Results Presentation

For the period ended 30 June 2020 (H1 2020)

Cell C CONNECT YOUR WAY

Cell C's Turnaround
Strategy yields results

Cell C Interim Results

Call Presenters

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Chief Executive Officer

3 years in company
20+ years in industry

Zaf Mahomed
Chief Financial Officer

2 years in company
20+ years in industry

Agenda

1. Strategic Update
2. Operational Update
3. Evolution of the Telecoms Value Chain
4. Financial Results (for HY 30 June 2020)
5. Highlights
6. Balance Sheet
7. The Way Forward
8. Questions

Strategic Update

The big shifts shaping our performance

Focused turnaround strategy

Overall impact of the strategic focus is evident in this set of results as **new management team** continues to drive **positive change.**

1 Liquidity Focus

- Liquidity platform is in place.
- Strict liquidity protocols overseen by independent 3rd party.
- Informal debt standstill, current terms on hold while debt is restructured as part of recapitalisation.
- Continue to operate despite facing significant liquidity constraints.

Ongoing

2 Network strategy

- Actively driving 'The Age of Resource sharing'. Evolution of business from the capex intensive, infrastructure-based network to an aggregator of infrastructure.
- Successfully concluded Phase 2 MTN roaming agreement.
- Commenced implementation 1 May 2020. 36-month transition from Jan 2021

Complete

3 Operational Rationalisation

- Significant cost efficiency programme to optimise and right-size the cost base.
- Nearing completion of restructure process.
- Change in operating model - focused investment, partnering and a buyer of services, instead of build, buy and run everything.
- A shift in KPI's aligned to business model.

Ongoing

4 Recapitalisation

- Complex restructure.
- Multiple stakeholders.
- Good progress.
- Final step will be term sheets.

In Progress

CELL C OF THE FUTURE | Lean | Agile | Flexible | Responsive | Accountable | Resilient

Cell C CONNECT YOUR WAY

Spectrum auction

An interested party under the right conditions

1

The initial costs of spectrum through an auction must **not be a barrier to the end game.**

2

A catalyst for the industry and to **stimulate economic growth.**

3

As part of Cell C's network strategy it considers **high demand spectrum** a critical resource in addition to other spectrum bands for the provision of bundled data services in the digital era.

4

Digital technologies can enhance lives, improve education, drive financial inclusion and drive access to trade and public services, **it is a great enabler for South Africa.**

Cell C is an MNO not a super MVNO

Radio Network

MNO	vs	MVNO
✔ Cell C has the choice to change the network quality.	**Control over quality of service**	✖ Adopts same quality as Cell C.
✔ Cell C can choose to increase/ decrease coverage fooprint to deliver on ICASA regulations.	**Control over network coverage footprint**	✖ Adopts same footprint as Cell C.
✔ Cell C has control and use of own spectrum license.	**Spectrum license holder**	Not required
✔ Yes	**Spectrum license obligations**	None
✔ Cell C can independently direct network investment.	**Control over network investment**	✖ No

Core Network

MNO	vs	MVNO
✔ Yes	**Control over core/backhaul transmission services**	✖ No
✔ Cell C pays termination fees if calling an MTN subscriber while roaming on MTN.	**Own voice Interconnection agreements to terminate on other operators**	✖ Does not pay interconnect termination fees if calling the host network's subscriber base

Subscribers

MNO	vs	MVNO
✔ Cell C operates on its own IMSI range.	**Own IMSI range**	✖ Uses Cell C's IMSI range.
✔ Yes	**Own number range**	✖ Dependent on Cell C to allocate numbers.
✔ Cell C decides on its product and pricing strategy independently.	**Control over own retail products and pricing**	✔ Decides on its product and pricing strategy independently.

The way people live, work and shop is changing

Redesigning our Retail Model

Coupled with new operating model we are **reshaping our retail footprint** and consumer touchpoints.

30%

Lower retail footfall

18.4%

Increase in online activity

- 26.7% increase on app
  8.41% increase on website

A Hybrid Approach

- Combine digital, physical stores and retail partnerships.

Phased store closures

- Over 18 months as leases expire and/or are taken over by third parties

Operational Update

Cell C
CONNECT YOUR WAY

Market dynamics affecting operational performance

Macro-economic factors impacting consumer spend

- Contraction of GDP
- Unemployment at all time high
- Volatile exchange rate
- Recession

Competitive environment

- Evolving telecoms value chain
- Margins eroded due to price strategies
- Spectrum allocation – future auction

Black swan event

- COVID-19 impacts (and opportunities!)
- Need to be resilient, agile and flexible

Covid-19 Impact

Data volumes +25%
Outgoing voice calls +18%

As consumers stayed home, we noticed a considerable **increase in traffic** on our network

Upswing in adoption of digital platforms

We noticed **a larger volume of prepaid churn** due to COVID 19. This has normalised in Level 1.

Recharges contracted and bundle purchased increased this resulted in higher revenue for the period.

Contract churn wasn't affected and in fact lessened in the months of March, April and May.

Evolution of the Telecoms Value Chain

Understanding the shifts in our financial results

A fragmenting telecoms value chain

Regulations
The rise of mobile operators
1990’s

Licences
The emergence of fixed broadband
2000’s

Technology
The emergence of mobile broadband
Mid 2000s

New Services
The emergence of OTT providers
Late 2000s

Competition
Rise of infrastructure companies
+/-2015

Specialisation
Rise of fragmented telecoms value chain
2020’s

Source: *Africa Analysis*

Challenging the industry measurement paradigms

The Telco of the Past

1

Network focused

A **shift in metrics** and understanding of relevance to new models.

The future must **reflect value**.

2

KPI's have a life cycle

of subscribers vs profitability
Capex vs ROI
Margins

Cell C has a strategy

This set of results reflects the **transition**.

Future results will be measured on the **new model.**

Financial Results

For the period ended
30 June 2020

Items impacting reporting results

Once off

Expenditure once off – R5.5bn

- **Restructuring costs** / retrenchments of R64.2m as at 30 June 2020 (still ongoing)
- **Recapitalisation costs** - R100.9m as at 30 June 2020 (still ongoing)
- **Impairment** – R5.0bn
- **Network Site Restoration** – R247.6m

Rand value

Rand weakened from R14.04 (June ‘19) to R17.36 (Jun ‘20). This has resulted in **Forex loss of R1.3bn** in June 2020 in comparison to a loss of R0.2m as at June 2019.

R1.3bn

IFRS

Cell C **Implemented IFRS 15 and 16** as at 1 January 2019, therefore these standards are included in both H1 2019 and 2020.

Key performance indicators

H1 2020

-6%

vs H1 2019 Service Revenue

R6.5 Billion

-12%

vs H1 2019 EBITDA

R1.3 Billion

-2%

Gross Margin Increase

Service revenue decreased by 6% due to the change in company strategy to focus on profitable customers.

Decreased EBITDA is a result of the once-off restructuring and recapitalisation costs. Operational Rationalisation resulted in a **13% saving in Direct Expenditure** as compared to H1 2019.

Margins are stabilising.

Key performance indicators - Normalised

H1 2020

-6%

vs H1 2019 Service Revenue

R6.5 Billion

64%

vs H1 2019 EBITDA

R1.8 Billion

11.5%

Gross Margin Increase

Service revenue decreased by 6% due to the change in company strategy to focus on profitable customers.

Improvement in normalised earnings, EBITDA adjusted based on once-off restructuring and recapitalisation costs.

Margins are stabilising.

2020 Results Half Year

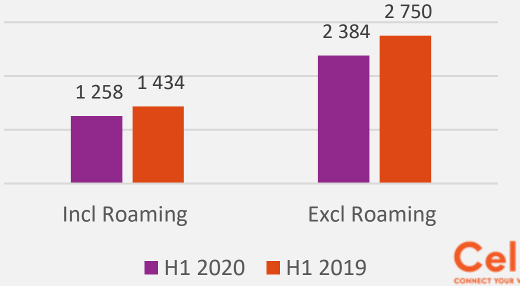
Summary of reported financial information

R'm	H1 2020	H1 2019	% change
Service revenue	6 542	6 972	-6%
Non-Service revenue	378	523	-28%
Total revenue	**6 920**	**7 495**	**-8%**
Gross margin	3 466	3 538	-2%
Gross margin %	50%	47%	3%
EBITDA	**1 258**	**1 434**	**-12%**
EBITDA margin %	18%	19%	-1%
Cash EBITDA	511	93	450%
Depreciation, Amortisation & Impairment	(6 512)	(1 344)	>-100%
Depreciation, Amortisation	1 418	1 249	-14%
Impairment	5 092	94	>-100%
Net loss after tax	**(7 598)**	**(875)**	**>-100%**

Notes & Comments

- Excluding once-off recapitalisation and restructure costs, EBIT for H1 2020 would have been at R162-million, an improvement of 80%.
- Generated R418-million more cash from operations compared to the previous period.
- An annual impairment assessment was performed and this resulted in an impairment of R5.0bn.
- Current year net loss after tax excluding the impact of impairment totals a loss of R2.5bn

Impact of roaming on EBITDA
(ZAR mln)



Highlights from H1 2020

Impact of the turnaround strategy

↑18%

MVNO Revenue Increase
Strong performance in this segment

↑18%

Increase in Overall ARPU
compared to H1 2019

↓13%

Direct Expenditure decrease

↓8%

Management of capacity purchase
due to maintaining profitable customers

Revenue Story

Maintained revenue while right-sizing the customer base

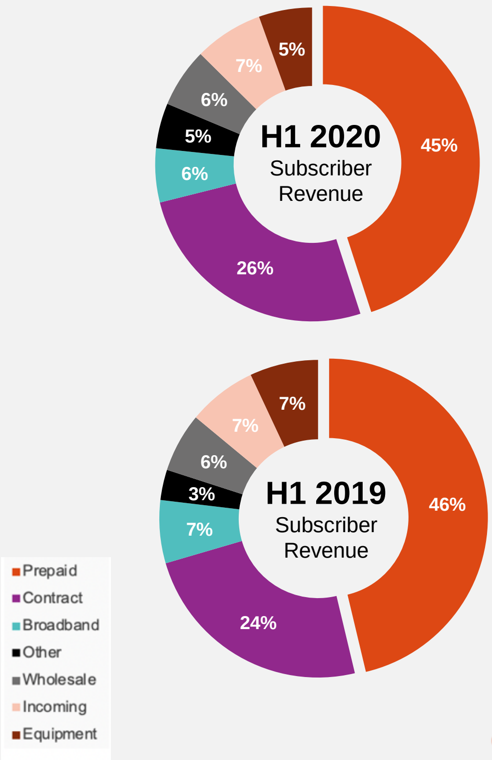
Revenue by subscriber type

Segment (R'm)	H1 2020	H1 2019	% change
Prepaid*	3 123	3 468	-10%
Contract*	1 805	1 814	-1%
Broadband*	383	481	-20%
Mobile revenue	**5 311**	**5 763**	**-8%**
Other^	321	231	38%
Wholesale	422	452	-7%
MVNO	399	338	18%
BSP	23	114	-80%
Incoming	489	526	-7%
Net Service revenue	**6 542**	**6 972**	**-6%**
Equipment	378	523	-28%
Total Revenue	**6 920**	**7 495**	**-8%**

- Segments of mobile revenue are net of volume discounts.
- ^ Other revenue is made up of FTTH, other bulk SMS, Content, Roaming revenue and Financial services.

Notes & Comments

Increase in other is due to 80mln roaming revenue incurred in the current year from MTN phase 2



Unpacking our Subscribers

Other key performance indicators

Thousand	H1 2020	H1 2019	% change
A3 prepaid base	8 350	12 782	▼ -35%
Contract base	968	1 131	▼ -14%
Postpaid Base	255	362	- 30%
Hybrid Base	713	769	-7%
Broadband base	335	412	▼ -19%
Wholesale^	2 066	1 939	▲ 7%
Total Subscribers	**11 719**	**16 265**	▼ **-28%**

YTD ARPU 'R	H1 2020	H1 2019	% change
Prepaid	66	52	▲ 27%
Contract	303	277	▲ 9%
Broadband	178	196	▼ -9%

^ - MVNO and BSP base.

Notes & Comments

- Prepaid base decreased by 35%. However, annualised ARPU increased 27%. Our strategy is focusing on profitable subscribers rather than subscriber base.
- Contract base decreased by 14% whilst ARPU has increased by 9%.
- Broadband decreased 19% whilst ARPU has decreased by 9%.
- Wholesale base increased by 7%. This is mainly due to the focus of reducing prices to remain competitive and attract more customers.

The SIM card washing machine

An analogy for the relentless chasing of subscribers for no value

Prepaid customer base decreased by **34.7%** YoY.

ARPU increased by **45%** YoY.

Gross margin for prepaid increased by **5%** YoY.

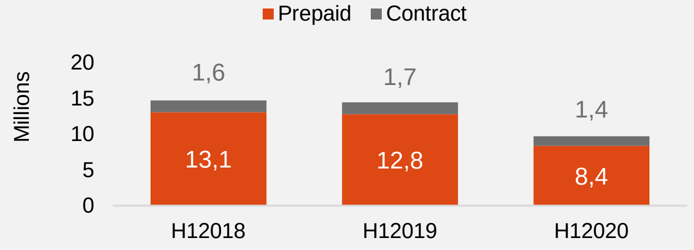
Direct costs decreased by **16.3%** YoY.

Notes & Comments

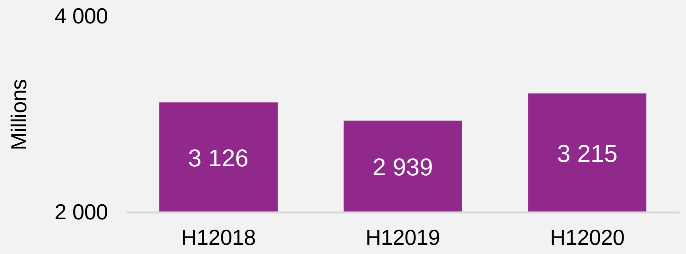
- Cell C's strategy has been to rationalise its subscriber base and retain profitable customers.
- # of SIMS in market is not a true measure of core subscribers.
- A SIM connection is not a sustainable and profitable customer.
- The cost of acquisition is ineffective and drives bad distribution behaviour.

A focus on profitable customers

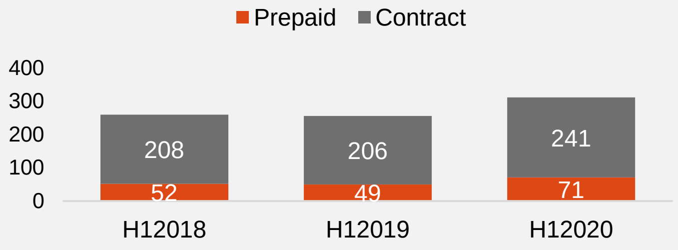
Subscriber Base Growth



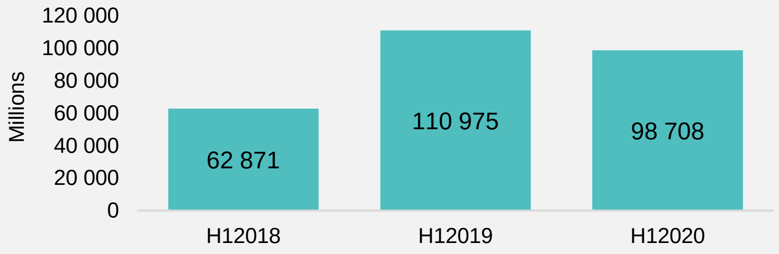
Voice Traffic



ASPU



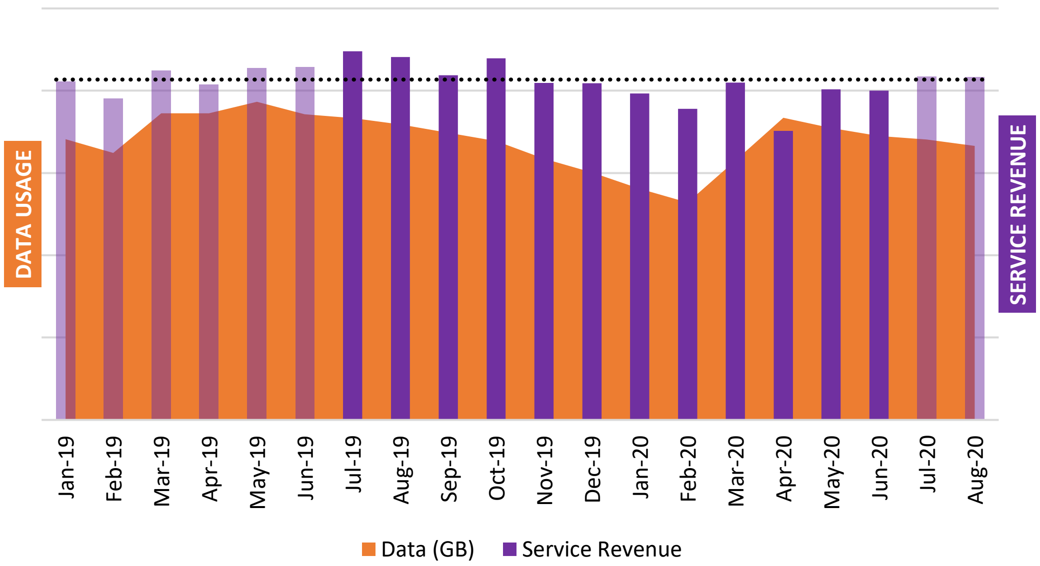
Data Traffic



Note: There was an increase in Data Traffic due to Covid, however when comparing YOY the reduction of 28% in total subscribers must be taken into account.

Optimising network traffic to improve profitability

Service Revenue vs Data Usage



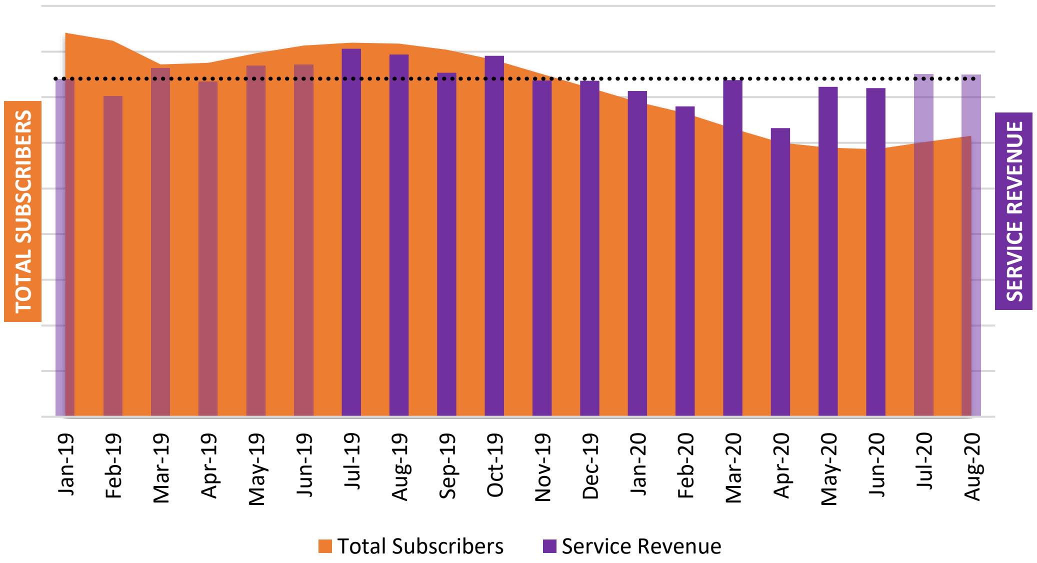
- ^ Data in GPRS

Notes & Comments

- The trend line is flat over period and in line with industry trends.
- Data Traffic reduced during the period. Data usage reduced by 11% YOY as at end June 2020.
- There was an increase in data usage in Q2 2020 as a result of the COVID pandemic.
- The lower revenue in April was specifically due to reduced gross additions as distribution channels were impacted as a result of lockdown restrictions.

Evolution of the customer base in pursuit of profitability

Service Revenue vs Total Subscribers

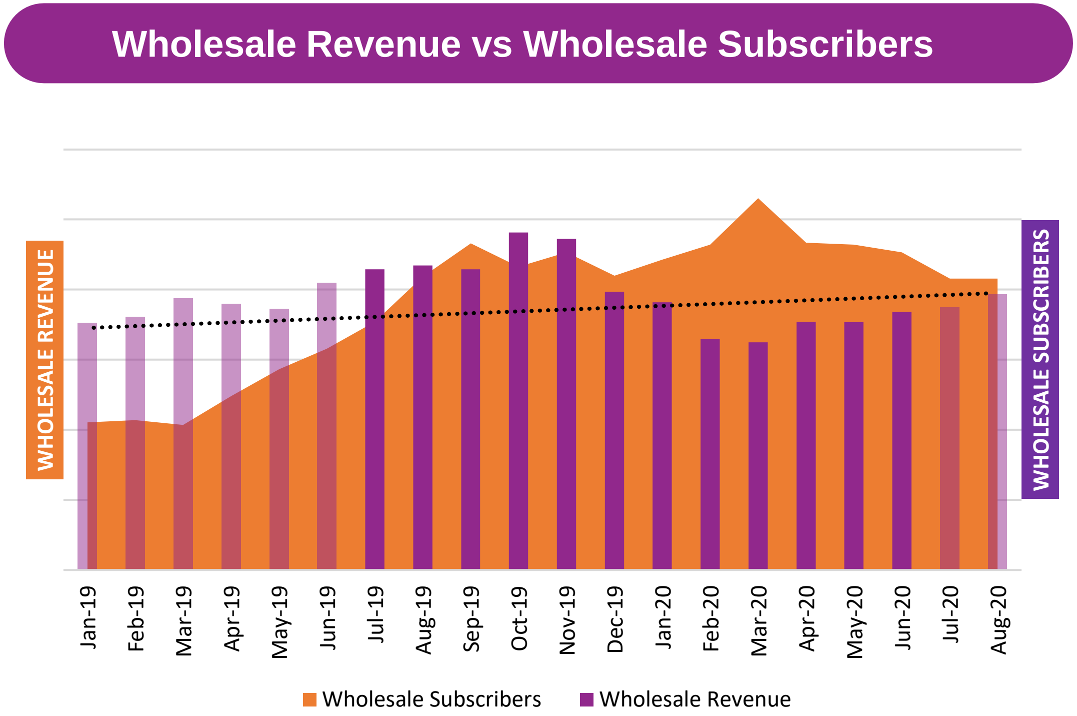


- Customer base excludes FTTH subscriber bases.

Notes & Comments

- We have been actively pursuing more profitable customers.
- Despite a reduction in the Cell C customer base, we have maintained and seen a slight increase in revenue based on the trend line.
- For the reporting period there was a 28% reduction in the customer base YOY but only 7% impact on revenue.

Robust Wholesale Model



Notes & Comments

- Wholesale revenue contributed **7%** of the total service revenue in H1 2020.
- The value proposition proposed by new MVNOs is creating new demand for subscribers. This has resulted in an increase in subscribers as indicated in the graph.

Expenditure story

Direct expenses were **13%** lower when comparing H1 2020 vs H1 2019, right sizing the operator for future growth.

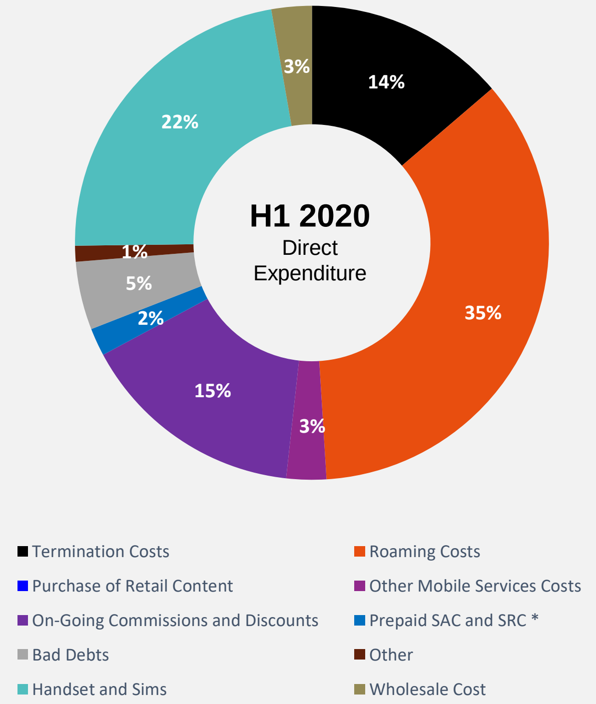
Operational expenditure

R'm	H1 2020	H1 2019	%change
Direct expenditure	**(3 454)**	**(3 957)**	▼ **13%**
Network Expenses	(730)	(440)	▲ -66%
Commercial Expenses	(317)	(597)	▼ 47%
Administrative Expenses	(1 186)	(1 203)	▼ 1%
Depreciation, Amortisation & Impairment	(6 512)	(1 344)	▲ >-100%

R'm	H1 2020	H1 2019
Capital expenditure	109	236

Capital expenditure

- Capital expenditure is lower than 2019 due to the prioritisation of the turnaround strategy.
- Expansionary capex ceased due to the MTN roaming agreement and current liquidity pressures..



Balance sheet story

Balance sheet

R'm	H1 2020	H1 2019	% change
Fixed Assets	2 055	12 452	-83%
Intangible assets	224	1 202	-81%
Trade receivables and other assets	5 405	4 610	17%
Total assets	**7 684**	**18 264**	**-58%**
Loans and borrowings	9 716	8 754	11%
Other liabilities and provisions	9 199	7 857	17%
Lease obligations	4 321	6 395	-32%
Total Liabilities	**23 236**	**23 006**	**1%**
Net equity	**(15 552)**	**(4 742)**	**>-100%**

Notes & Comments

- Decrease in assets is attributed to the impairment of assets in the current year.
- Weakening of the rand has resulted in higher FX losses that contributed to the increase in borrowings. Rand weakened from R14.04 (June '19) to R17.36 (Jun '20)
- The reduction in lease liabilities is due to implementation of MTN Phase 2.

Analysis of debt and finance cost

Description	Debt		Interest		F-X	
	H1 2020	H1 2019	H1 2020	H1 2019	H1 2020	H1 2019
Short term debt	9 716	8 754	477	458	1 162	-46
Finance leases	4 321	6 395	358	402	-	-
Other finance costs	-	-	172	133	180	46
- Other finance costs	-	-	35	67	-	-
- Discounting future cash flows	-	-	-	39	-	-
- Working capital	-	-	-	-	180	14
- Derivatives	-	-	-	-	-	32
- Other interest	-	-	137	27	-	-
Cash / interest income	-159	-345	-4	-26	-	-
Net debt excl. leases (net of cash)	**9 557**	**8 409**	**645**	**566**	**1 342**	**-**
Net debt incl. leases (net of cash)	**13 878**	**14 804**	**1 003**	**967**	**1 342**	**-**
Handset finance (off balance sheet)	1 666	1 868	77	110	-	-

Notes & Comments

- The cost of funding remains excessively high.
- Debt has not increased from 2019. No additional debt or drawdowns since 2019. The increase in debt is du to interest and FX incurred on the loan.
- Handset financing liability decreased due to not acquiring customers at any cost.

Breakdown of short-term debt

Description		Principal Debt H1 2020	Principal Debt H1 2019
Listed Bonds		3 493	2 611
CDB		2 487	1 897
ICBC	Unchanged in ZAR	1 171	1 047
Nedbank	Unchanged in ZAR	906	798
DBSA	Unchanged in ZAR	217	190
RMB/ABSA	Unchanged in ZAR	902	1 176
Capitalised Finance Costs		-6	-19
ZTE Bridge Vendor		192	147
Subsidy		354	907
	Total	**9 716**	**8 754**

USD/ZAR closing exchange rate of R17.36 as at 30 June 2020.

The Way Forward

The Cell C of the Future

From build, own and run everything ourselves to focused investment, partnering and a buyer of services

OUR FOCUS

Network strategy
Scalable and cost efficient

Platform-based solutions
Overlay quality **services**

Focused product & services offering
Leverage adjacent **technologies**

Superior customer experience
Embed **customer proximity**

Redefined positioning on the back of technology convergence

OUR POSITIONING

A digital solutions provider that leverages its telco platform

An innovative Disrupter

Positioning of new, non-traditional digital offerings beyond telco

HOW WE DIFFERENTIATE OURSELVES

Differentiate on providing innovative digital solutions on a scalable quality telco platform

A customer first service provider championing digital inclusion that enhances lives

CELL C OF THE FUTURE | **Lean** | **Agile** | **Flexible** | **Responsive** | **Accountable** | **Resilient**

Ranked **19th** in the 2020 **Most Valuable SA Brands.**

Continue to build a strong and relevant brand

Proudly South African company achieved **Level 2 BBBEE status**

Product innovation built on consumer insights and the best value bundles.

Launched the Innovation Challenge in 2019 to partner with SME's. 2020 entries currently being evaluated

Renewed Cell C Sharks **sponsorship**

The **CellCgirl online portal** is growing **and Take A Girl Child to Work** is in its 18th year.

Supporting **Data Scientists** of the future

Launched our **Summer Campaign** 'Change your Summer, Change your World'

Cell C CONNECT YOUR WAY

Immediate priorities

Successfully **conclude the recapitalisation.**

Leverage the recapitalisation quickly by **allocating capital and liquidity prudently** and driving change internally.

Manage costs tightly in the face of tough economic conditions.

Enable digitisation to benefit our customers and employees, including **reskilling.**

Finalise collaborations and partnerships and launch new propositions.

Questions?