

# Safaricom PLC

2019 Full Year Results Presentation  
3<sup>rd</sup> May 2019



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Following the modified retrospective adoption of IFRS 15 - Revenue from Contracts with Customers on 1 April 2018, the Group’s results for the year ended 31 March 2019 are on an IFRS 15 basis, whereas the results for the year ended 31 March 2018 are (as previously reported) on an IAS 18 basis. To ensure appropriate disclosure during the period of transition onto IFRS 15, numbers for the year ended 31 March 2019 have been disclosed on both IFRS 15 and IAS 18 basis and year-on-year comparisons are on an IAS 18 basis.

# BRIGHTER MACRO OUTLOOK

## OPERATING ENVIRONMENT REMAINS TOUGH



### HEADWINDS:

- Regulatory risk
- Pressure on consumer wallet due to increased taxes
- Changing competitive landscape
- Delayed rains



### TAIL WINDS:

- 2019 GDP forecast at c6%
- Stable currency; inflation; political environment



### ACHIEVEMENTS:

- Solid growth
- Sustained network investments
- Sustained contribution to the society
- Increased penetration of innovative products

# OUR COMMITMENT

TRUE TO OUR PURPOSE



# PEOPLE, PURPOSE

## IMPACT ON SOCIETY



65k+ mothers benefitted from Maternal and Child Health Programme.

266 women benefitted from Fistula surgeries

160 children with disabilities treated and 78 linked to schools

INVESTMENT IN COMMUNITIES THROUGH STRATEGIC PARTNERSHIPS

Close to 900k direct & indirect jobs created

Water supplied to 20k+ people

Fulfilling 500 community dreams through 'Ndoto Zetu'

# SUSTAINING CUSTOMER GROWTH

'NAWE KILA WAKATI' (ALWAYS WITH YOU)

## CHALLENGES

- Shrinking of the consumer wallet
- Need for control and affordability
- Increased taxes

## ACTIONS

- Repriced data bundles
- Absorbed taxes for bundles
- Stricter governance on premium services providers
- Voice affordability through CVM
- Fuliza

## OUTCOMES

- Regained leadership as the most trusted company
- Customer growth tripled in H2 compared to H1

# M-PESA

## ENHANCING CUSTOMER ENGAGEMENTS

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- Capacity upgrade to 1,200 transactions per second
- +2.1m active customers 10.2% YoY
- +10k agents 6.7% YoY
- +22k active merchants 21.6% YoY

# M-PESA

## ENRICHING THE ECOSYSTEM

### M-PESA GLOBAL



**PayPal** - 11k+ customers transact monthly.

**Google Playstore** - over 5.2k apps purchased monthly.

**Western Union** - Customers can send money to 500k+ cash agents and 3bn+ bank accounts worldwide.

**Partnership with AliExpress** - Enabling customers to shop online and pay via M-PESA

### LENDING (FULIZA)



- Revolutionising credit
- Mobile money overdraft facility
- 8.8m customers opted In
- KShs. 29bn value of completed transactions in under 3 months

### PAYMENTS



- Value chain extension for over 130K enterprises
- Supporting cash lite collection
- Offering Enterprise credit

# EMPOWERING BUSINESSES: DIGITAL PARTNER OF CHOICE

## OPPORTUNITIES

- Differentiators (Fixed over LTE, Business Wi-Fi, Digital services)
- Digital platforms
- Bespoke vertical solutions
- SMEs

## ACTIONS

- Improve existing products and overlay new solutions
- Enhance customer experience
- Customer acquisition and retention
- Enhance Digital platforms (Masoko and DigiFarm)

## ENABLERS



Automation



Enterprise Brand



Data Analytics and CVM

# ENHANCING DIGITAL EXPERIENCE

## DRIVING EFFICIENCY

### CUSTOMER CARE:

- Chat bot: 102k unique users
- My Safaricom App: 700k+ daily users
- USSD: 4.9M+ daily users
- Voice Biometrics: 1.5m+ enrolment
- IVR self service: 86k+ daily users

### DISTRIBUTION:

- Digitising distribution & sales force automation (200K outlets registered)
- Transforming retail experience & process automation

### PEOPLE

- Personalised pricing
- Design thinking

# CONNECTING

PEOPLE TO PEOPLE, KNOWLEDGE AND OPPORTUNITIES

## ENABLERS



### Fibre

Over **6,700km**  
From **5,000km FY18**



### 3G

**93%** coverage  
from **86% FY18**



### 4G

**57%** coverage  
from **35% FY18**



### Homes Passed

Close to **300k**  
From **140k FY18**

## SERVICES



### Cloud



### Self service channels



### Internet of things



### VoLTE



# POWERING DIGITAL LIFESTYLES

KENYA'S BEST 4G+ NETWORK

## Best 4G+ Network for



Social



Education



Gaming



Video



Entertainment



HD Video Calls

## Enablers



Most Affordable  
**4G Smartphones**



Nearly doubling  
**4G sites to 5k**



Launch of VoLTE for  
**HD Voice and Video Calls**



Every town in Kenya  
**(600) covered by 4G**

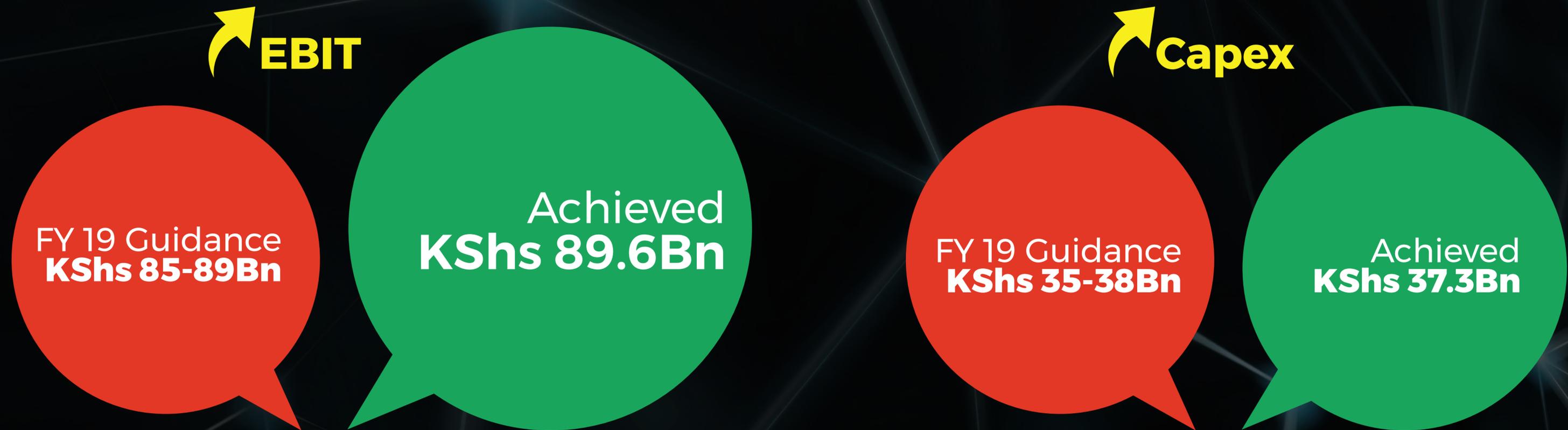


**80% of the population** covered  
by 4G



Homes passed with  
fibre growing **20%**  
to **360k**

# EARNINGS OUTPERFORM GUIDANCE



Guidance and performance is reported on an IAS 18 basis and therefore does not reflect the adoption of IFRS 15.

# THE NUMBERS

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\*Following the modified retrospective adoption of IFRS 15 - Revenue from Contracts with Customers on 1 April 2018, the Group's results for the year ended 31 March 2019 are on an IFRS 15 basis, whereas the results for the year ended 31 March 2018 are (as previously reported) on an IAS 18 basis. To ensure appropriate disclosure during the period of transition onto IFRS 15, numbers in slides 15-23 are on IAS 18 basis.



**7.0%** YoY

**Service Revenue**

KShs 240.3Bn FY 19  
KShs 224.5Bn FY 18



**13.1%** YoY

**EBIT**

KShs 89.6Bn FY 19  
KShs 79.3Bn FY 18



**14.7%** YoY

**EPS**

KShs 1.58 FY 19  
KShs 1.38 FY 18



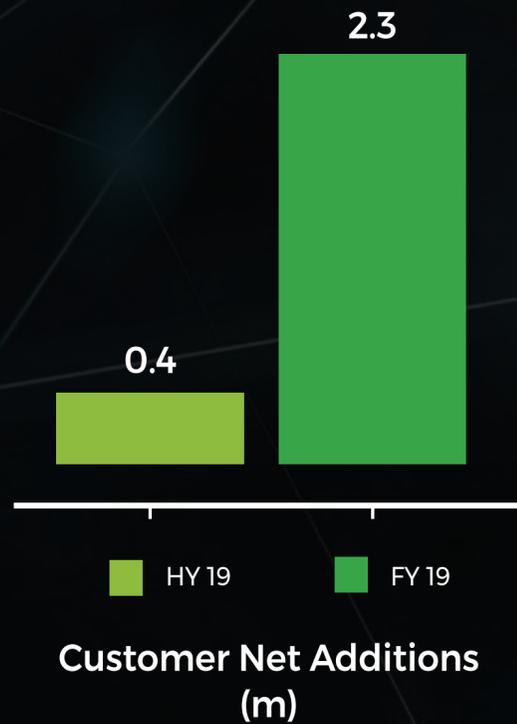
**13.9%** YoY

**Free Cashflow**

KShs 63.1Bn FY 19  
KShs 55.4Bn FY 18

# CUSTOMER FOCUS

## STRONG RECOVERY IN CUSTOMER GROWTH



31.8 million 90 day active customers  
(+ 7.7% YoY)

### Contribution from customers

### \*ARPU

### Service Revenue

HY 19



+

FY 19



=

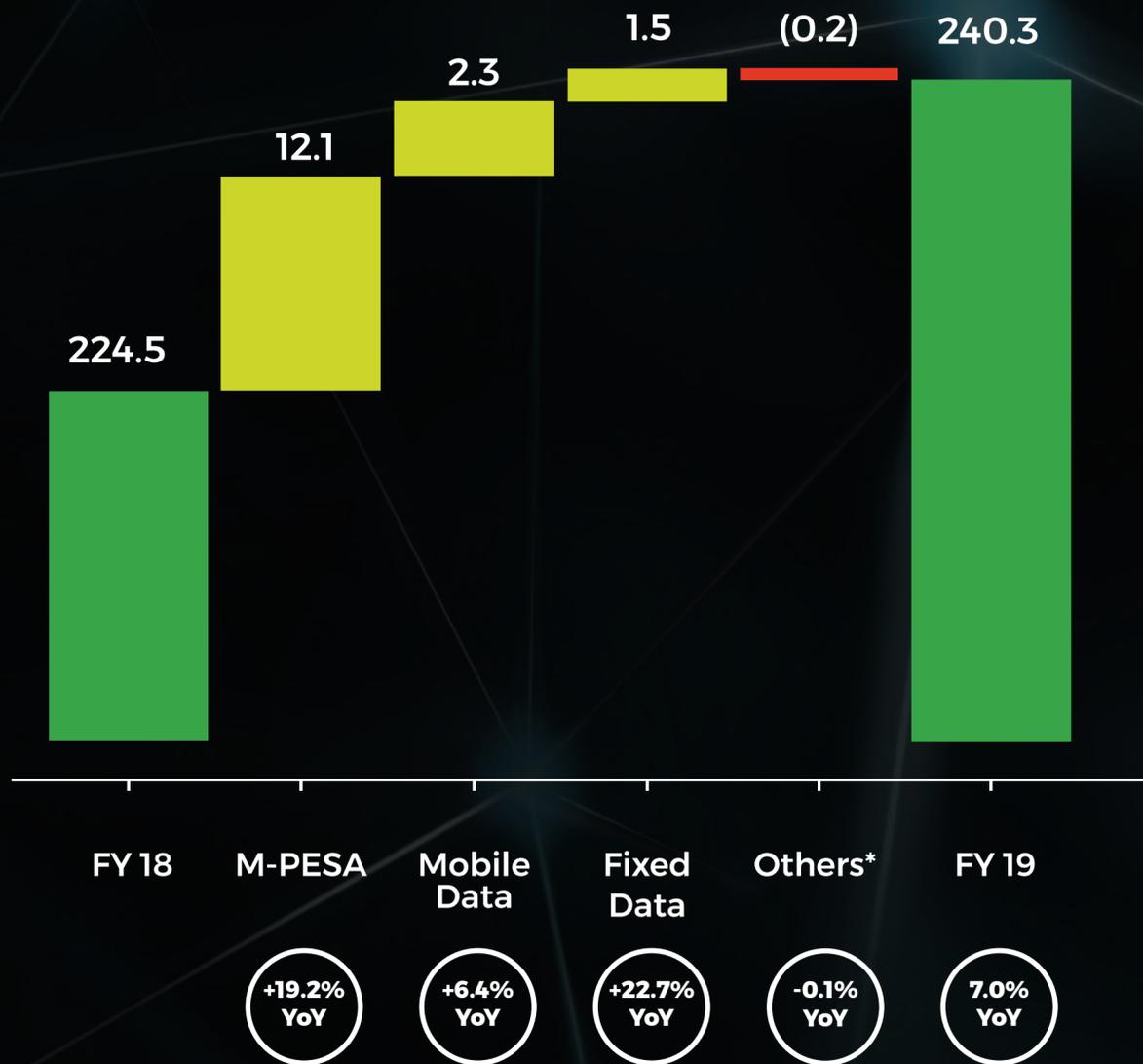


\*ARPU based on 30 day active customers

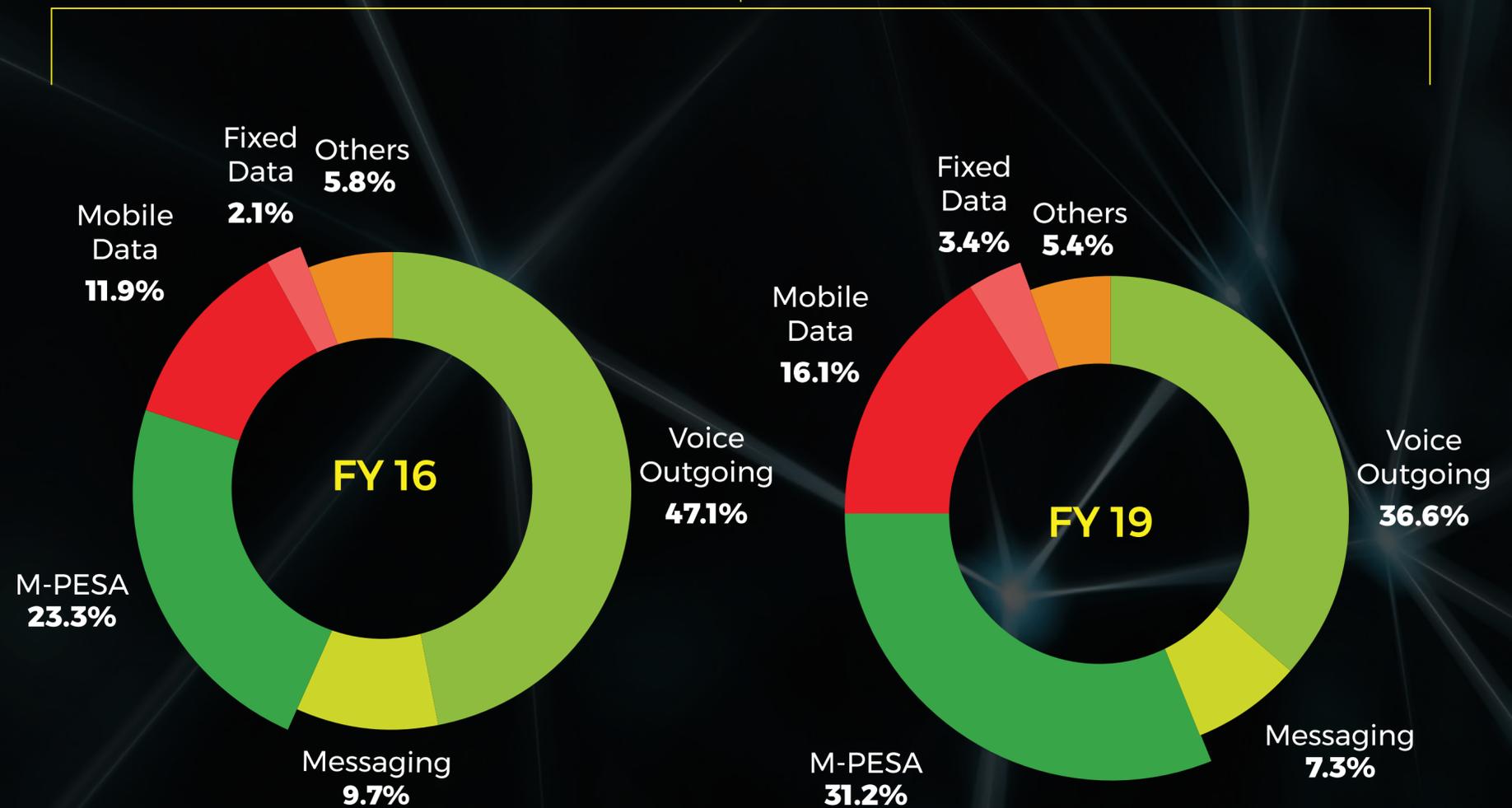
# SERVICE REVENUE

STRONG MOMENTUM IN GROWTH DRIVEN BY M-PESA

**Contribution to Service Revenue Growth (KShs Bn)**

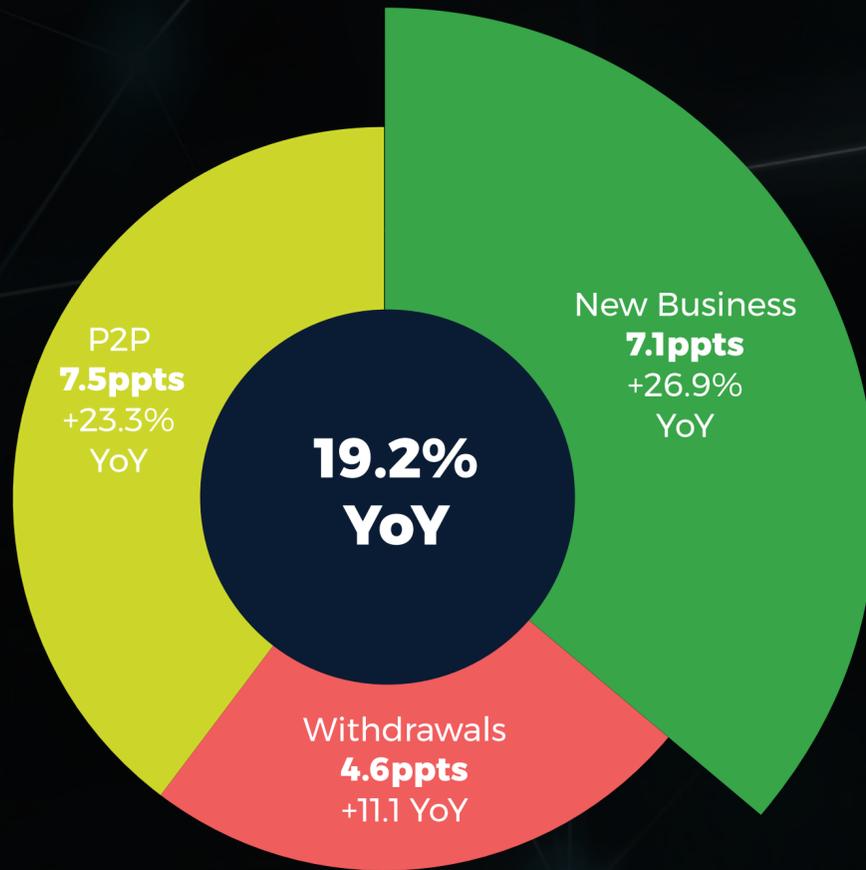


**Evolution of Revenue Profile**

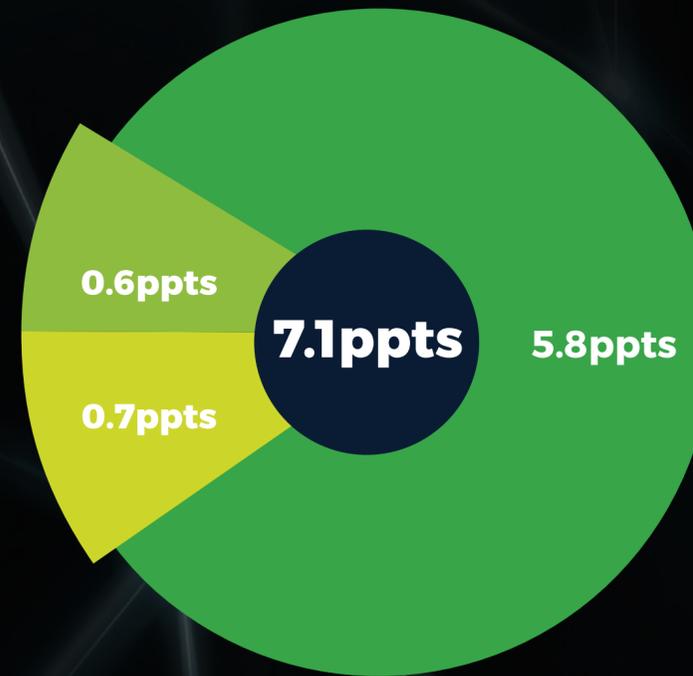


\*Others: Voice, Messaging and Other Service Revenue

### Contribution to M-PESA Growth



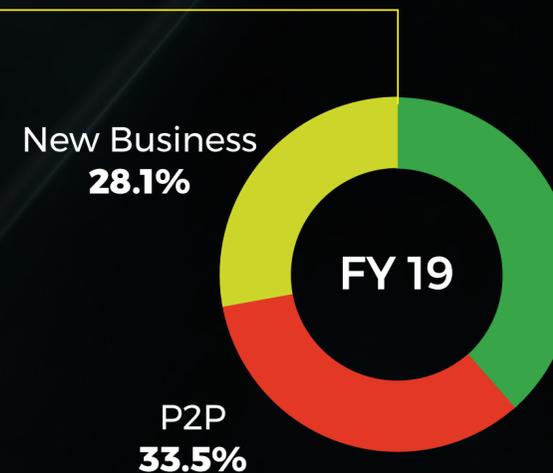
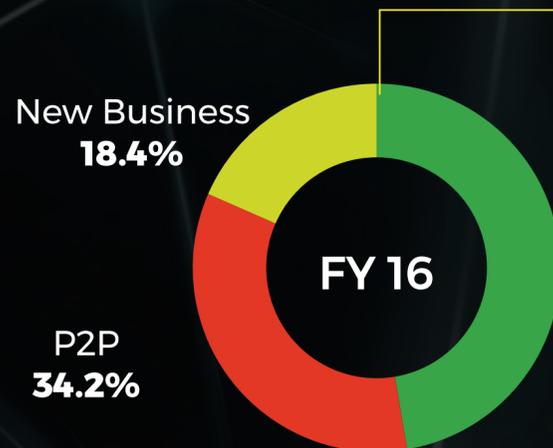
**IMT 79.2% YoY:**  
Money transfer, Paypal,  
**Savings and Lending 25.6% YoY:**  
Mshwari, KCB MPESA,  
Fuliza, M-KESHO



**Payments 25.3% YoY:**

**C2B +25.5% YoY**  
**B2C +18.2% YoY**  
**LNLM +40.9% YoY**  
**B2B +4.4% YoY**

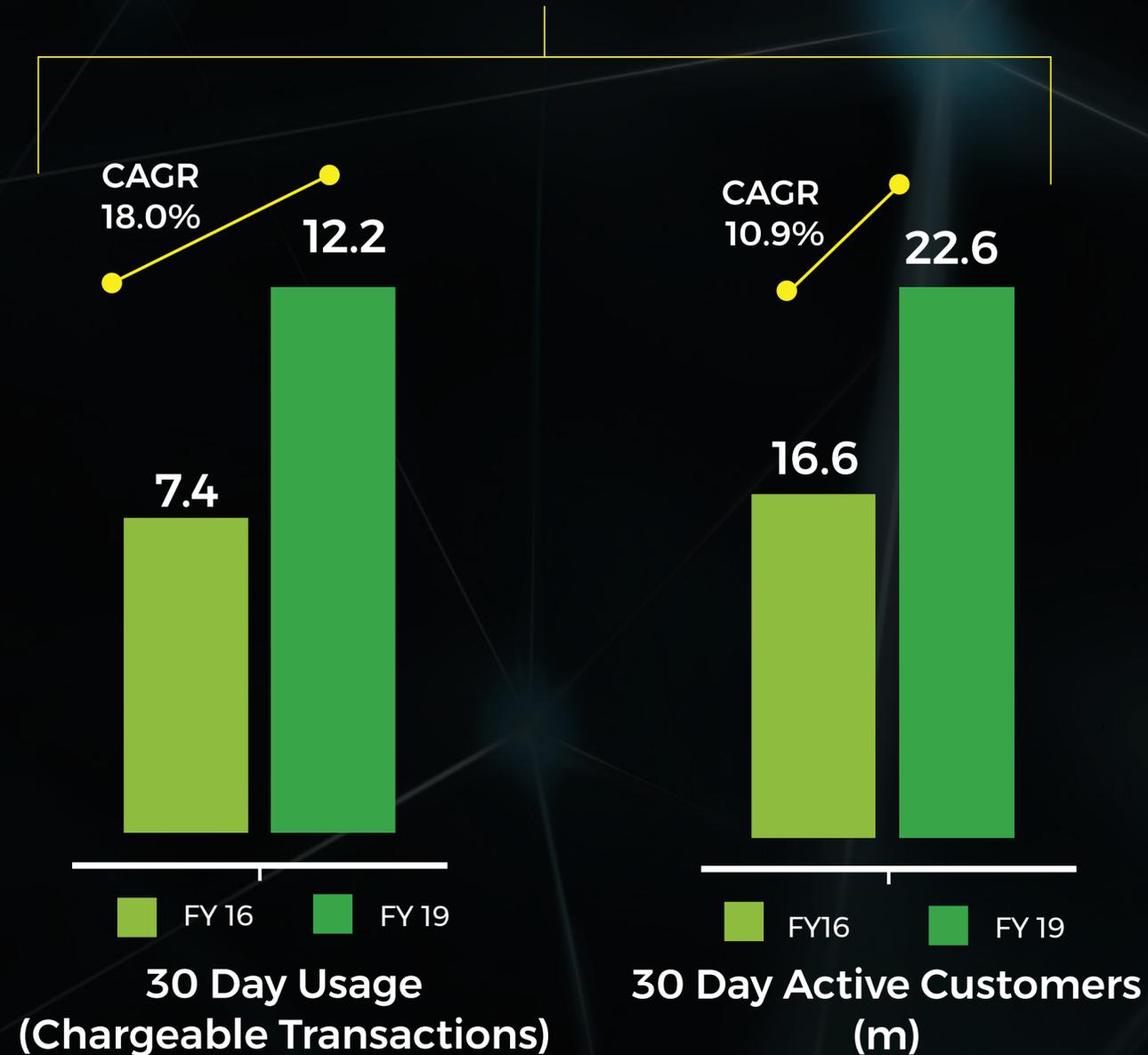
### Evolution of Revenue Profile



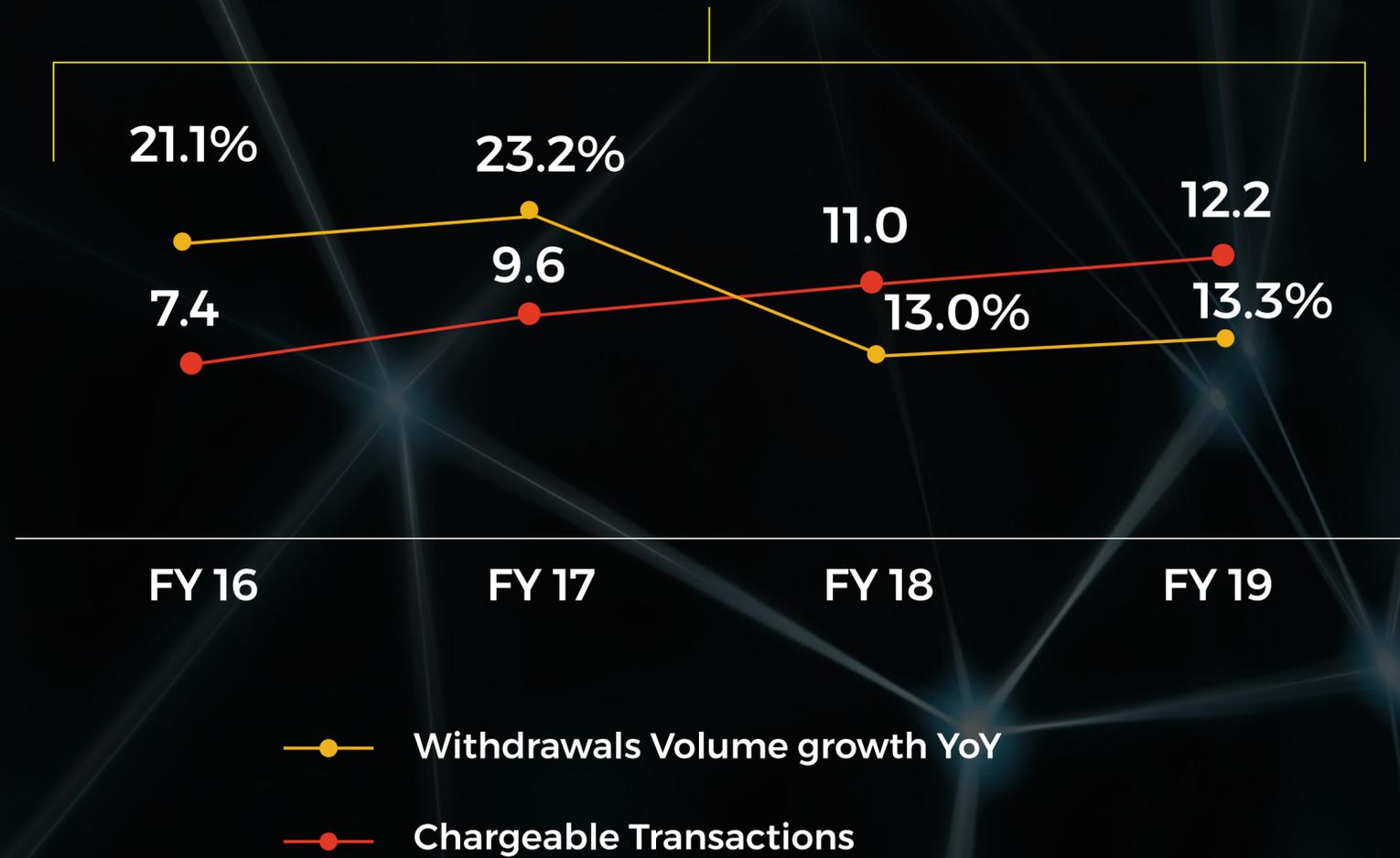
**Call Outs:**

- Value of M-PESA Transactions +27.9% YoY
- Volume of M-PESA Transactions +22.1% YoY
- M-PESA 30 day Active Tills +21.6% YoY
- M-PESA Agents +6.7% YoY

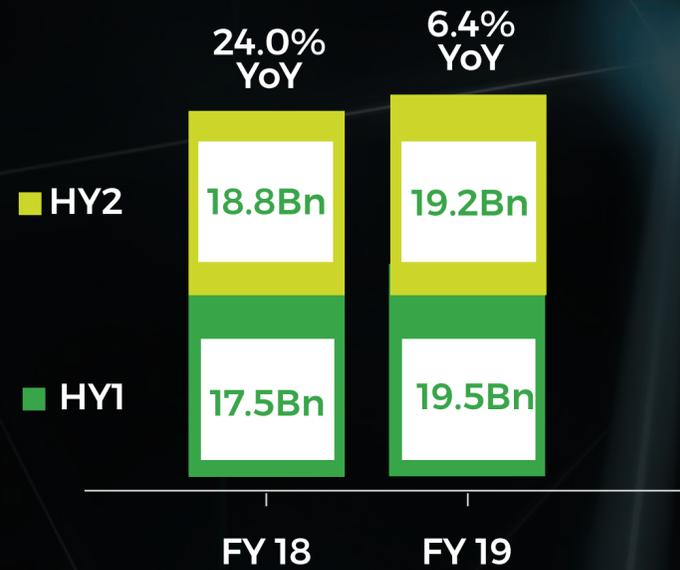
### Opportunity to Drive Penetration and Usage



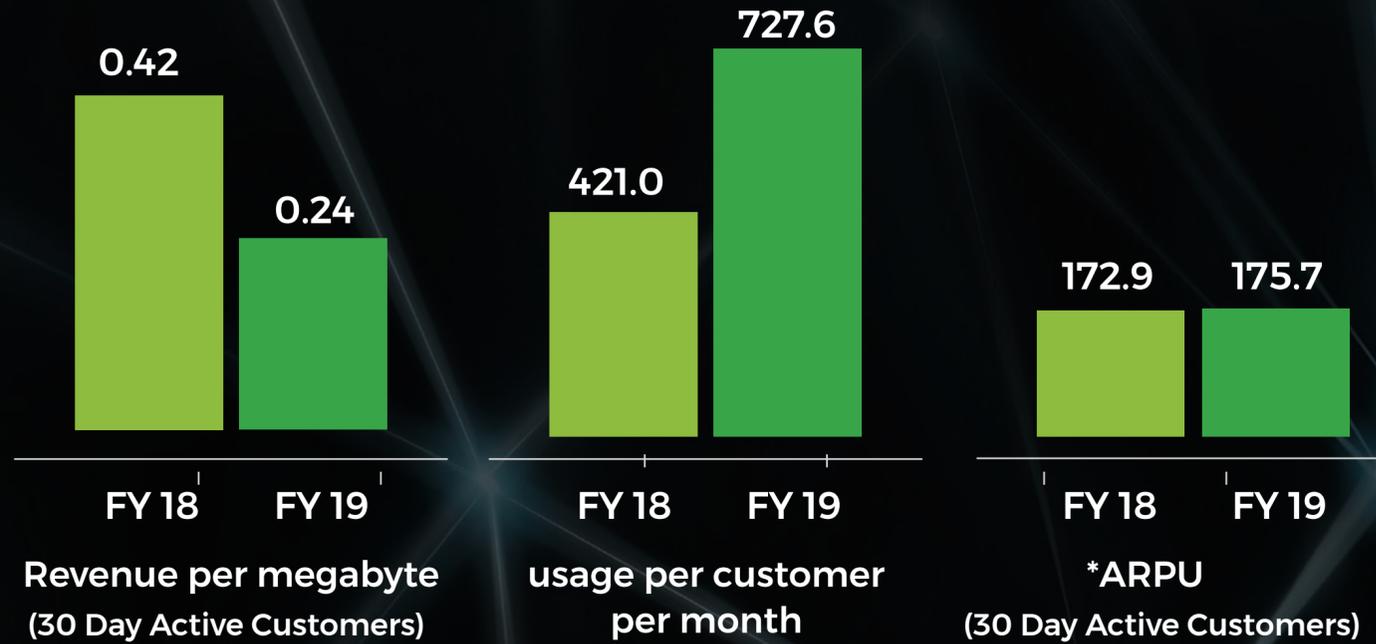
### Opportunity for Relevant Use Cases



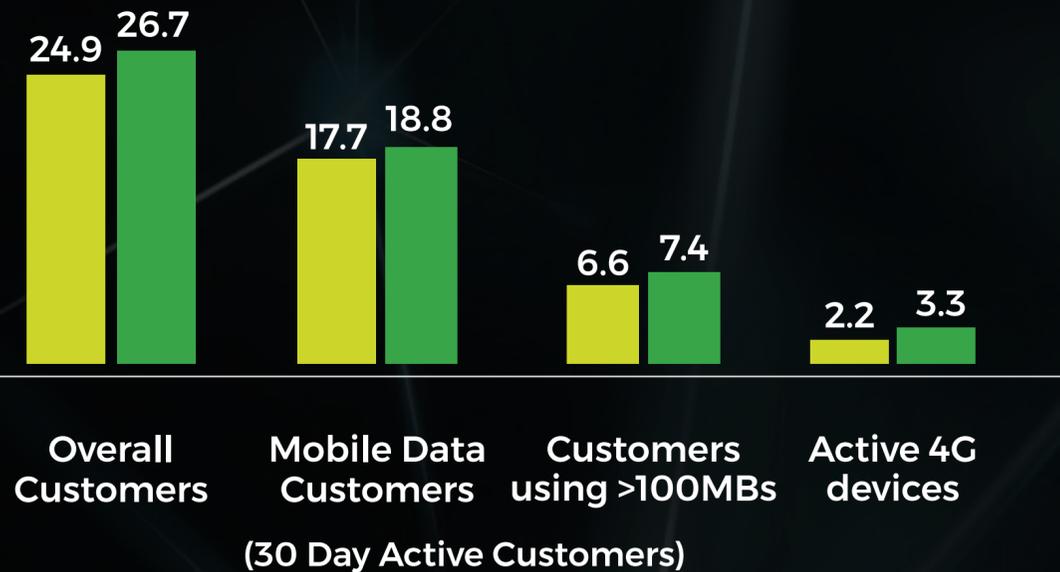
Mobile Data Revenue (KShs Bn)



Data Monetisation



Potential for Significant Usage Growth (m)



Call outs:

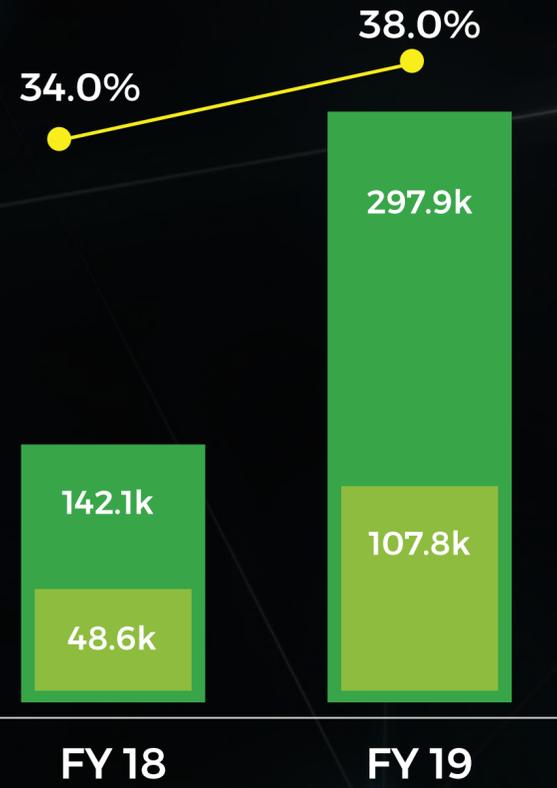
- 70.5% of overall customers using mobile data
- 39.2% of mobile data customers using >100MBs
- Effective rate per MB down 41.9% YoY
- ARPU +1.6% YoY
- 4G handsets up 49.0% YoY to 3.3m

\*ARPU based on 30 day active customers

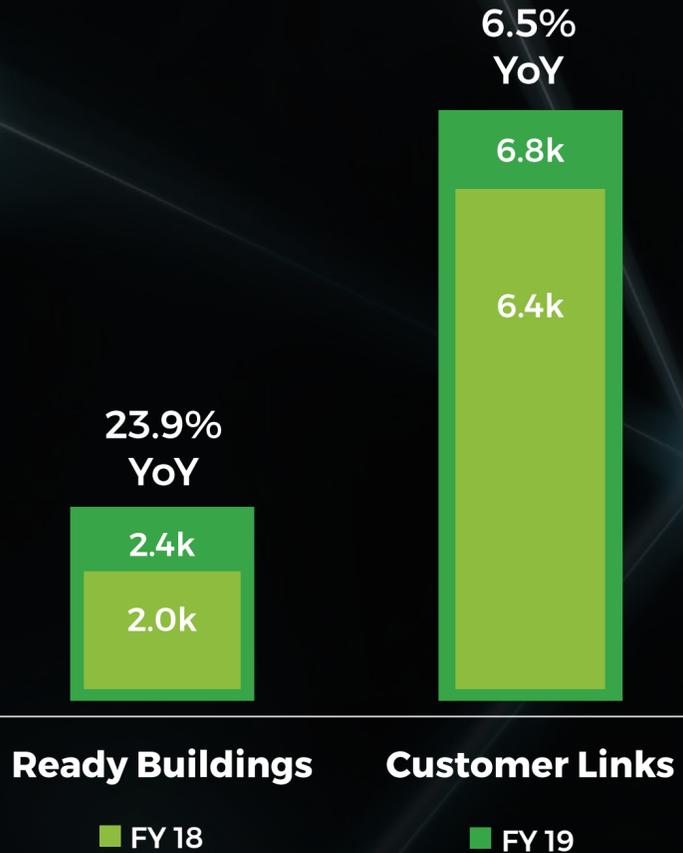
# FIXED SERVICE

## CONNECTIONS DRIVE REVENUE

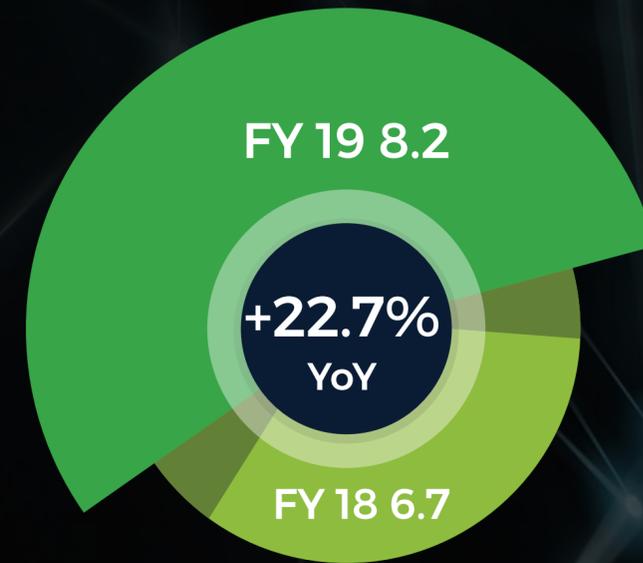
### FTTH



### FTTB



### Fixed Service Revenue (KShs Bn)



**FTTH ARPU** 2.7k (1.8%) YoY  
**FTTB ARPU** 24.0k (14.1%) YoY

FTTH/B: Fibre To The Home/Building



**Content Partnerships**



**Fixed Mobile Convergence**



**Smart Home**

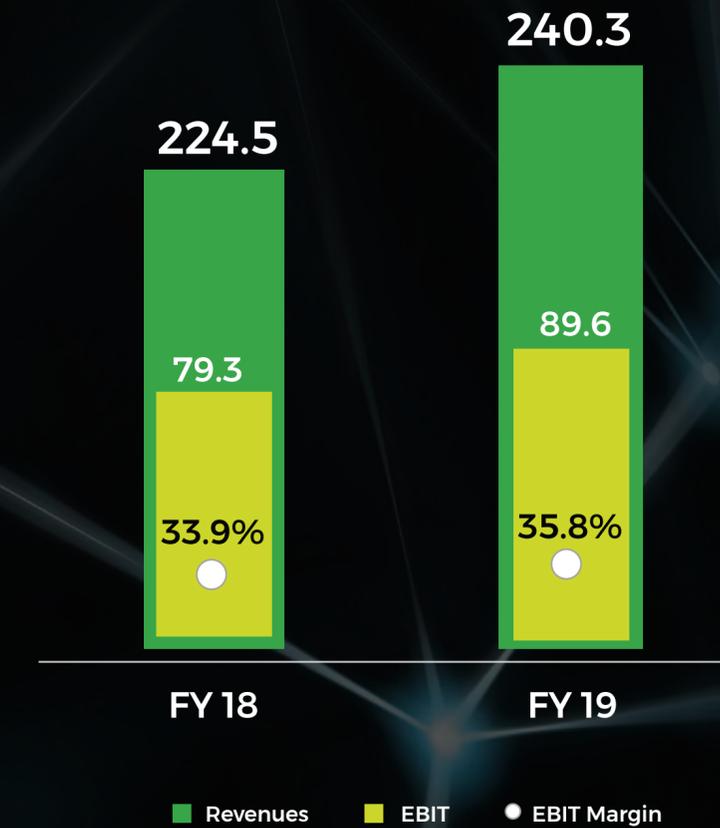
# EBIT

## STRONG PERFORMANCE DRIVEN BY REVENUE GROWTH AND COST OPTIMISATION

**FY 19 EBIT (KShs Bn)**



**Service Revenue and EBIT (KShs Bn)**

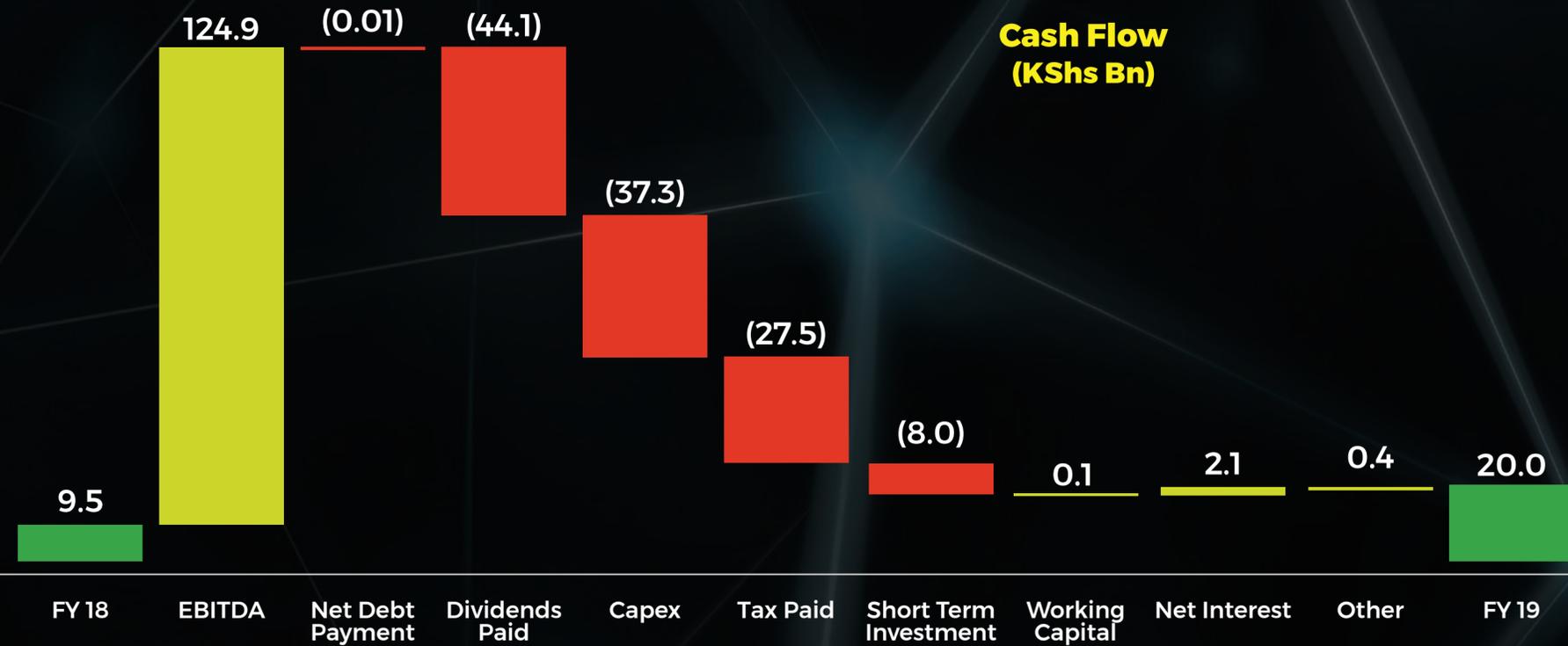


**EBIT margin improved 1.9ppts YoY**

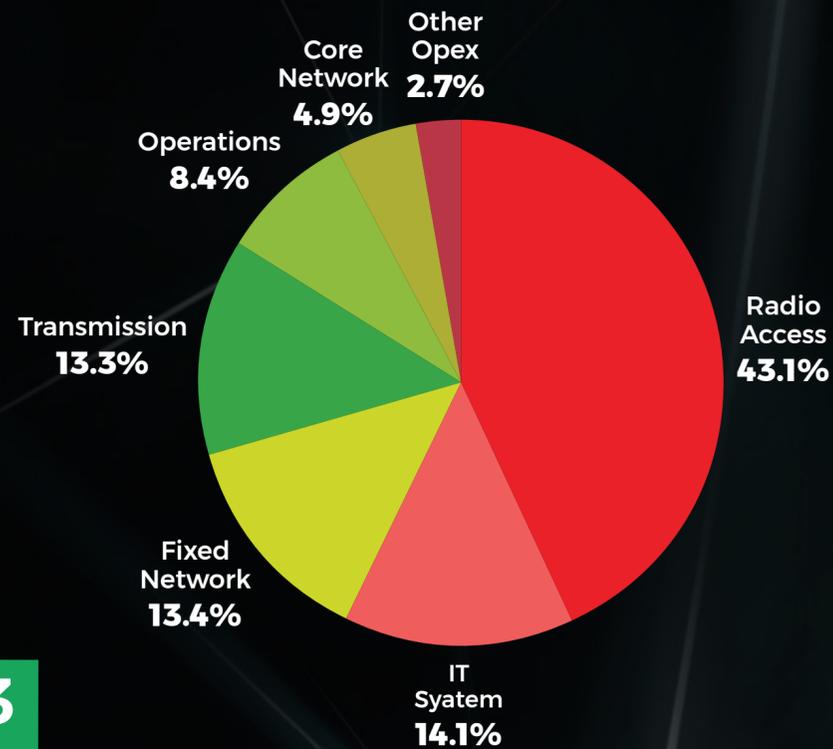
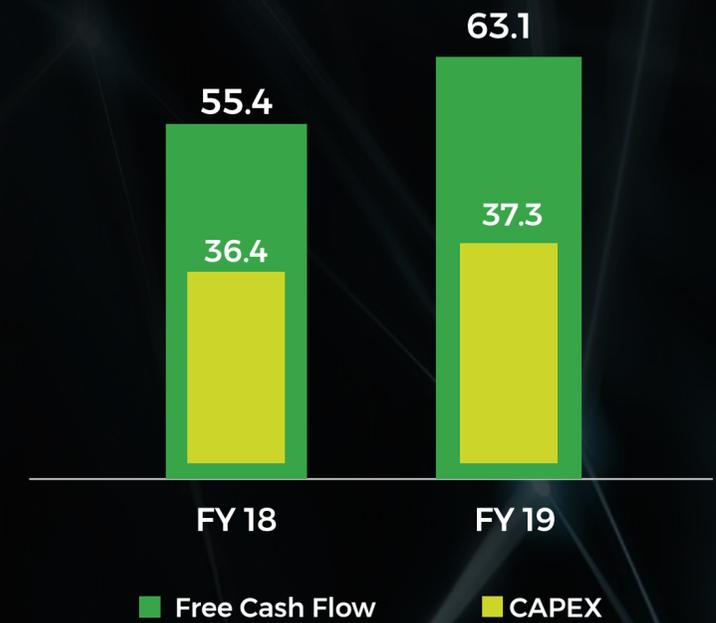
# CASHFLOW AND CAPEX

## IMPROVED FINANCIAL STRENGTH DESPITE CONTINUED INVESTMENTS

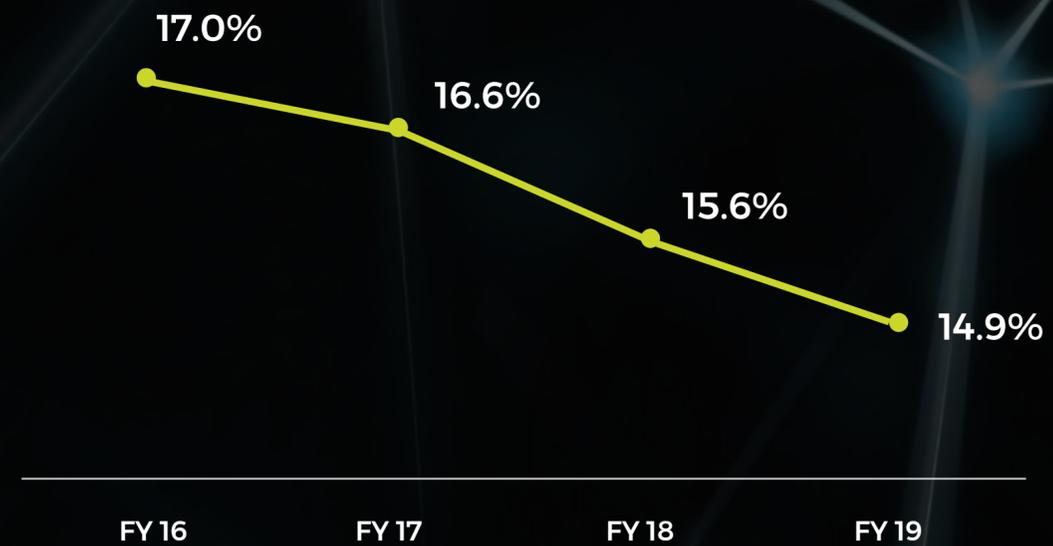
Cash Flow (KShs Bn)



Cash from Operations (KShs Bn)



Capex Intensity



# FY 20 GUIDANCE

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## EBIT

From  
KShs 89.0Bn

FY 20 Guidance  
**KShs 93-97Bn**

## Capex

From  
KShs 37.3Bn

FY 20 Guidance  
**KShs 36-39Bn**

Our guidance for 2020 reflects the adoption of the IFRS 15 and IFRS 16 accounting standards and excludes M&A and spectrum.

# FY 19 PROPOSED DIVIDENDS

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FY 18  
**KShs 44.07Bn**  
1.10 DPS  
13.4% YoY Growth

FY 19  
**KShs 50.08Bn**  
1.25 DPS  
13.6% YoY Growth

# FY 19 PROPOSED SPECIAL DIVIDENDS

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**KShs 24.84Bn**  
**0.62 DPS**



# Q&A

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A photograph of a man in a purple robe and white cap shaving another man's head outdoors at sunset. The man being shaved is sitting in a wooden chair, wearing a black protective cape and holding a newspaper. The background shows a sunset sky with silhouettes of trees.

# Appendices

\*Following the modified retrospective adoption of IFRS 15 - Revenue from Contracts with Customers on 1 April 2018, the Group's results for the year ended 31 March 2019 are on an IFRS 15 basis, whereas the results for the year ended 31 March 2018 are (as previously reported) on an IAS 18 basis. To ensure appropriate disclosure during the period of transition onto IFRS 15, numbers in slides 29-32 are on both IFRS 15 and IAS 18 basis and year-on-year comparisons are on an IAS 18 basis.

## Statement of Income | Key Highlights

KShs Bn	FY 19 IFRS 15	FY 19 IAS 18	FY 18 IAS 18	YoY% IAS 18 basis
Voice revenue (Outgoing and Incoming)	95.80	95.94	95.64	0.3%
Messaging revenue	19.61	17.50	17.72	(1.3%)
Mobile data revenue	36.27	38.69	36.36	6.4%
Fixed service revenue	8.10	8.19	6.67	22.7%
M-PESA revenue	74.99	74.99	62.91	19.2%
Other service revenue	5.00	5.00	5.24	(4.5%)
<b>Service Revenue</b>	<b>239.77</b>	<b>240.30</b>	<b>224.54</b>	<b>7.0%</b>
<b>Total Revenue</b>	<b>250.28</b>	<b>250.96</b>	<b>234.22</b>	<b>7.1%</b>
<b>Contribution margin</b>	<b>177.89</b>	<b>178.53</b>	<b>163.47</b>	<b>9.2%</b>
<i>Contribution margin %*</i>	<i>71.2%</i>	<i>71.3%</i>	<i>69.9%</i>	<i>1.5ppts</i>
<b>EBITDA</b>	<b>124.30</b>	<b>124.94</b>	<b>112.83</b>	<b>10.7%</b>
<i>EBITDA margin %*</i>	<i>49.8%</i>	<i>49.9%</i>	<i>48.2%</i>	<i>1.7ppts</i>
<b>EBIT</b>	<b>88.97</b>	<b>89.61</b>	<b>79.27</b>	<b>13.1%</b>
<i>EBIT Margin %*</i>	<i>35.6%</i>	<i>35.8%</i>	<i>33.9%</i>	<i>1.9ppts</i>
<b>Net Income</b>	<b>62.49</b>	<b>63.40</b>	<b>55.29</b>	<b>14.7%</b>
<i>Net Income %*</i>	<i>25.0%</i>	<i>25.3%</i>	<i>23.6%</i>	<i>1.7ppts</i>
<b>Earnings per share</b>	<b>1.56</b>	<b>1.58</b>	<b>1.38</b>	<b>14.7%</b>

\*Margin is calculated on total revenue less construction revenue and gain on disposals of fixed assets.

## Statement of Income | Service Revenue to Contribution Margin

KShs Bn	FY 19 IFRS 15	FY 19 IAS 18	FY 18 IAS 18	YoY% IAS 18 basis
<b>Service Revenue</b>	<b>239.77</b>	<b>240.30</b>	<b>224.54</b>	<b>7.0%</b>
Handset and other revenue	9.45	9.58	8.98	6.7%
Construction revenue	0.60	0.60	0.20	>100.0%
Other Income	0.46	0.46	0.51	(8.9%)
<b>Total Revenue</b>	<b>250.28</b>	<b>250.96</b>	<b>234.22</b>	<b>7.1%</b>
Direct costs	(71.79)	(71.82)	(70.55)	1.8%
Construction costs	(0.60)	(0.60)	(0.20)	>100.0%
<b>Contribution margin</b>	<b>177.89</b>	<b>178.53</b>	<b>163.47</b>	<b>9.2%</b>
<b>Direct costs</b>				
M-PESA Commissions	(22.26)	(22.26)	(19.76)	12.6%
Airtime Commissions	(11.01)	(11.01)	(11.42)	(3.6%)
Licence Fees	(10.06)	(10.08)	(9.34)	7.9%
Interconnect and Roaming	(7.55)	(7.55)	(7.05)	7.0%
Handset costs	(6.09)	(6.09)	(6.64)	(8.2%)
Customer Acquisition and Retention	(7.74)	(7.83)	(7.32)	7.0%
Value Added Services costs (Voice and SMS)	(6.29)	(6.31)	(5.99)	5.3%
Bad debts	0.01	0.01	(1.04)	(<100.0%)
Other	(0.80)	(0.70)	(1.99)	(64.8%)
<b>Total</b>	<b>(71.79)</b>	<b>(71.82)</b>	<b>(70.55)</b>	<b>1.8%</b>

## Statement of Income | Contribution Margin to Net Income

KShs Bn	FY 19	FY 19		FY 18	YoY%
	IFRS 15	IAS 18	IFRS 15	IAS 18	IAS 18 basis
<b>Contribution margin</b>	<b>177.89</b>	<b>178.53</b>		<b>163.47</b>	<b>9.2%</b>
Operating costs	(53.65)	(53.65)		(50.61)	5.8%
Forex Loss on trading activities	0.06	0.06		(0.03)	(<100.0%)
<b>EBITDA</b>	<b>124.30</b>	<b>124.94</b>		<b>112.83</b>	<b>10.7%</b>
Depreciation, impairment & amortisation	(35.33)	(35.33)		(33.56)	5.3%
<b>EBIT</b>	<b>88.97</b>	<b>89.61</b>		<b>79.27</b>	<b>13.1%</b>
Net Financing, Forex and Fair Value Losses	2.24	2.24		0.63	>100.0%
Share of associate profit/(loss)	0.01	0.01		0.01	-
Taxation	(28.73)	(28.46)		(24.62)	15.6%
<b>Net Income</b>	<b>62.49</b>	<b>63.40</b>		<b>55.29</b>	<b>14.7%</b>
<b>Operating costs</b>					
Repairs and maintenance	(0.31)	(0.31)		(0.28)	11.4%
Operating lease rentals'- Buildings	(1.21)	(1.21)		(1.12)	7.7%
Operating lease rentals'- Sites	(2.56)	(2.56)		(2.50)	2.5%
Warehousing costs	(0.32)	(0.32)		(0.32)	(0.6%)
Employee benefits expense	(16.86)	(16.86)		(15.15)	11.3%
Auditor's remuneration	(0.05)	(0.05)		(0.05)	8.0%
Sales and advertising	(7.20)	(7.48)		(7.22)	3.7%
Consultancy	(0.33)	(0.04)		(1.52)	(97.4%)
Site/facilities costs	(14.04)	(14.04)		(13.92)	0.8%
Travel and accommodation	(0.87)	(0.87)		(0.79)	10.6%
Computer maintenance	(2.22)	(2.22)		(2.25)	(1.3%)
Office upkeep	(1.40)	(1.40)		(1.35)	3.8%
Other operating expenses	(6.23)	(6.23)		(4.14)	50.4%
<b>Total</b>	<b>(53.59)</b>	<b>(53.59)</b>		<b>(50.61)</b>	<b>5.8%</b>

## Free Cashflow | Key Movements

KShs Bn	FY 19 IFRS 15	FY 19 IAS 18	FY18 IAS 18	YoY% IAS 18 basis
<b>Cashflow</b>				
Trading cashflow (EBITDA)	124.30	124.94	112.83	10.7%
Movement in inventory	(0.17)	(0.17)	(0.23)	(26.1%)
Movement in receivables	(2.10)	(2.04)	1.95	(<100.0%)
Movement in payables	2.20	2.14	2.77	(22.7%)
<b>Net Working Capital Changes</b>	(0.07)	(0.07)	4.49	(<100.0%)
Movement in contract liabilities and prov for other liabilities	1.22	0.58	0.00	>100.0%
Proceeds from disposal of Property, Plant & Equipment	0.25	0.25	0.00	>100.0%
<b>Operating Cashflow</b>	<b>125.70</b>	<b>125.69</b>	<b>117.32</b>	<b>7.1%</b>
Capital additions	(37.25)	(37.25)	(36.40)	2.3%
<b>Operating free cashflow</b>	<b>88.45</b>	<b>88.45</b>	<b>80.92</b>	<b>9.3%</b>
Interest received / (paid)	2.12	2.12	0.75	>100.0%
Taxation received / (paid)	(27.46)	(27.46)	(26.28)	4.5%
<b>Free Cash Flow</b>	<b>63.11</b>	<b>63.11</b>	<b>55.39</b>	<b>13.9%</b>