 FY21 on Q1 FY20**

## Number of customers

**125,857 Retail customers**
**+93.1%**
**11,872 Enterprise customers**
**+9.6%**
**Q1 FY21 on Q1 FY20**

## CAPEX (USD)

**21.9m**

**- 32.4%**
**Q1 FY21 on Q1 FY20**

## Total cash (USD)

**118.7m**

**+39.6%**
**Q1 FY21 on Q4 FY20**

## Pre-IFRS 16 Net Debt / EBITDA

**3.34x**

**4.25x threshold**

# Impact of COVID-19 pandemic

| | Q1 FY21 impact | Outlook |
|---|---|---|
| **Operational** | • Some minor disruptions to service and project delivery as some of our customers were impacted by lockdown restrictions<br>• Phased in return of Liquid Telecom's workforce to work from the office | • Gradual easing of lockdown and phased return to normal operations across footprint<br>• Risk of a second wave still remains with possibility of further localised lockdowns |
| **Commercial & financial** | • Significant FX volatility with ZAR peaking at 19.04:1 on 23rd April 2020; the average monthly rate in Q1 FY21 was 17.72:1 compared to 14.32:1 in Q1 FY20<br>• Q1 collections have slowed down due to a combination of logistical challenges and the economic impact on businesses | • FX volatility is likely to be the most significant negative factor in FY21<br>• Retail and Wholesale are expected to be broadly unaffected<br>• Expect adverse impact on Enterprise, as the lockdown impeded delivery of our services, delayed closure of some commercial deals and the development of the future sales pipeline. |
| **Liquidity** | • USD 40m RCF drawn down post FY20 year end as precautionary measure and placed on deposit<br>• Working capital outflow started to reverse | • The Group will maintain disciplined approach to cost management and capital investment to protect FCF position |

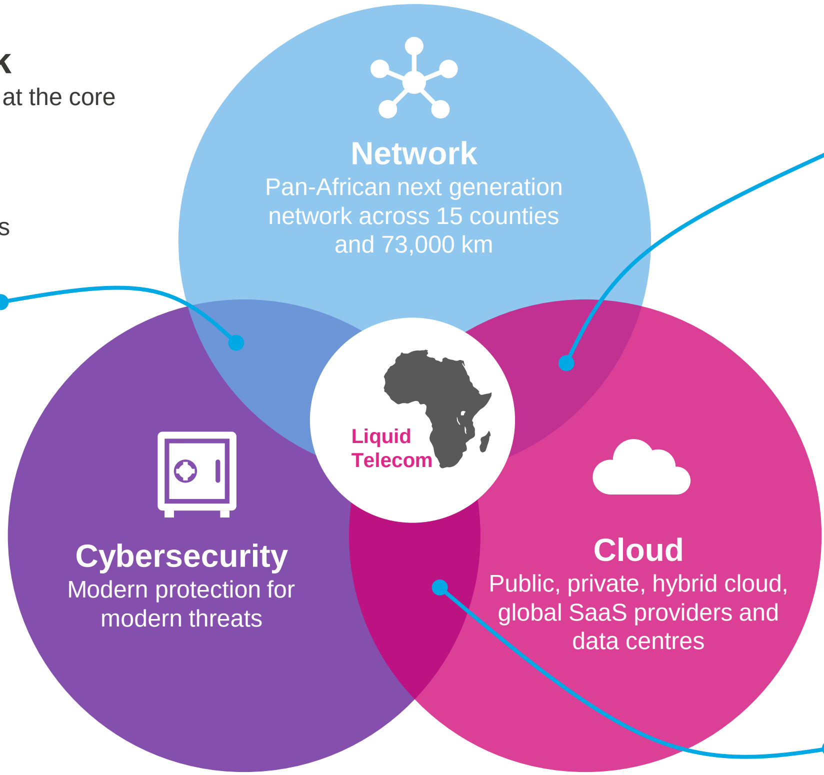
# Strategic update

***Strategic repositioning from 'Connectivity Only Provider' to 'Integrated Services Provider' commenced in FY21***

### Secure Network

Cloud-delivered security at the core

- Network protection
- Penetration testing
- Secure Web Gateway
- Modern remote access




### Cloud Networking

Direct connectivity to multiple clouds; network within and between multi-clouds; cloud branch connectivity

- SD-WAN
- Microsoft Express Route
- AWS Direct Connect
- Connected Data Centres

### Secure Cloud

Security in the cloud

- Identity Management
- Cloud protection
- Data protection
- Backups / Disaster recovery

***Underpins 'Go-To-Market' sales strategy for Enterprise***

# Revenue by market

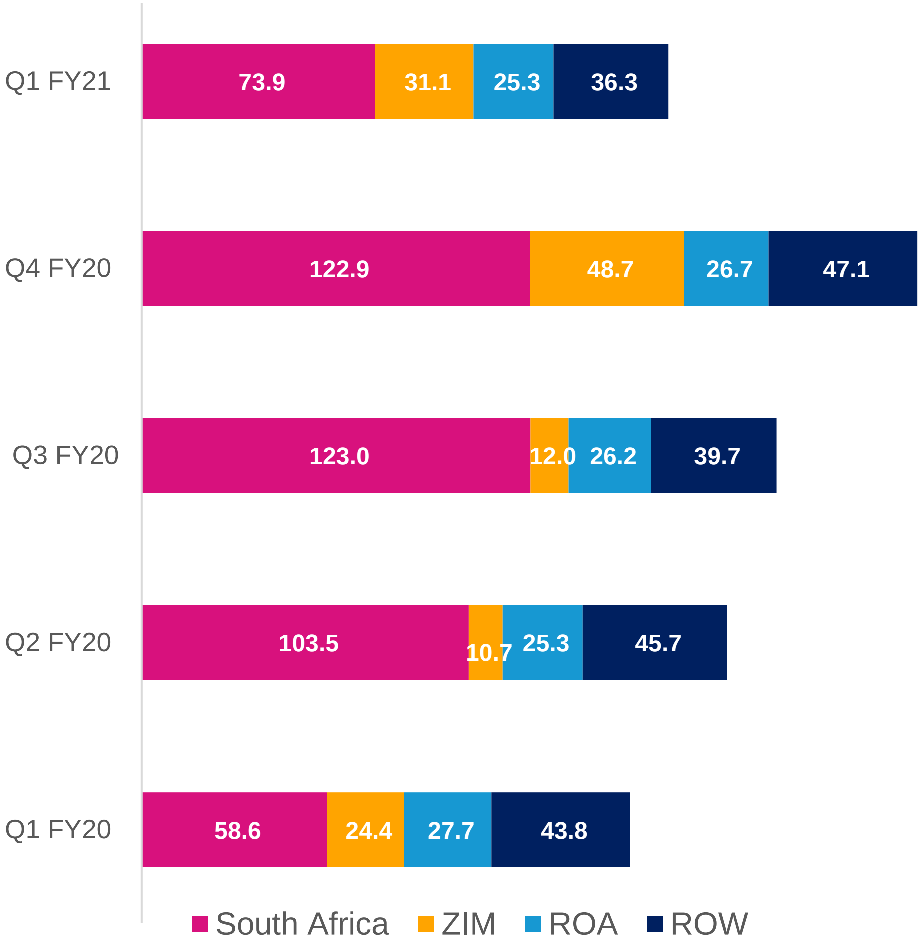
- South Africa revenue of USD73.9m is +26.1% in Q1 FY21 vs. Q1 FY20, despite the FX volatility and the deterioration in Enterprise performance, as we see the ongoing benefit of the 4G and 5G roaming contracts

- Zimbabwe revenue of USD31.1m is +27.5% in Q1 FY21 vs. Q1 FY20, benefitting from tariff increases in Enterprise and Retail and a fixed ZWL$ rate through the quarter

- Rest of Africa revenue of USD25.3m is -8.7% on Q1 FY20, predominantly due to a dark fibre sale in Kenya in the prior year quarter, partially offset by a very strong contribution from DRC, which grew revenues +57.8%

- Rest of World revenue of USD36.3m is -17.1% in Q1 FY21 vs. Q1 FY20 in line with the continuing trend of decline in voice transmission further exacerbated by COVID-19 lockdown

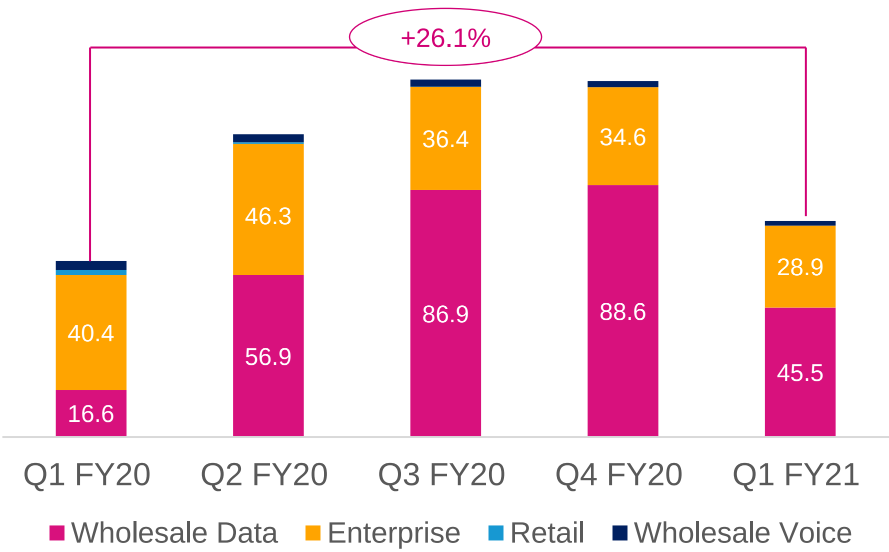
## Revenue by market (USDm)



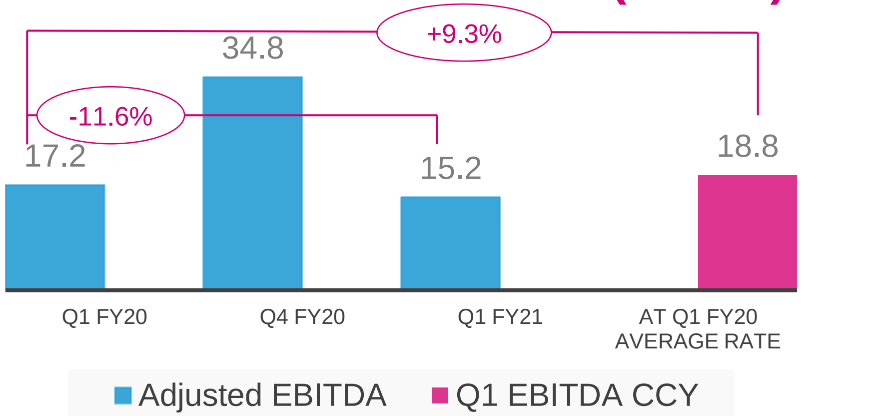
# Deep dive into South Africa

- Q1 FY21 South Africa EBITDA using Q1 FY20 average exchange rate would result in +9.3% against -11.6% on reported basis
- South Africa Wholesale Data revenue of USD45.5m is +174.1% on Q1 FY20, due to the ongoing benefit of the 4G and 5G roaming contracts
- South Africa Enterprise revenue of USD28.9m is -28.5% on Q1 FY20, due to the expiration of services to a large customer in the period, delays in closing deals due to customer premises being inaccessible due to COVID-19 lockdown and increased churn, as some customers have negotiated discounts on our services
- South Africa Wholesale Voice revenue is only a small contributor to country revenue and is declining in line with the ongoing trend of reduction in voice usage
- We closed the South Africa Retail business shortly after Q1 FY20, so this comparator will fall away in the next quarter

## South Africa revenue by business segment (USDm)



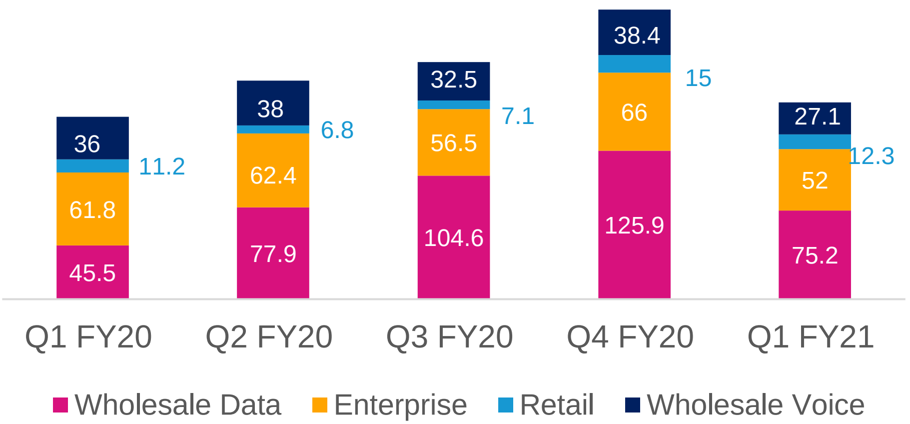

## South Africa CCY EBITDA (USDm)



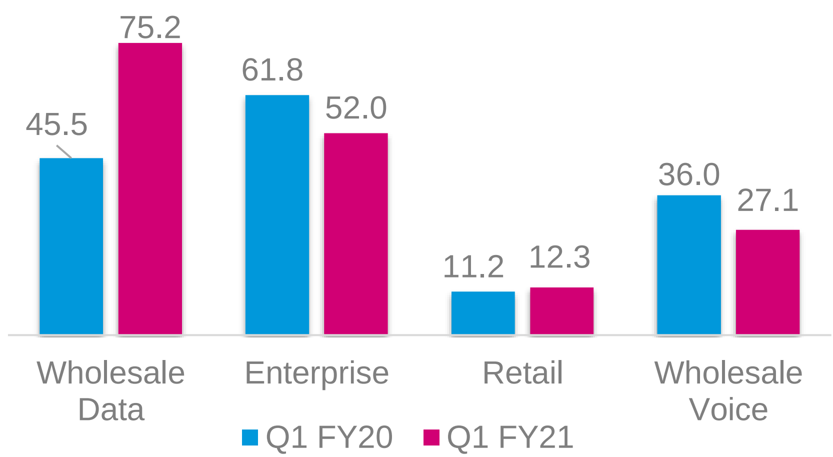
# Revenue by segment

- Wholesale Data revenue of USD75.2m is +65.3%, as we see the ongoing benefit of the 4G and 5G roaming contracts
- As guided earlier, Enterprise performance has been disappointing, with revenue of USD52.0m down 15.9% on Q1 FY21, predominantly due to deterioration in South Africa
- Retail revenue of USD12.3m is +9.8% on Q1 FY20. Excluding South Africa, where we closed the loss-making Retail business in Q2 FY20, Retail revenue grew 31.1%
- Wholesale Voice revenue of USD27.1m is -24.7% on Q1 FY20 in line with the ongoing trend of declining voice usage. Its contribution to Group revenues is gradually declining.

## Revenue by segment (USDm)




## Revenue by segment (USDm)

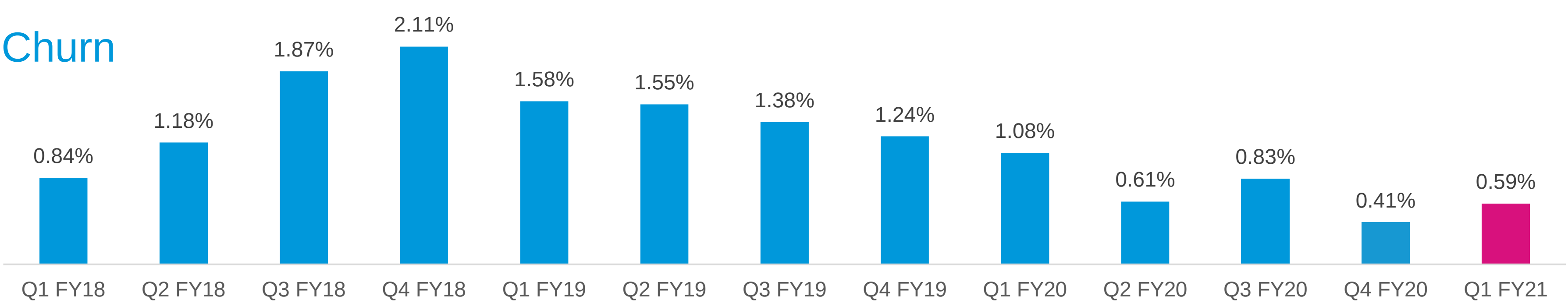


# Key operational highlights

| 0.59% | 11,872 | 1,555 | 249 | 125,857 |
|---|---|---|---|---|
| Churn | Enterprise customers | Data Centre (racks sold) | Voice minutes (in million) | Retail GPON and LTE customers |
| (0.49) bps Q1 FY21 on Q1 FY20 | +9.6% Q1 FY21 on Q1 FY20 | +7.8% Q1 FY21 on Q1 FY20 | (18.6%) Q1 FY21 on Q1 FY20 | +93.1% Q1 FY21 on Q1 FY20 |

## 73,171 km of fibre

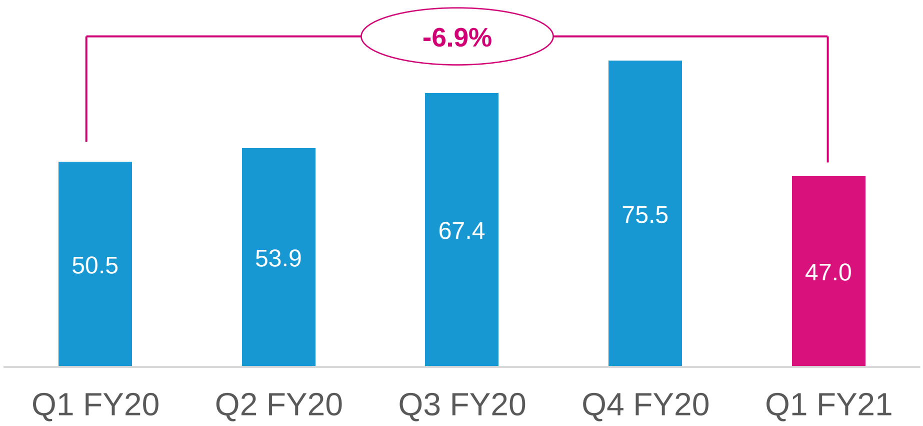
Churn



# EBITDA

- Q1 FY21 adjusted EBITDA is USD47.0m, down 6.9% on Q1 FY20, with FX volatility having a significant impact
- RoA EBITDA movement is due to dark fibre sale in Kenya in the prior year quarter, FX volatility and the fact that Q1 2021 numbers now include Group management fee recharges
- Q1 is a cyclically slower quarter and is not representative of the quarterly 'run rate'. As guided, we expect EBITDA volatility through the year driven by exchange rates volatility in South Africa, Zimbabwe and Zambia

## EBITDA (USDm)

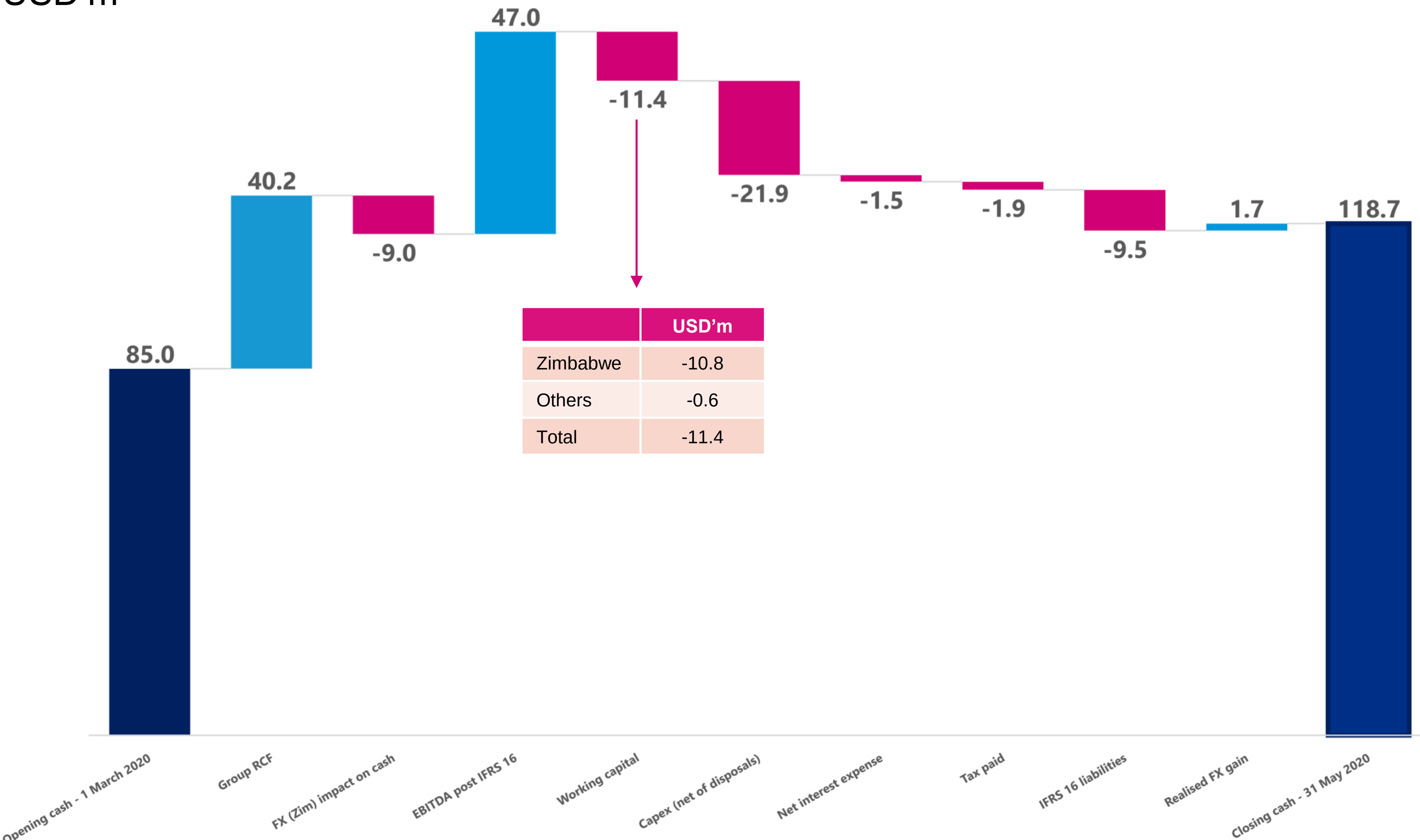


# Income statement

| USDm | Q1 FY20 | Q4 FY20 | Q1 FY21 | Q1 FY20 on Q1 FY21 | Q4 FY20 on Q1 FY21 |
|---|---|---|---|---|---|
| **Revenue** | **154.5** | **245.3** | **166.6** | **7.8%** | **-32.1%** |
| **EBITDA** | **50.5** | **75.5** | **47.0** | **-6.9%** | **-37.7%** |
| *Adjusted EBITDA margin (%)* | *32.7%* | *30.8%* | *28.2%* | *-4.6pp* | *-2.6pp* |
| *Depreciation, impairment and amortisation* | *-30.4* | *-59.6* | *-26.1* | *-14.1%* | *-56.2%* |
| **Operating profit** | **20.1** | **15.9** | **20.6** | **2.5%** | **29.6%** |
| *Finance costs* | *-19.7* | *-21.4* | *-19.7* | *0.0%* | *-7.9%* |
| *Net foreign exchange loss* | *-192.7* | *-173.3* | *-111.0* | *-42.4%* | *-35.9%* |
| *Hyperinflation monetary gain (IAS 29)* | - | *133.5* | *189.5* | *100.0%* | *41.9%* |
| **Profit/(loss) for the year** | ***-194.4*** | ***15.4*** | ***66.5*** | ***-134.2%*** | ***331.2%*** |

# Cash flow waterfall

USD'm

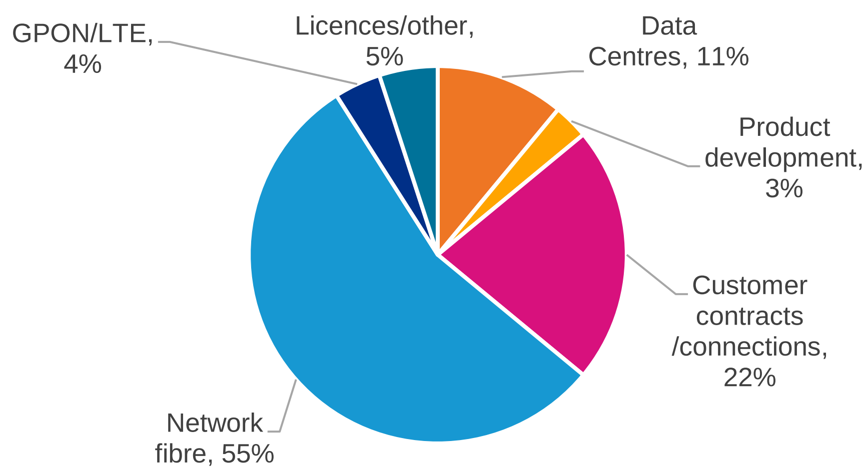



| | USD'm |
|---|---|
| Zimbabwe | -10.8 |
| Others | -0.6 |
| Total | -11.4 |

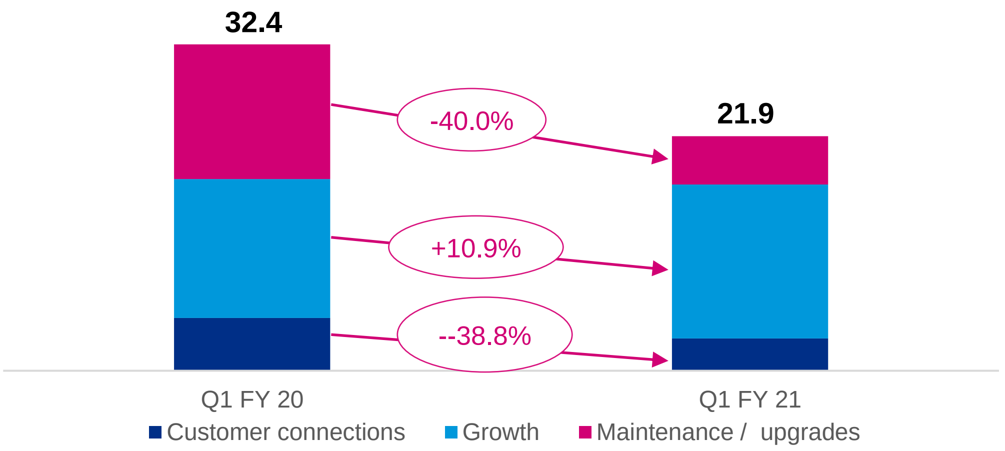
# Group capex

- Capex in Q1 FY21 is USD21.9m (net of disposal proceeds), - 32.4% on Q1 FY20 as we maintain strict investment discipline to protect free cashflow
- Growth capex invested in the continuing build out of NLD 5 & 6 in South Africa, finalising the major fibre link in the DRC to progress our East to West delivery and work on our backbone network in Kenya
- Capex expenditure through the year is not linear and determined by a combination of operating environment, the timing of individual projects as well as when payments to creditors are due

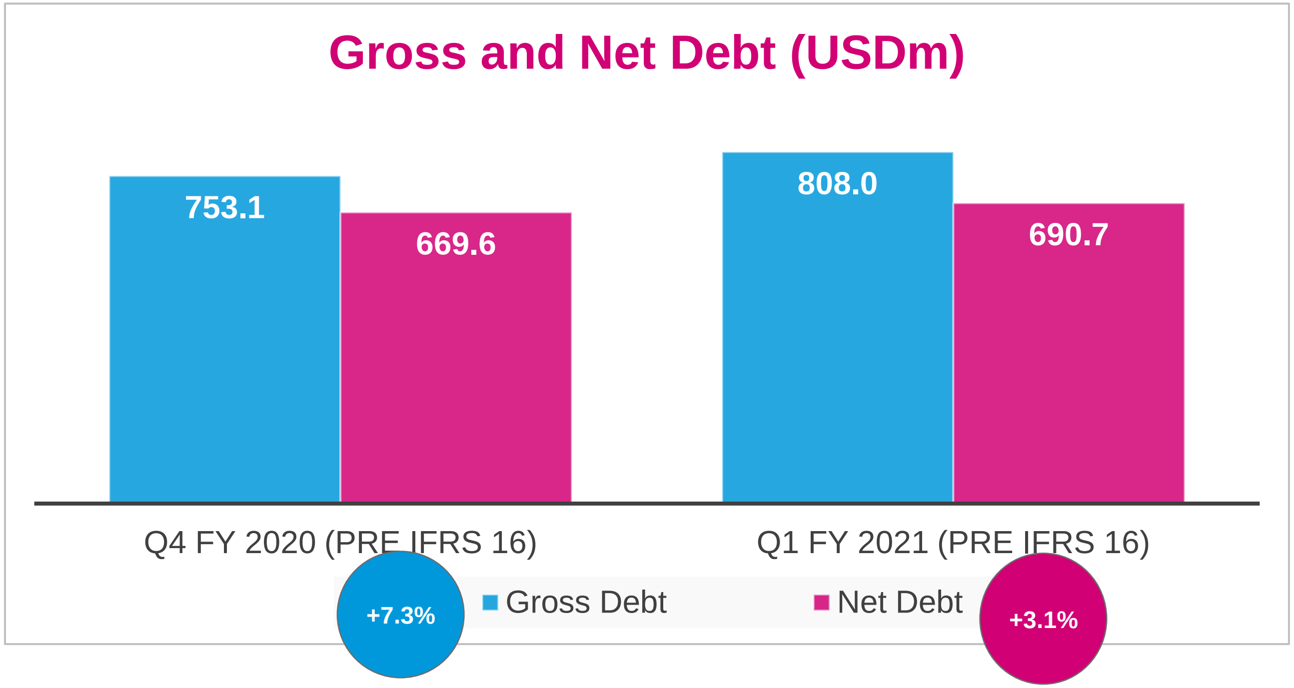
## Q1 FY21 capex split




## Q1 FY21 capex progression (USDm)



# Debt and covenants




| | Type of covenant | Threshold | Q1 FY21 | Q4 FY20 |
|---|---|---|---|---|
| Net Debt / EBITDA | Maintenance | 4.25 | 3.34 | 3.19 |
| Gross Debt / EBITDA | Incurrence | 3.75 | 3.79 | 3.55 |

# Outlook reaffirmed

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## FY21 outlook guidance remains unchanged

**Revenue**

- The Group's business and operations are inherently resilient against the COVID-19 pandemic due to ever increasing demand for connectivity and digital services in the lockdown environment
- Wholesale and Retail revenues are expected to be broadly unaffected by the pandemic. Enterprise segment is likely to be impacted by delays in closing deals, lower new sales, discounting and slower debt collections

**EBITDA**

- Forecasting a negative FX drag on the Group's Adjusted EBITDA in FY21, predominantly due to further expected weakening of ZAR and ZWL$ against the USD
- Expect some volatility in EBITDA through FY21 with potential softening in some quarters as COVID-19 impact continues to unfold
- Q1 is cyclically a lower quarter of the financial year and is not representative of quarterly 'run rate'

**Capex**

- As we maintain strong investment discipline to protect the Group's free cashflow position, we anticipate capex for FY21 to be in the range of USD90m – 110m
- Will prioritise discretionary capex dynamically as the impact of COVID-19 pandemic continues to unfold

# Zimbabwe hyperinflation accounting guidance

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**Evolution of ZWL$ exchange rates**

- February 2019 RTGS implemented as official currency — ZWL$ to USD 2.5:1 at launch
- March 2020 — ZWL$ rate fixed at 25:1 to USD to off-set COVID-19 impact
- June 2020 — ZWL$ rate liberalised, First auction held with ZWL$ debut rate 57.4:1
- 30th June 2020 — 2nd auction — 63.7:1 rate
- 7th July 2020 — 3rd auction — 65.9:1 rate
- 14th July 2020 — 4th auction — 68.9:1 rate
- 21st July 2020 — 5th auction — 72.1:1 rate

**Liquid Telecom's reporting under IAS29 hyperinflation accounting standard**

| Q4 FY20 | Q1 FY21 | Q2 FY 21 |
|---|---|---|
| • CPI 640.2 (February 2020)<br>• 18:1 (closing February 2020 exchange rate) | • CPI 953.4 (May 2020)<br>• 25:1 (closing May 2020 exchange rate) | • Q2 FY21 EBITDA will be the difference between the year to date EBITDA converted at the closing August 2020 rate minus the reported Q1 FY21 EBITDA |

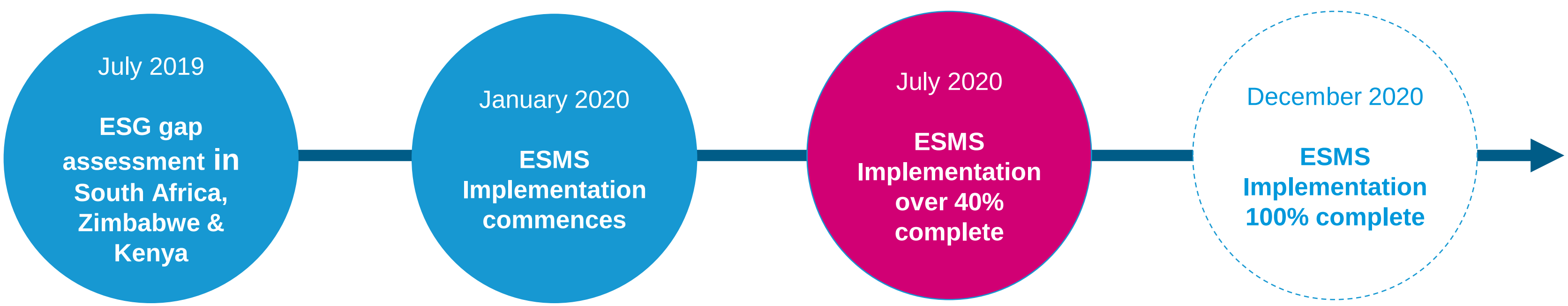
- Due to liberalisation of ZWL$ in June 2020, Q2 FY21 reported results may experience extreme volatility not representative of the underlying business momentum
- Mitigation actions have been taken to counter macro headwinds:
  - Repricing services as frequently as possible using the current exchange rates
  - Proactive marketing and mitigating churn
  - Making collections in USD where appropriate

# Environmental and Social Management System launched

- ESG is at the heart of our corporate culture and business strategy, as it is so fundamentally relevant to the markets we operate in
- We are on the journey of building a Group-wide ESG strategy and KPIs, which will take some time, but ready to start telling our ESG story as it evolves
- An important milestone has been achieved this year, as we launched our Environmental and Social Management System (ESMS)

**Vision:** To provide a working environment free from harm, by promoting a positive culture and continuously improve and limit risks, to the health, safety and environment and wellbeing of our employees and communities within which we operate

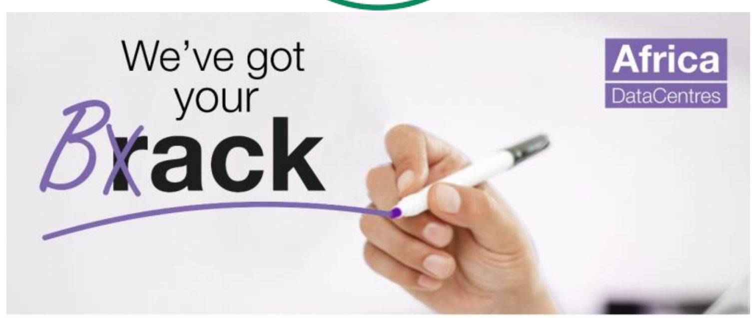
**Standards:** ESMS aims to conform to the 8 IFC Performance Standards, international best practice and legislative requirements



# Giving back to our communities


Donation to COVID-19 victims in Kenya


IoT mentorship programme in Kenya




To all our Digital Learning Companies, NGOs and SMEs, we're offering **6 months free** Colocation Services*

African Data Centre's 'We've got your back' campaign

# Q&A

# Appendix

# Summary of IFRS 16 impact

| USDm | Increase / decrease | Q1 FY21 | 12 months FY20 | Q4 FY20 | Q3 FY20 | Q2 FY20 | Q1 FY20 |
|---|---|---|---|---|---|---|---|
| **Statement of profit or loss** | | | | | | | |
| Adjusted EBITDA | ↑ | 8.7 | 37.3 | 11.0 | 9.6 | 8.0 | 8.8 |
| Total overheads and other income | ↓ | 2.7 | 13.4 | 5.2 | 3.3 | 2.7 | 2.2 |
| Depreciation, amortisation and impairment | ↑ | 7.2 | 34.7 | 10.0 | 8.7 | 8.3 | 7.7 |
| Operating Profit | ↑ / (↓) | 1.5 | 2.7 | 1.0 | 0.9 | -0.3 | 1.1 |
| Finance costs | ↑ | 2.1 | 9.6 | 2.6 | 2.3 | 2.5 | 2.2 |
| Profit for the year | ↓ | 0.6 | 6.8 | 1.6 | 1.4 | 2.8 | 1.1 |
| | | | | | | | |
| **Statement of financial position** | | | | | | | |
| Right-of-Use assets | n/a | 87.9 | 97.3 | 97.3 | 94.7 | 96.1 | 97.0 |
| Long-term lease liabilities | n/a | 56.8 | 65.5 | 65.5 | 67.9 | 68.3 | 69.6 |
| Short-term lease liabilities | n/a | 26.4 | 30.0 | 30.0 | 31.1 | 30.6 | 28.9 |
| | | | | | | | |
| **Statement of cash flow position** | | | | | | | |
| Net cash generation from operating activities | ↑ | 9.5 | 46.0 | 11.8 | 9.6 | 9.1 | 8.5 |
| Net cash generation from financing activities | ↑ | 9.5 | 46.0 | 11.8 | 9.6 | 9.1 | 8.5 |