

# Safaricom Limited HY2018 Results Presentation

Friday 3rd November 2017

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# A PURPOSE DRIVEN COMPANY

BUILDING A MORE SUSTAINABLE SAFARICOM

**Purpose,  
People  
and Profit**

**Reputation  
before  
Revenue**

**A purposeful  
business is a  
successful  
business**

# A NEW DREAM FOR KENYA: TWaweZA

WHEN WE COME TOGETHER, GREAT THINGS HAPPEN

**Twaweza**  
is the belief that  
when we come  
together, great  
things happen.

Kenya is bubbling  
with possibilities  
where hustle is in our  
soul, and optimism is  
in our heart

# A NEW DREAM FOR KENYA: TWaweZA

WHEN WE COME TOGETHER, WE CONNECT KENYA

Connecting  
Bura to a  
world of  
possibility

One base  
station  
transforming  
lives

# A NEW DREAM FOR KENYA: TWaweZA

WHEN WE COME TOGETHER, WE EMPOWER KENYA

**Connected  
Farmers:**  
80,000 gaining  
access to new  
markets.

Small holder  
farms account  
for **75% of  
Kenya's output**

# A NEW DREAM FOR KENYA: TWaweZA

WHEN WE COME TOGETHER, WE DIGITIZE KENYA

Mobile Money has increased access to essential government services from 20% to 90% (GSMA Study 2017)

Enhancing **speed and convenience** of government services

# ECONOMIC HEADWINDS

ROBUST PERFORMANCE DESPITE UNPRECEDENTED OPERATIONAL PRESSURES

**Elections & Re-election Impact**

**Regulatory Conditions**

**Drought**

**Service Revenue +12% YoY**

**GDP down to 5%**

**High Inflation**

**Reduced access to credit**

# DELIVERING THE STRATEGY



Customer  
First

Relevant  
Products

Operational  
Excellence

# DELIVERING THE STRATEGY

## Customer First



**29.5 MILLION SUBSCRIBERS**

MY DATA MANAGER  
**42%**  
OF DATA CUSTOMERS

SAFARICOM MTAANI  
**120**  
MARKETS PER MONTH

EXPANDED CUSTOMER CARE BY  
**300**  
PEOPLE

## Relevant Products



**35 MILLION**  
IN AVERAGE BONGA REDEMPTIONS

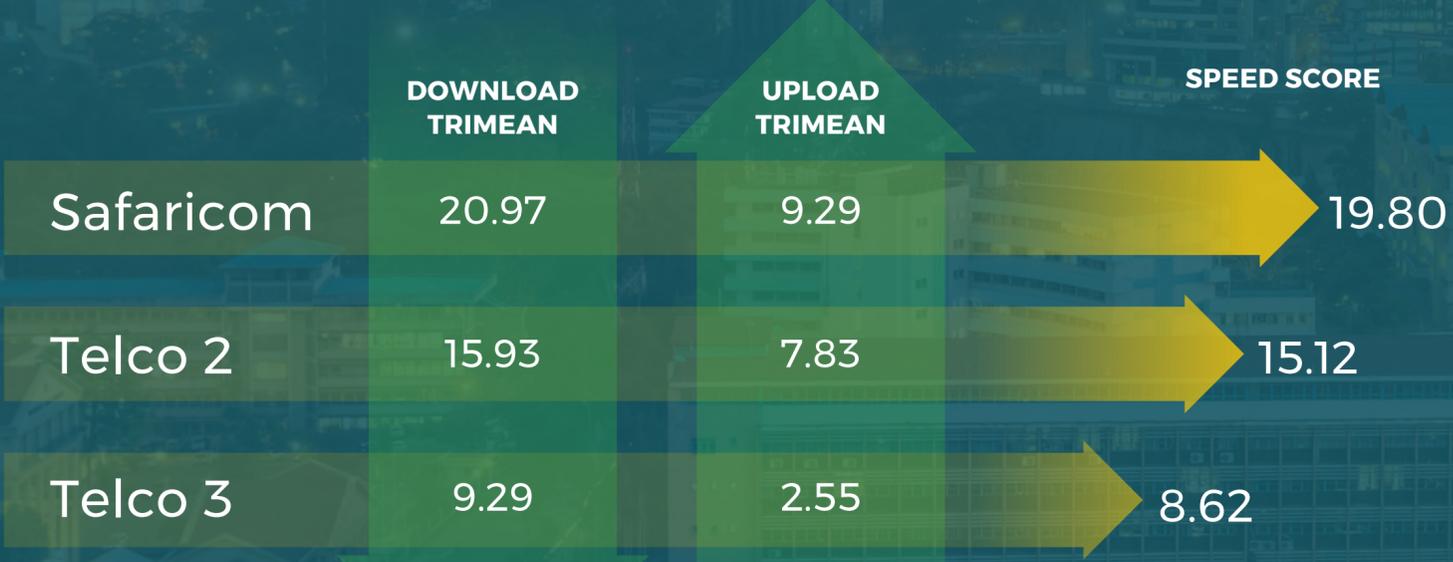
TUNUKIWA  
**30%**  
SUBSCRIBERS HAVE TAKEN PERSONALIZED OFFERS

M-PESA KADOGO  
**Now 11%**  
OF M-PESA TRANSACTIONS, UP FROM 1% LAST YEAR

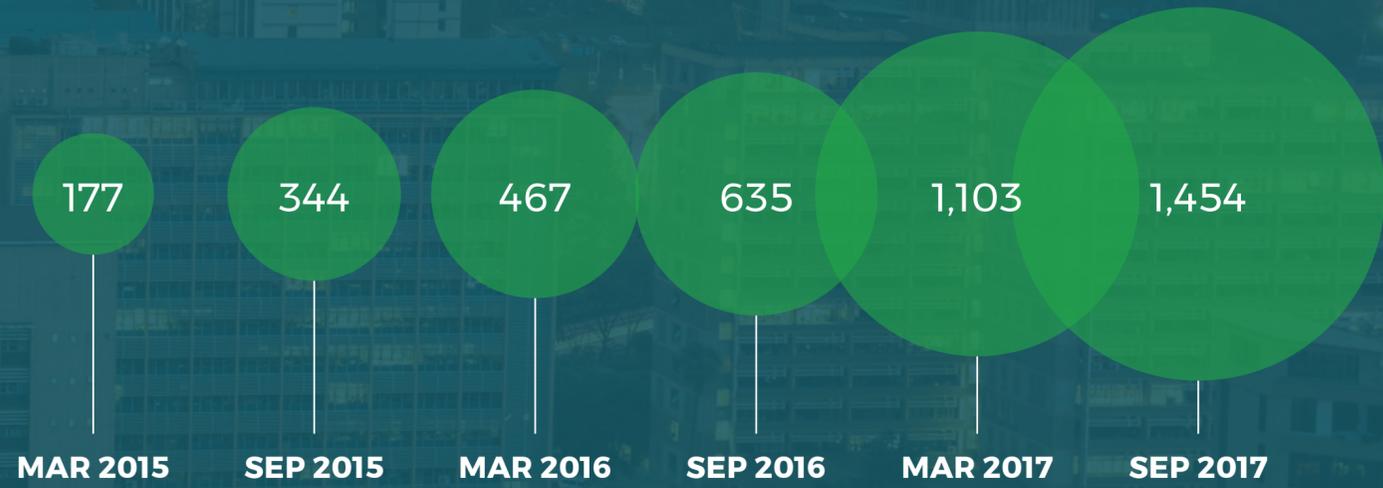
**1.8**  
MILLION CUSTOMERS ON BLAZE

# DELIVERING THE STRATEGY

## OPERATIONAL EXCELLENCE: CONSISTENT FOCUS ON OUR CORE NETWORK



### 4G Sites



Source: Ookla, 2017

# THE NUMBERS

HY 18 - 1ST APRIL 2017 TO 30TH SEPT 2017



# Financial Performance | Strong growth across all key financials

## Service Revenue

▲ +12.0% YoY



## EBIT\*

▲ +20.6% YoY



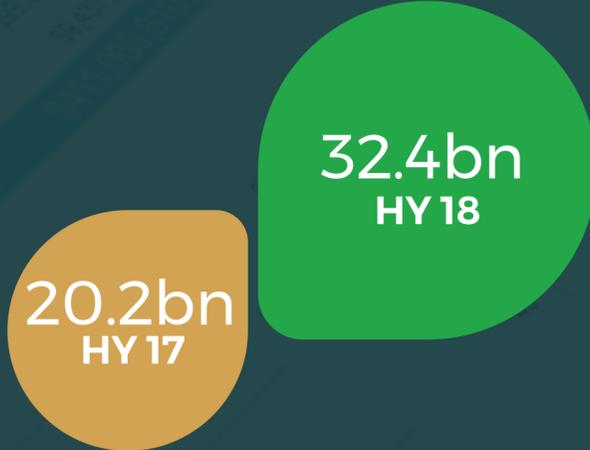
## Net Income\*

▲ +21.4% YoY



## Free Cash Flow

▲ +60.8% YoY



\*Excludes one off adjustment in HY 17 of Shs3.4bn (plus the tax impact)

# Higher investment and affordable prices | Putting the customer first



**Investment**



**Prices\***



**Customers**



**4,841**  
sites



**1,454**  
sites



**4,700km**  
fibre



Customer  
analytics



↓ **1%**  
Voice



↓ **29%**  
Data



↓ **21%**  
SMS



↓ **27%**  
P2P



↑ **10.8%**

\*Effective average rate per unit

# Business Model | Resilience in telco revenue streams, growth in data and M-PESA



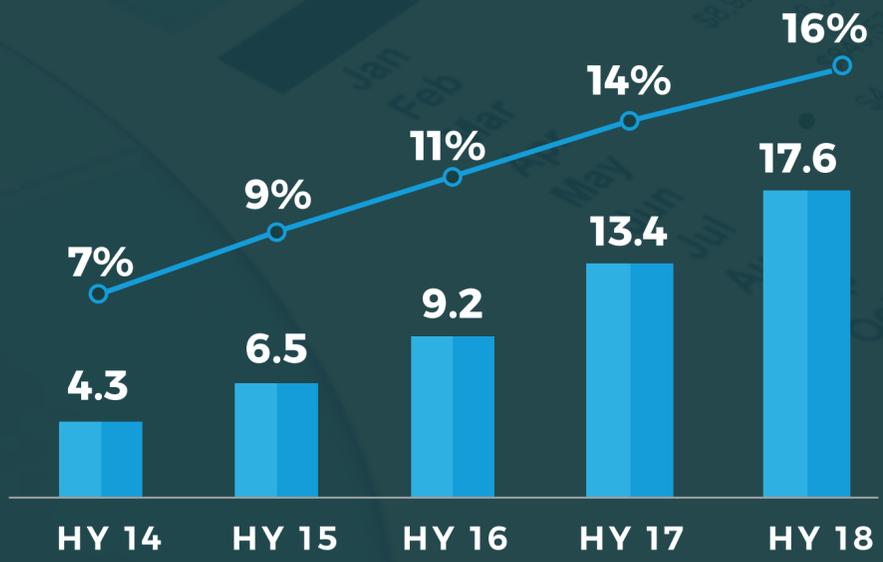
**Voice\* & SMS (Shs Bn, % SR)**



· Increased customer base and usage



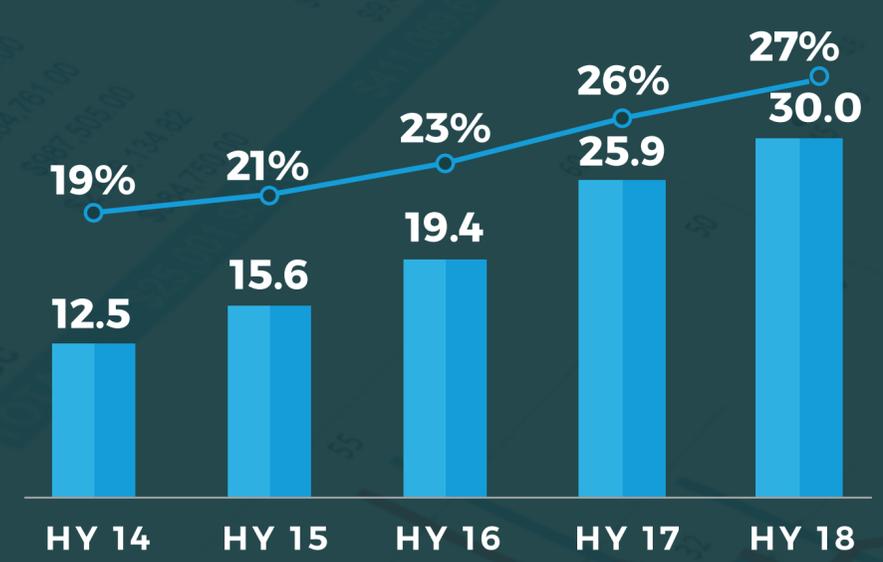
**Mobile Data (Shs Bn, % SR)**



· Increased data users and usage



**M-PESA (Shs Bn, % SR)**



· Increased M-PESA users and use cases

\*Outgoing Voice

# HY18 Service Revenue | M-PESA and Mobile Data continue to be the engines of growth

**+12.0% YoY**

**M-PESA +4.3ppts**

- +16.2% (YoY)
- 27.4% of SR (+1.0ppts YoY)

**Mobile Data +4.3ppts**

- +31.0% (YoY)
- 16.0% of SR (2.3ppts YoY)

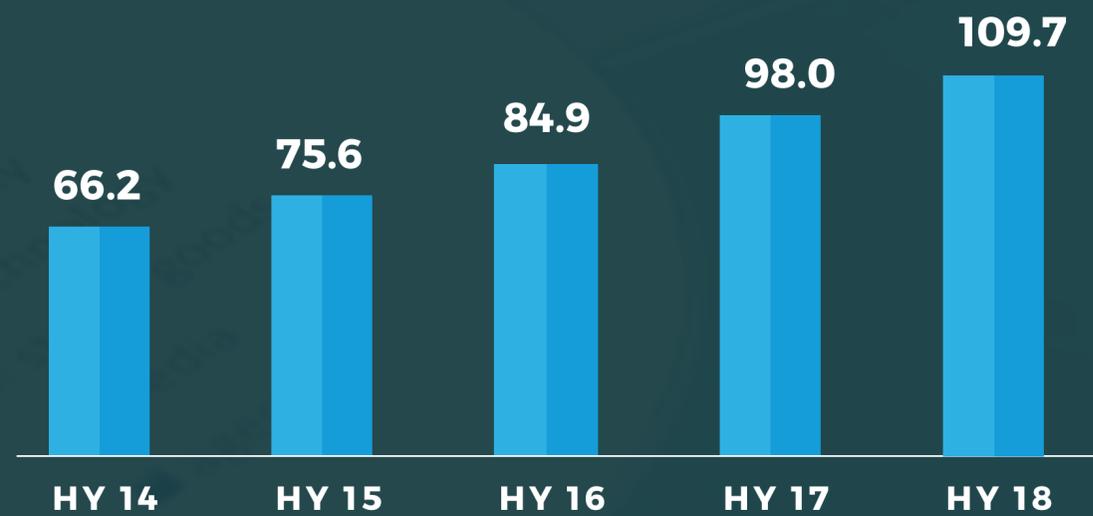
## Outgoing Voice

- +1.9ppts (+4.6% YoY)
- 40.3% of SR (-2.8ppts YoY)

## Fixed Data

- +0.9ppts (34.7% YoY)
- Total Data 18.9% of SR (+2.8ppts YoY)

## Service Revenue (Shs Bn)



## Service Revenue Waterfall (Shs Bn)



# M-PESA Revenue | Focus on long term sustainability

**+4.3 ppts**

**Bread & Butter +2.8 ppts**

- 74% of M-PESA Revenue
- P2P +17.1% (YoY)
- Withdrawals +11.6% (YoY)

**New Business +1.5 ppts**

- 25.8% of M-PESA Revenue
- C2B/ B2C/ B2B +27.9% (YoY)
- Lipa Na M-PESA (LNM) +0.9% (YoY)
- Other +13.9% (YoY)

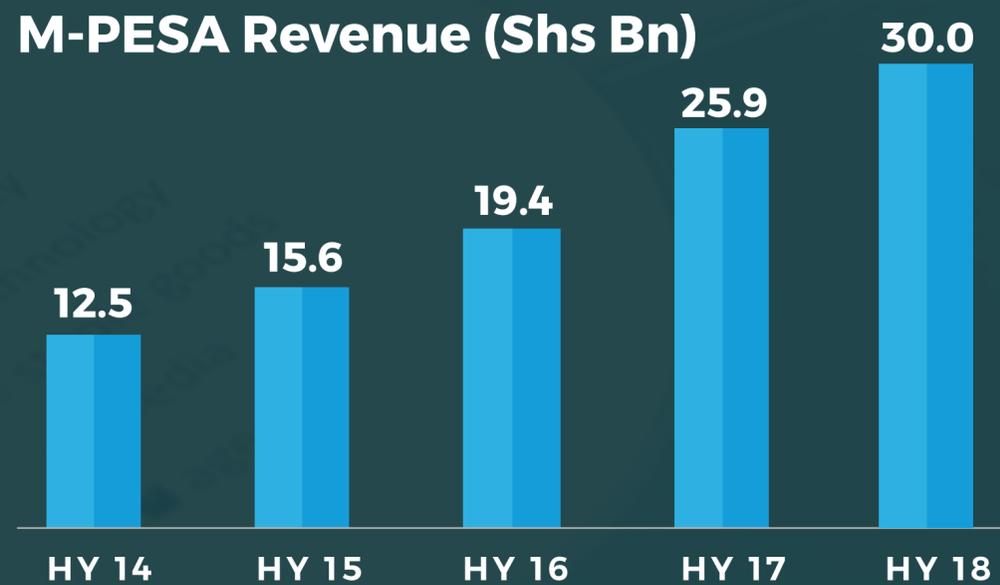
## Growing the Eco-system

- 19.3m 30 day active M-PESA subs +9.5% (YoY)
- 140k+ M-PESA Agents +29.6% (YoY)
- 11 transactions per customer per month +13.6% (YoY)

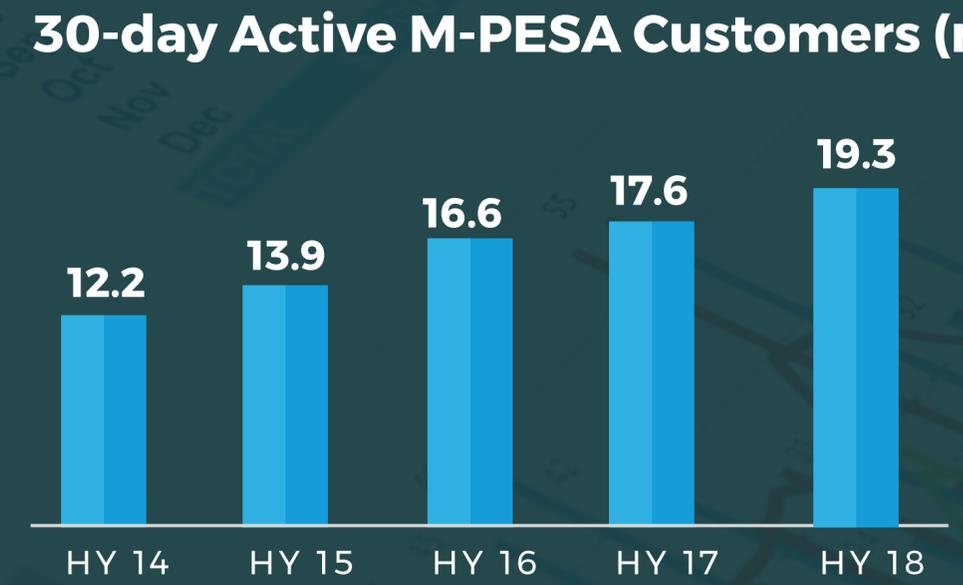
## Lipa Na M-PESA

- 70k+ 30 day active LNM tills +53.0% (YoY)
- Shs 175bn total transaction value +37.7% (YoY)
- 62.9m LNM transactions +62.7% (YoY)

M-PESA Revenue (Shs Bn)

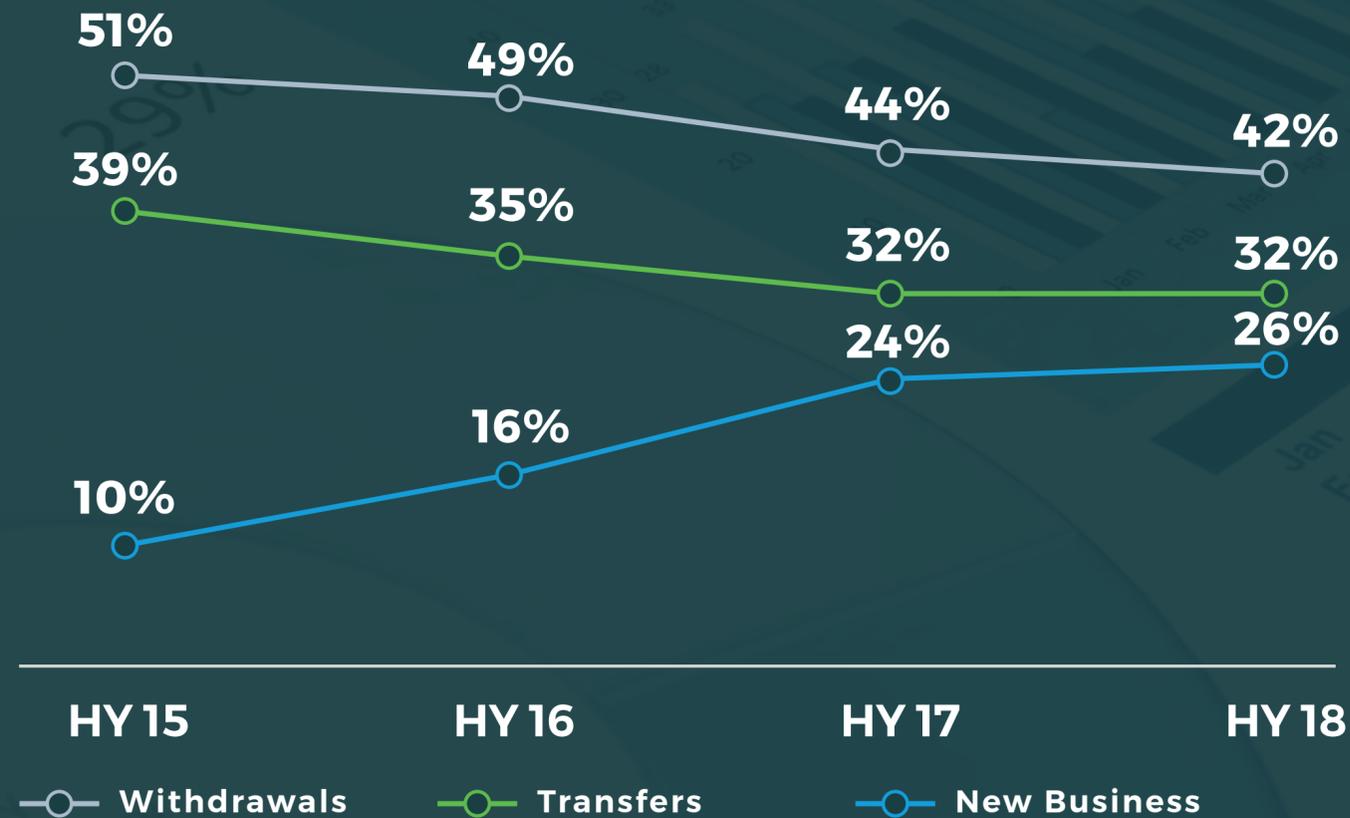


30-day Active M-PESA Customers (m)



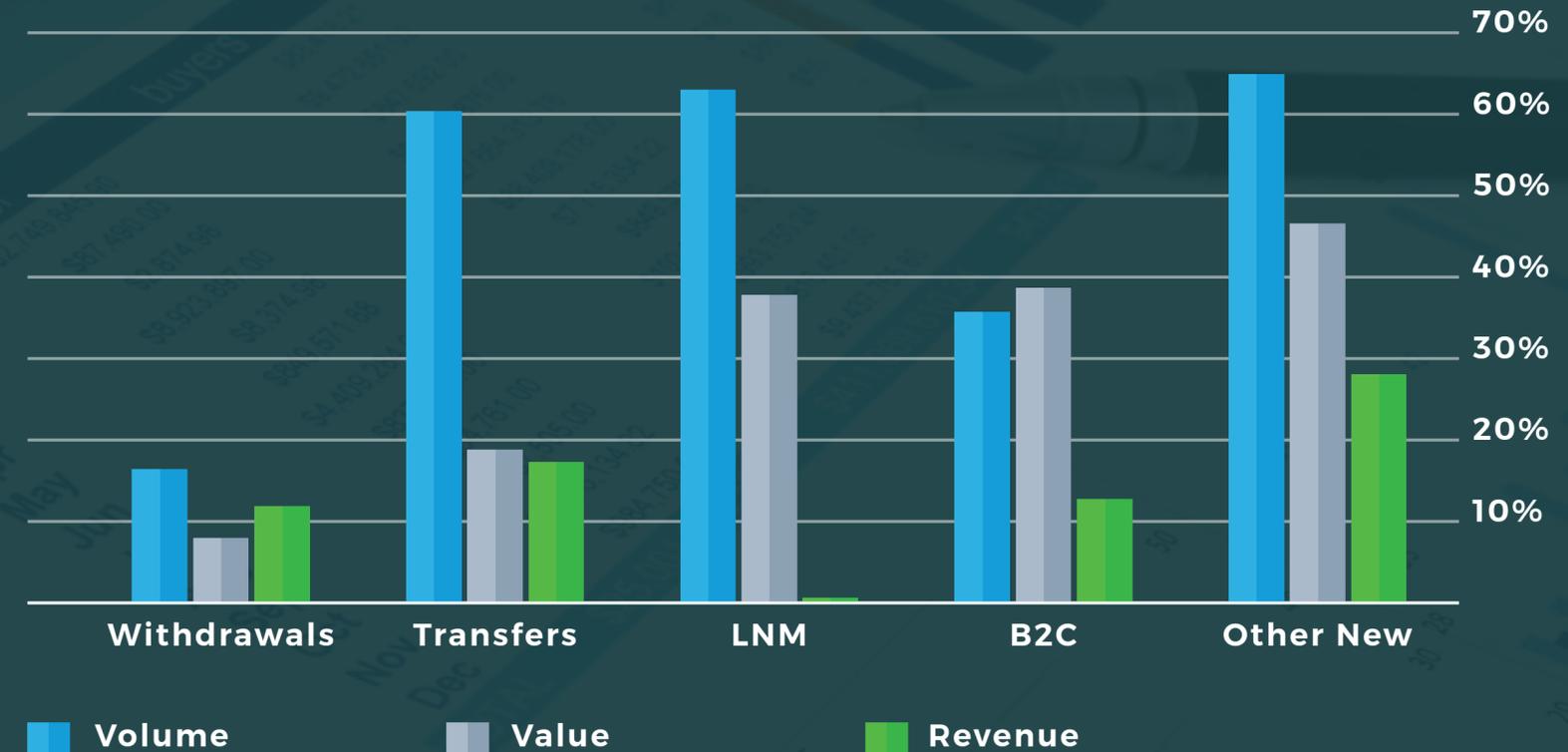
# M-PESA | Evolution of the eco-system

## M-PESA Revenue Contribution



- Future opportunity lies in payments
- Focus on long term sustainability by
  - Growing and retaining E-value
  - Accelerating velocity of payments
  - Seamless payments across value chains
- Focus on superior customer experience through M-PESA 1Tap

## HY 18 YoY Growth



- Transfers and payments growing at a faster rate than withdrawals
- Rate reduction on LNM and B2C to stimulate usage and drive long term strategy
- Volume includes Kadogo transactions (Transfers, LNM, Other New)
- Chargeable transaction volume growth of 31% YoY

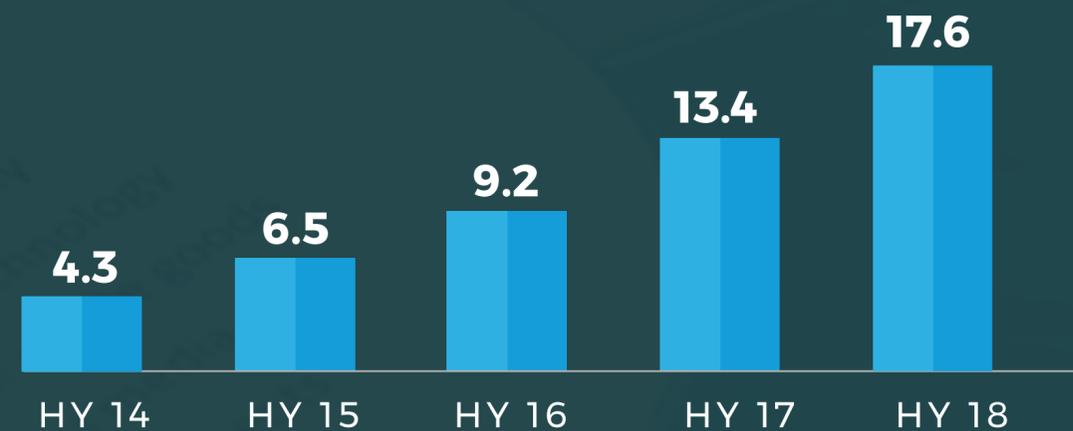
# Mobile Data Revenue | Increased usage supporting growth



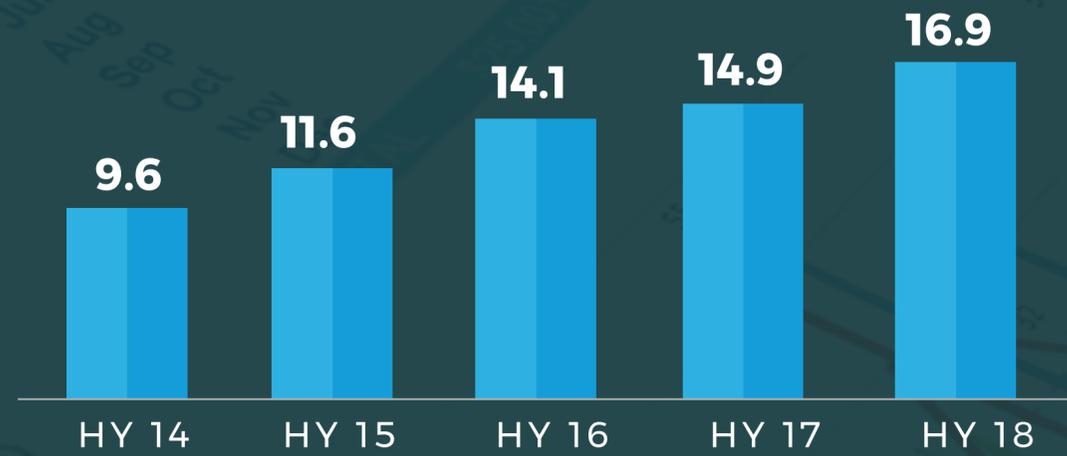
## Driving the digital revolution

- Mobile Data ARPU\* **Shs170 +18.1% (YoY)**
- Data subs now at **16.9m +13.5% (YoY)**
- Usage per customer per month at **382MBs +65.9% (YoY)**

## Mobile Data Revenue (Shs Bn)



## 30-day Active Mobile Data Customers (m)



\*Mobile Data ARPU based on distinct data customers per month

# EBIT\* | Supported by revenue growth and cost management

 **+20.6%**

 **+13.7%**

**Contribution Margin\***

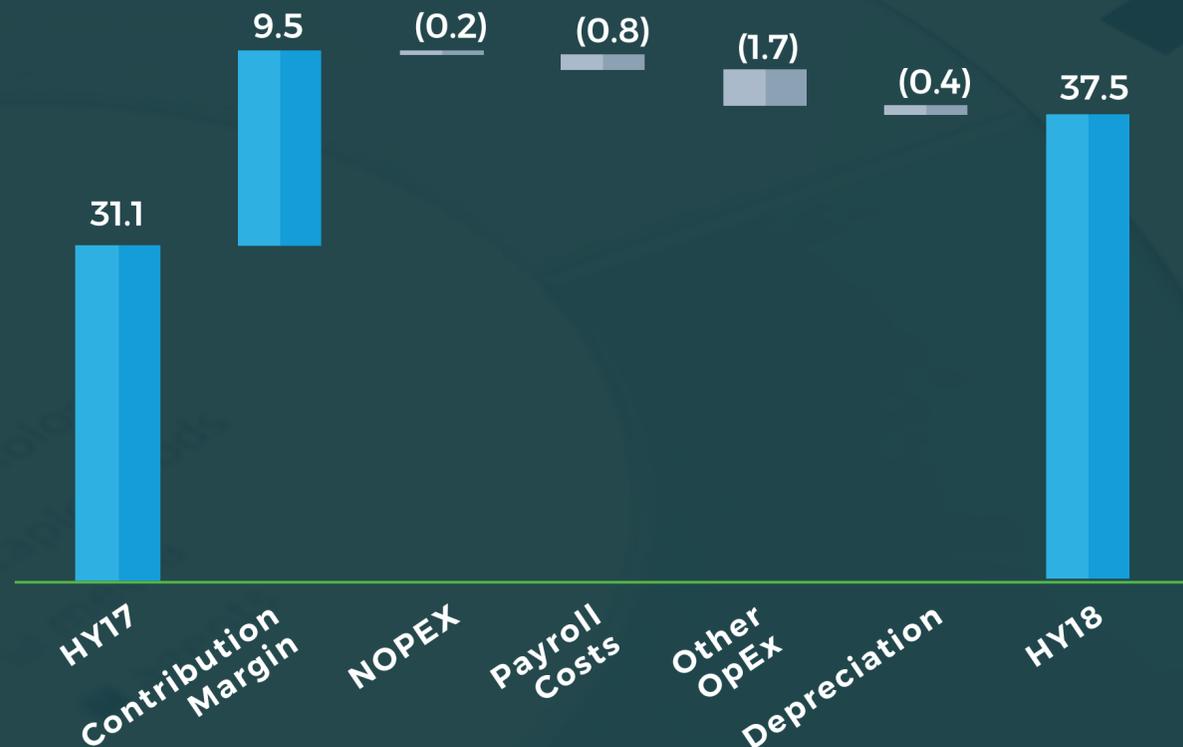
 **11.9%**

**OpEx\***

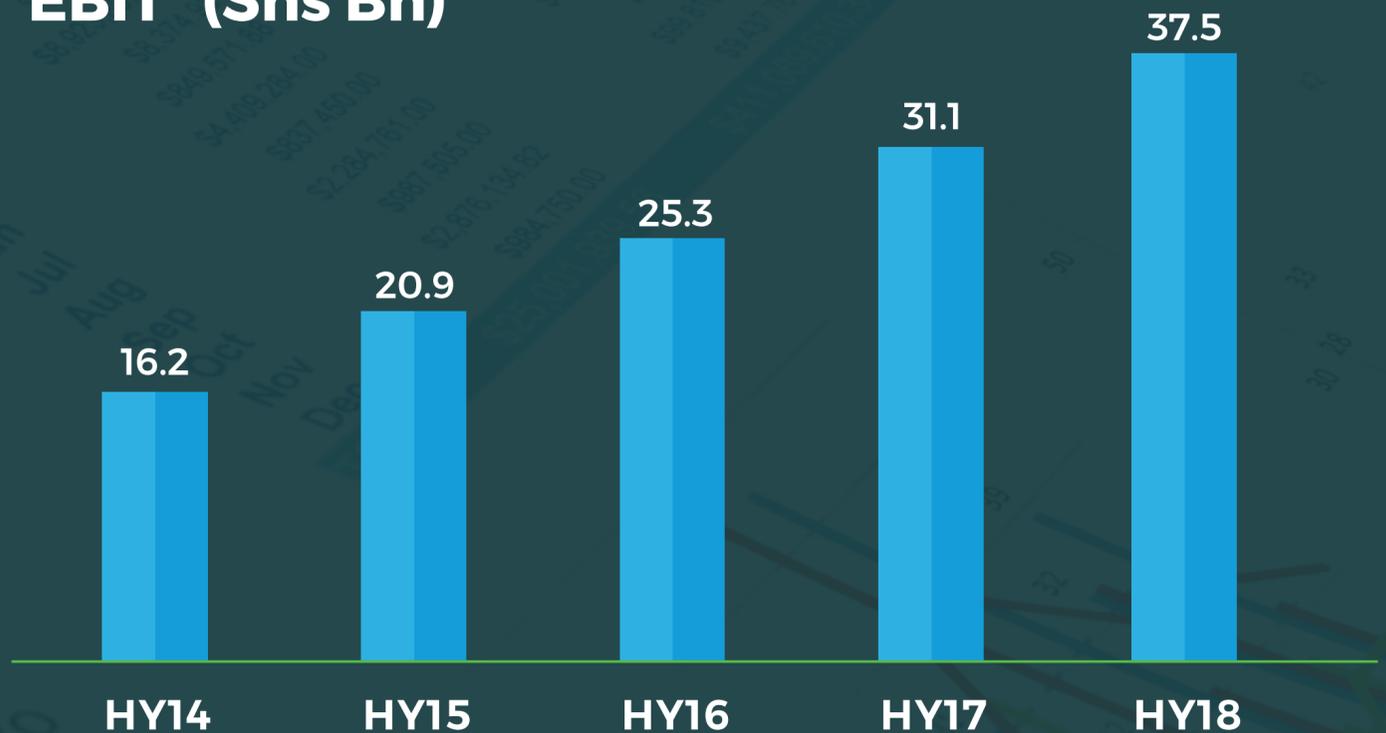
## Performance on reported basis

- EBIT 8.9% (YoY)
- Contribution margin 10.2% (YoY)
- Opex 17.9% (YoY)

## EBIT\* YoY (Shs Bn)



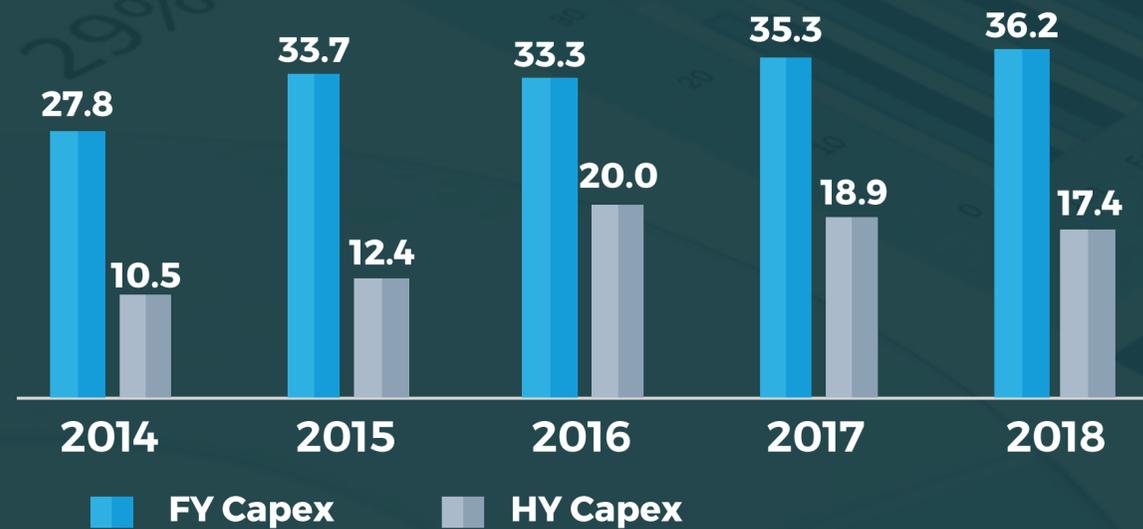
## EBIT\* (Shs Bn)



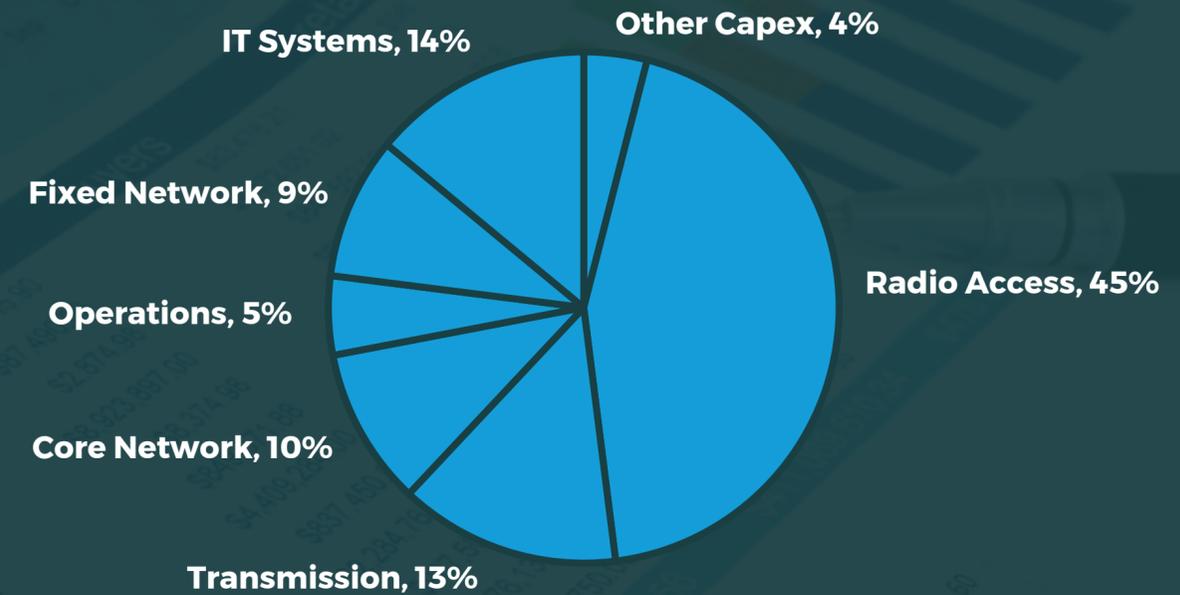
\*Excludes one off adjustment in HY 17 of Shs3.4bn

# Capex | Sustained investment to stay ahead of the curve

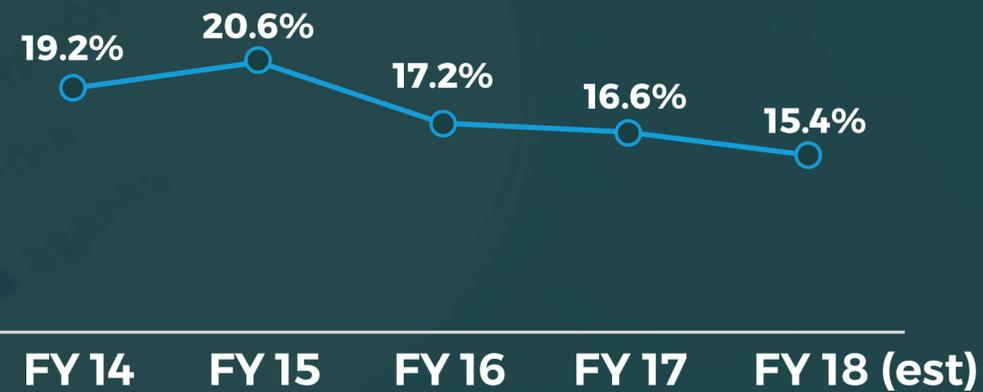
## Capex (Shs Bn)



## HY 18 Capex Allocation



## Five Year FY Capex Intensity



## Sites

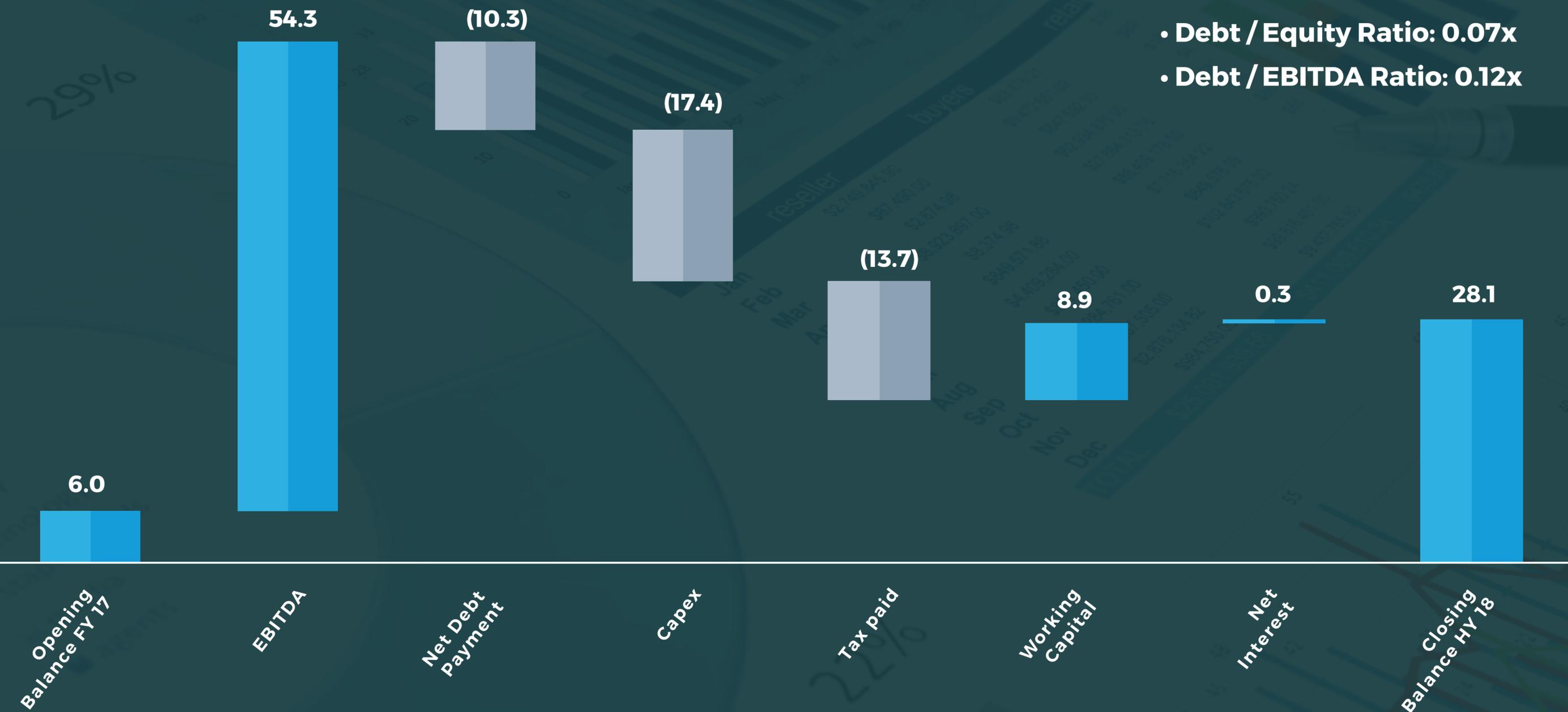
- 4,841 sites, 96% coverage
- 3,913 3G sites, 86% coverage
- 1,454 4G sites, 32% coverage

## Own Fibre Roll out

- Over 90k+ homes passed with FTTH
- 1,670 commercial buildings with FTTB

# Cashflow | Growth supported by operating performance

## Net Cash & Usage (Shs Bn)



## Healthy Debt Position

- Debt / Equity Ratio: 0.07x
- Debt / EBITDA Ratio: 0.12x

## Statement of Income | Key highlights

Shs Bn	HY 18	HY 17 Reported	HY 17 Normalized**	YoY% Reported	YoY% Normalized
Voice revenue (Outgoing & Incoming)	47.35	45.70	45.70	3.6%	3.6%
Messaging revenue	8.92	8.63	8.63	3.4%	3.4%
Mobile data revenue	17.55	13.40	13.40	31.0%	31.0%
Fixed service revenue	3.23	2.40	2.40	34.7%	34.7%
M-PESA revenue	30.05	25.87	25.87	16.2%	16.2%
Other service revenue	2.63	2.01 <sup>H</sup>	2.01	30.7%	30.7%
<b>Service Revenue</b>	<b>109.73</b>	<b>98.01</b>	<b>98.01</b>	<b>12.0%</b>	<b>12.0%</b>
<b>Total Revenue</b>	<b>114.43</b>	<b>102.10</b>	<b>102.10</b>	<b>12.1%</b>	<b>12.1%</b>
Contribution margin	79.11	71.80	69.57	10.2%	13.7%
Contribution margin %*	69.1%	68.8%	68.2%	0.2ppts	0.9ppts
EBITDA	54.27	50.81	47.46	6.8%	14.4%
EBITDA margin %*	47.4%	48.7%	46.5%	(1.3)ppts	0.9ppts
EBIT	37.53	34.46	31.11	8.9%	20.6%
EBIT margin %*	32.8%	33.0%	30.5%	(0.3)ppts	2.3ppts
Net Income	26.20	23.93	21.58	9.5%	21.4%
Net Income %*	22.9%	22.9%	21.1%	(0.1%)	1.7%
Earnings per share***	0.65	0.60	0.54	9.5%	21.4%

\*Margin is calculated on total revenue (less construction revenue) plus other income

\*\*Normalised for one off in HY 17 of Shs3.4bn

\*\*\*Not Annualised



**WHERE  
WILL WE  
GO NEXT?**

# WAY FORWARD

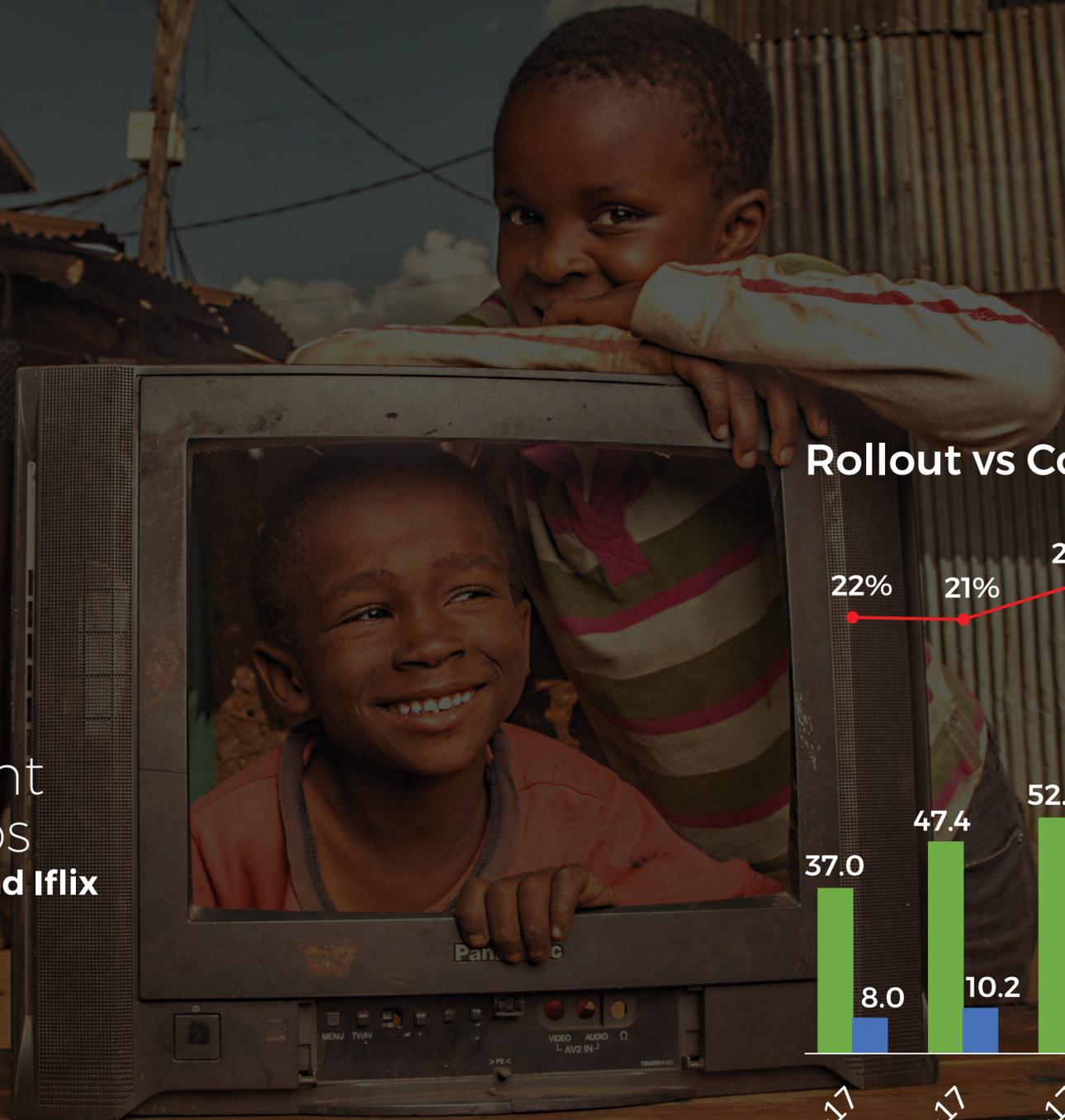
## FIBRE TO THE HOME



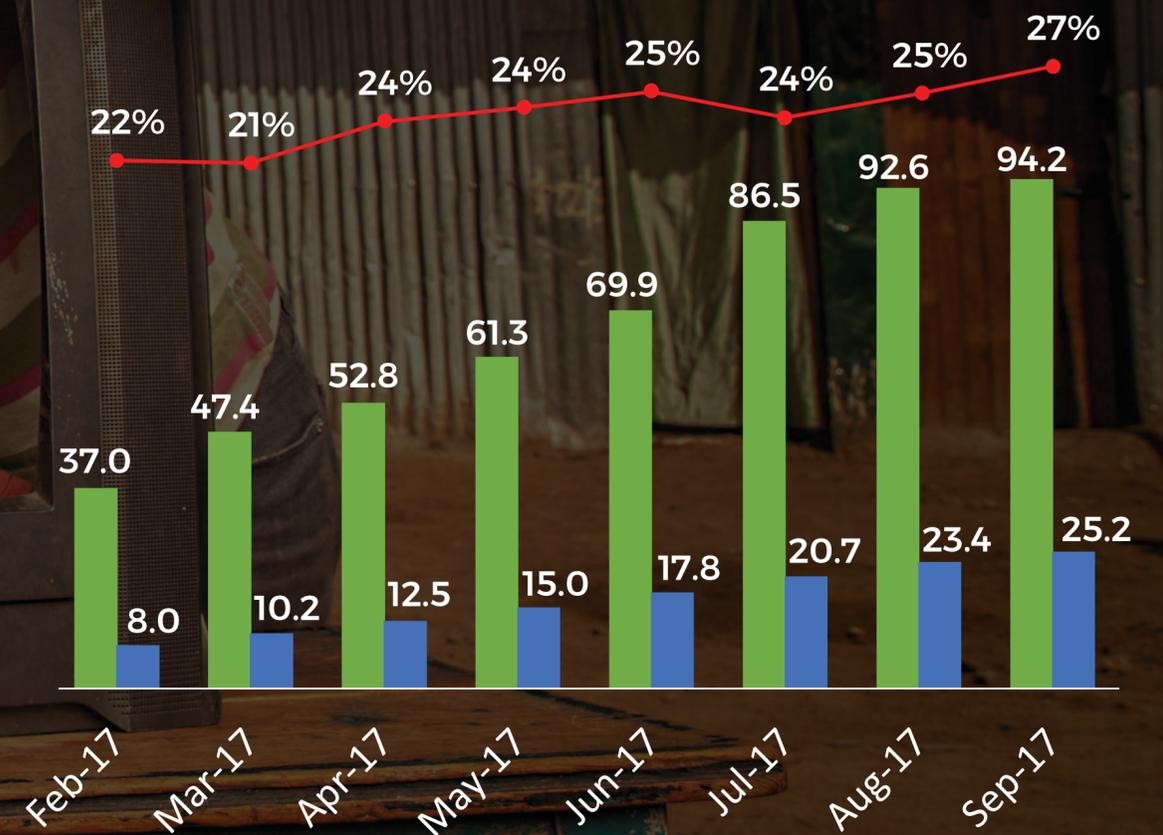
Rich content partnerships with Showmax and Iflix

Over 90k Homes Passed

Over 28k Customers

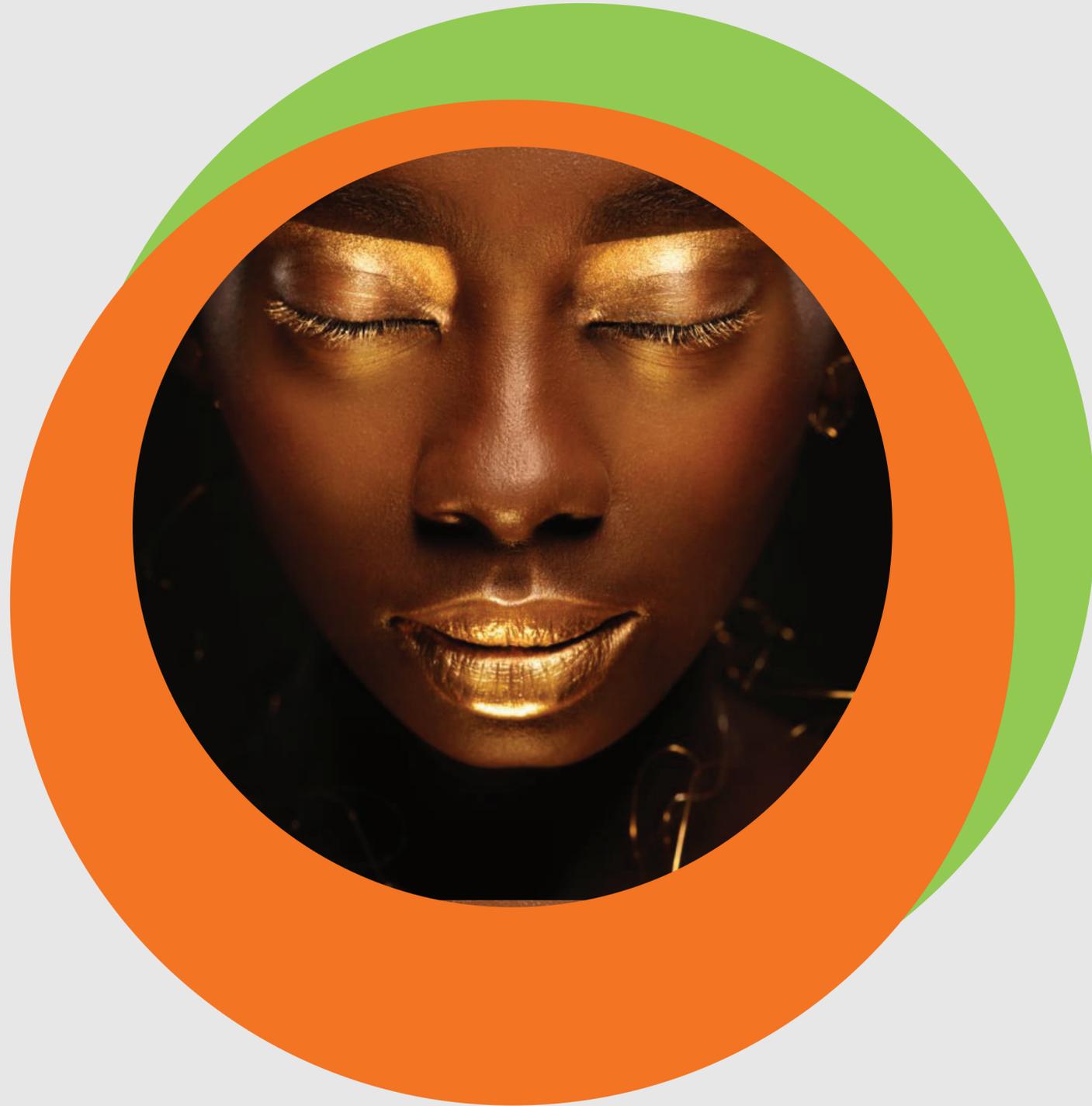


Rollout vs Connections (000)



■ Homes Passed 
 ■ Homes Connected 
 — Penetration

# INTRODUCING MASOKO



The lifestyle e-commerce brand  
made in kenya for the world.

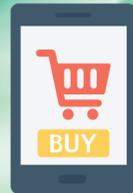
Brought to you by kenya's most  
innovative and trusted brand,  
Safaricom.

# INTRODUCING MASOKO

## UNTAPPED POTENTIAL



Mobile is the future



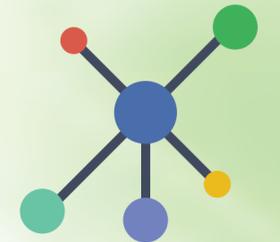
Today's discerning shopper is online



Trust is still a major barrier to online shopping in Kenya



Most trusted brand in Kenya



Largest Digital eco-system



# WAY FORWARD

GUIDANCE MAINTAINED ON EBIT AND CAPEX FOR FY18

EBIT

To  
Shs 71-75Bn

From  
Shs 67Bn  
FY17 (normalized)

CAPEX 

To  
Shs 35-38Bn

From  
Shs 35Bn  
FY17

When we come together,  
**great things happen.**

# Q & A



# APPENDICES



## Statement of Income | Service Revenue to Contribution Margin

Shs Bn	HY 18	HY 17 Reported	HY 17 Normalized*	YoY% Reported	YoY% Normalized
Service Revenue	109.73	98.01	98.01	12.0%	12.0%
Handset and other revenue	4.49	4.01	4.01	11.9%	11.9%
Construction revenue	0.20	0.08	0.08	165.0%	165.0%
<b>Total Revenue</b>	<b>114.43</b>	<b>102.10</b>	<b>102.10</b>	<b>12.1%</b>	<b>12.1%</b>
Other Income	0.32	2.28	0.05	(86.0%)	570.9%
Direct costs	(35.43)	(32.50)	(32.50)	9.0%	9.0%
Construction costs	(0.20)	(0.08)	(0.08)	152.3%	152.3%
<b>Contribution margin</b>	<b>79.11</b>	<b>71.80</b>	<b>69.57</b>	<b>10.2%</b>	<b>13.7%</b>
<b>Direct costs</b>					
M-PESA Commissions	(9.62)	(8.51)	(8.51)	13.1%	13.1%
Airtime Commissions	(5.79)	(5.49)	(5.49)	5.5%	5.5%
Licence Fees	(4.92)	(4.96)	(4.96)	(0.8%)	(0.8%)
Interconnect & Roaming	(3.62)	(3.55)	(3.55)	2.0%	2.0%
Handset costs	(3.44)	(2.69)	(2.69)	28.1%	28.1%
Customer Acquisition and Retention	(3.62)	(3.92)	(3.92)	(7.7%)	(7.7%)
Value Added Services costs (Voice & SMS)	(2.82)	(2.92)	(2.92)	(3.2%)	(3.2%)
Other	(1.59)	(0.46)	(0.46)	245.9%	245.9%
<b>Total</b>	<b>(35.43)</b>	<b>(32.50)</b>	<b>(32.50)</b>	<b>9.0%</b>	<b>9.0%</b>

\*Normalised for one off in HY17 of Shs3.4bn

# Statement of Income | Contribution Margin to Net Income

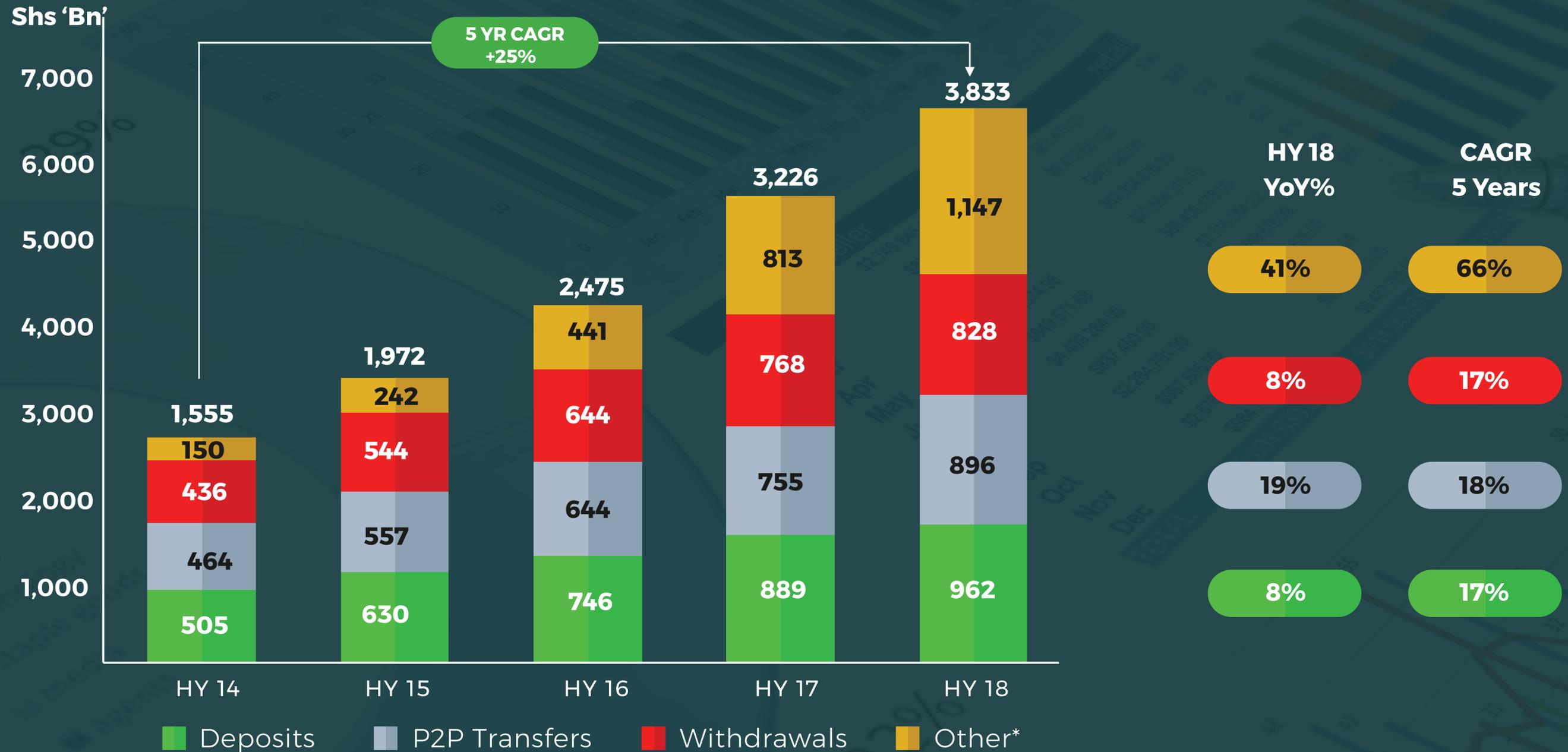
Shs Bn	HY 18	HY 17 Reported	HY 17 Normalized*	YoY% Reported	YoY% Normalized
Contribution margin	79.11	71.80	69.57	10.2%	13.7%
Operating costs	(24.76)	(21.00)	(22.12)	17.9%	11.9%
Forex Loss on trading activities	(0.08)	0.01	0.01	(900.0%)	(900.0%)
EBITDA	54.27	50.81	47.46	6.8%	14.4%
Depreciation, impairment & amortisation	(16.74)	(16.35)	(16.35)	2.4%	2.4%
EBIT	37.53	34.46	31.11	8.9%	20.6%
Net Financing, Forex and Fair Value Losses	0.28	0.02	0.02	1294.6%	1294.6%
Share of associate profit/(loss)	0.01	0.01	0.01	(43.6%)	(43.6%)
Taxation	(11.61)	(10.56)	(9.55)	10.0%	21.5%
<b>Net Income</b>	<b>26.20</b>	<b>23.93</b>	<b>21.58</b>	<b>9.5%</b>	<b>21.4%</b>
<b>Operating costs</b>					
Repairs and maintenance	(0.12)	(0.12)	(0.12)	(1.1)%	(1.1)%
Operating lease rentals'- Buildings	(0.54)	(0.44)	(0.44)	24.0%	24.0%
Operating lease rentals'- Sites	(1.18)	(1.03)	(1.03)	14.7%	14.7%
Warehousing costs	(0.16)	(0.15)	(0.15)	5.8%	5.8%
Employee benefits expense	(7.50)	(6.59)	(6.59)	13.9%	13.9%
Auditor's remuneration	(0.03)	(0.03)	(0.03)	1.8%	1.8%
Sales and advertising	(3.33)	(3.29)	(3.29)	1.2%	1.2%
Consultancy	(0.83)	(0.44)	(0.44)	86.5%	86.5%
Site/facilities costs	(6.43)	(6.57)	(6.57)	(2.0)%	(2.0)%
Travel and accommodation	(0.35)	(0.37)	(0.37)	(4.2)%	(4.2)%
Computer maintenance	(1.11)	(0.91)	(0.91)	21.4%	21.4%
Office upkeep	(0.59)	(0.47)	(0.47)	24.9%	24.9%
Other operating expenses	(1.95)	(0.76)	(1.88)	156.6%	(3.5)%
Bad Debts	(0.64)	0.17	0.17	(468.1)%	(468.1)%
<b>Total</b>	<b>(24.76)</b>	<b>(21.00)</b>	<b>(22.12)</b>	<b>17.9%</b>	<b>11.9%</b>

\*Normalised for one off in HY17 of Shs3.4bn

## Free Cashflow | Key Movements

Shs Bn	HY 18	HY 17	YoY
<b>Cashflow</b>			
Trading cash flow (EBITDA)	54.27	50.81	6.8%
Movement in inventory	(1.69)	(0.72)	135.0%
Movement in receivables	1.35	(4.26)	(131.8%)
Movement in payables	9.24	4.86	90.1%
Net Working capital changes	8.90	(0.11)	(7,890.6%)
<b>Operating cash flow</b>			
Capital Additions	(17.39)	(18.95)	(8.2%)
Operating free cash flow	45.78	31.75	44.2%
Interest received / (paid)	0.33	0.67	(51.6%)
Taxation received / (paid)	(13.70)	(12.27)	(11.6%)
<b>Free cash flow</b>	<b>32.40</b>	<b>20.15</b>	<b>60.8%</b>

# M-PESA Transaction Values | Growth continues in Bread and Butter, acceleration from New Business



\* B2C, C2B, B2B, Lipa Na M-PESA, IMT, Gaming, M-Shwari, KCB M-PESA, Airtime.