Transcript of

MTN Group

Capital Markets Day

Session 5 – Financial Framework

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Nastassia Arendse
So, today's discussions, we've heard about strategy, we spoke about platforms, market execution. The final piece of the puzzle, ladies and gentlemen, this is the part where we want to talk about how we translate all of this into shareholder value. And to outline MTN's ***Ambition 2030*** financial targets and how we're approaching capital allocation as well as various aspects of it across the portfolio, I'd like to welcome to the stage Group Chief Financial Officer Tsholofelo Molefe.

Tsholofelo Molefe
Good afternoon, ladies and gentlemen. It's great to see you all here in person and online. And I must say that I think I missed the brief about consulting Selorm's grandmother, because I am quite sure that with all these investment requirements today, I should have received her wise counsel. But I want to leave the investors today and our key stakeholders with some level of confidence. I think it starts from the foundation that we have built over the last five years. And I think you will all agree with me that over the years we've seen very strong momentum across the organisation, lots of resilience despite very tough regulatory and macroeconomic conditions.

So, mine here today is really to translate how these investment requirements and the ***Ambition 2030*** strategy is going to translate financially, particularly in terms of growth, in terms of returns, in terms of cash generation, particularly to our investors. So, I just want to start with a few key messages. I will cover **five key messages** this afternoon. One is that we have delivered on our financial commitments for ***Ambition 2025***. Number two, we are sharpening the financial framework 2030, and we haven't fundamentally changed this financial framework. We're really just building on a solid foundation, particularly building four compounding drivers. As I indicated, it's about growth, it's about efficiency, it's about capital discipline and cash conversion.

And number three, our cash generation has become structurally stronger. Number four, returns are compounding above our average cost of capital, with return on capital employed significantly now above our weighted average cost of capital. And lastly, we have also stepped up on our shareholder returns, anchored on equity free cash flow, introducing the buyback policy, which as Ralph indicated, we intend to initiate by the fourth quarter of this year.

Before I look ahead, I think it's important to just briefly reflect on what we have been able to deliver under ***Ambition 2025***. We've delivered consistently across the strategic pillars. Service revenue, as you can see, with growth averaging 16.7%* over the five-year period. Margins expanded by 1.8 percentage points* amid a very tough economic environment as we indicated. 2023-2024 was particularly tough for us. Margins were underpinned by the R16.4 billion that we delivered in expense efficiencies. And capex remained disciplined with intensity of 17.6%. We also strengthened the balance sheet, reducing both the Group leverage as well as the HoldCo leverage by 0.5x and 0.9x respectively. And as we said, foreign-denominated debt also reduced by 32 percentage points to 16% from 48%.

Now, if I just move on into **the key financial metrics** that matter for us. As we step back and look at the last five years, you will see that our service revenue was strong on a reported basis, moving from R170 billion to R219 billion by 2025; margins expanding from 42.7%* to 44.5%* despite the macro headwinds that we experienced; and supported by the growth that we saw as well as the efficiencies that we continue with. EBITDA in absolute rand terms increased from R81 billion to R99 billion.

We invested with discipline and kept capex within the targeted range of 15% to 18%. Operating cash flow improved significantly from around R43 billion to R55 billion, showing that growth that we have delivered is converting into cash. And as a result, returns have improved, supported by both operational performance and disciplined capital allocation. So, the picture that you see here is very clear. We are growing while we are strengthening returns, while we're generating cash, and strengthening the balance sheet.

I just want to double click on **our free cash flow** because it has been a focus area for us over the last five years. As you can see, we generated approximately R82 billion in free cash flow, and we were able to upstream R80 billion from our markets. And this is despite the dip that we saw in 2023 and 2024, where, as Karl said, we had negative equity in Nigeria and we were not able to get any dividend out of Nigeria in those years. But we saw a recovery in 2025 with free cash flow rebounding to R26.9 billion following a stable macro recovery in Nigeria and the actions that we've been taking to improve the quality as well as the sustainability of our cash generation. And this is really, ladies and gentlemen, what gives us the conviction as we move now into the next phase.

Let me now turn to ***Ambition 2030***. At its core, our financial framework is a formula that has been simple and has worked for us over the last five years, and we will continue with it. As we indicated, we grow service revenue ahead of inflation because we continue to see structurally high demand for our services, particularly in data and in fintech. We will grow costs in line or below inflation, which also gives us operating leverage as those costs grow below revenue growth.

We will allocate capital with discipline to generate returns above our weighted average cost of capital and therefore resulting in improved and sustainable free cash flow. We are confident with the growth above inflation because the structural demand drivers remain intact. So, we do expect that data will continue to be dominant and is expected to contribute by 2030 over 55% of Group service revenue. Voice remaining resilient, as Selorm explained earlier on. While Fintech continues to scale, it is expected to directionally be over 20% of the revenue mix as advanced services pick up.

Other revenue – which includes digital, ICT services, wholesale and bulk SMS – is anticipated to contribute about 12% of the Group service revenue. We also expect margins to expand over the medium term, underpinned by ongoing cost discipline. We remain focused on accelerating the investments that generate returns across our networks and platforms, targeting return on capital employed of high 20%s and low 30%s over the medium term and capex intensity remaining within the 15% to 18% range. And as we said this will result in improved and sustainable free cash flow, and this for us is what underpins long-term shareholder value creation.

Now, if I can move on to **efficiencies –** a critical enabler for us into 2030 because it supports both margin expansion as well as cash generation. We are targeting R10 billion to R12 billion of expense efficiencies from 2026 to 2028. Importantly, this is broad based across operations, capital expenditure, as well as financing synergies. Now, if you look at our operational efficiencies, this represents the largest component. Firstly, we're looking at network optimisation here, which is really around legacy shutdown, and Selorm did explain that earlier on, and network efficiency improvements. This is about simplifying the network footprint, removing underperforming towers, and improving the utilisation.

Operational model simplification, which involves process re-engineering, workflow redesign, as well as IT rationalisation. And I think you picked that up from Ferdi's cost reset programme as well. A key differentiator in this phase of our EEP, our expense efficiency programme, is the use of AI, which is embedded into our operations, not really as a standalone initiative, but as a core enabler of how we run our operations. And Charles did elaborate on that. AI-led energy optimisation. AI-enabled network operations transformation, AI-driven fibre cut sensing, as he explained to you. Again, through AI, we're also looking at efficiencies through smart capex deployment with AI-enabled RAN optimisation, smart fibre access and network investment and so forth. So this will ensure that at least every rand of capital that we deploy is deployed more efficiently.

And then on procurement optimisation, which is important, we are also targeting renegotiation of vendor contracts as well as unit cost reduction actions because these deliver more immediate and tangible savings while also improving pricing discipline across the Group.

On financing synergies, we are anticipating roughly about 100 to 200 basis points savings in financing costs from the refinancing and interest cost optimisations. And of course, this is particularly dependent on the closing of our IHS transaction. As we've indicated, IHS does come with some debt stack that will be maturing that we will need to refinance.

Going on to the next slide, it's important to also share with you how we are **managing the energy price shocks** that will come, particularly due to the geopolitical impacts, as energy is a material component of our cost base. As you can see, energy represents approximately 15% to 20% of total opex. Within that, we've got the diesel component that roughly contributes about 10% to 15% of total opex, with around 80% of that exposure concentrated particularly in Nigeria. So, from a sensitivity point of view, a 10% increase in diesel price translates to approximately between 0.4 percentage points and 0.7 percentage points impact on the Group EBITDA margins. And this is before any mitigations are implemented.

However, as you can see on the right-hand side, we are actively managing the risk through ongoing efficiencies and other multiple levers, which as you can see, we're looking at resilience and infrastructure, which is really a critical part of our overall solutions. We're actively looking at shutting down loss-making and low-efficiency sites, enhancing battery storage across the network, improving energy resilience at a site level. I've talked about procurement discipline earlier. It is very important, as well as managing fuel security. Bulk procurement strategies, fixed pricing arrangements are important because these improve predictability and reduce the short-term price volatility.

Third, on alternative energy transition, we are scaling alternative energy solutions to reduce reliance on diesel over time in our markets. And finally, also under focused risk management, we have implemented multi-vendor supply and emergency agreements. And this is really a critical control for us that does ensure that we are not dependent on one single vendor, but particularly in those markets where we see that the supply disruption risk is higher. So, this is not only about cost optimisation. It's really about ensuring continuity of operations under really stressed conditions for us.

Now, if I can touch on the **capital allocation framework**. I won't go through the detail. I think you are all aware of the priority order. Suffice to say here is that we have a very clear disciplined capital hierarchy, which is about investing in areas that give us reasonable returns. We want to continue to protect the balance sheet. Returns to shareholders is a key component of our capital allocation framework and as we've indicated we've introduced the buyback programme and our shareholder remuneration is now anchored on equity free cash flow.

And as Ralph indicated, selective M&A transactions are very important, as and when they arise, but we obviously make sure that we assess them very robustly from a financial assessment as well as risk assessment criteria. So, this framework really ensures that the capital is allocated in line with the ***Ambition 2030*** that we will be delivering on.

So, having outlined the capital allocation framework, let me just show how this now translates into **capex deployment as well as funding**. We expect to invest approximately between US$2 billion and $2.5 billion per annum over the ***Ambition 2030*** period. And this again, we have included some requirements for IHS, but it is de minimis and it relates to tower maintenance. We are stepping up investment in IT and digital infrastructure to accelerate ***Ambition 2030*** while continuing to invest in connectivity as we have been doing.

So, you'll see that on Connectivity there, we will be spending about 60% of the total envelope and will continue to invest in 4G and 5G expansion as well as network modernisation. A key part of our growth in Connectivity, as we indicated earlier, is also accelerating the home, which then underpins the core of our business. For Fintech to scale, we also need to invest in platform capability, as well as the digital ecosystem development. And lastly, on Digital Infrastructure, the investments will be in fibre, which is mainly long-distance fibre, subsea cables, data centres, as well as maintaining the towers post the acquisition.

And you can see on the left-hand side that we have now a very clear allocation around these areas. And what's important to mention here is that this is now a strategic shift to support ***Ambition 2030.*** Where in the past we were allocating close to about 70% to 75% towards network and connectivity, as I indicated, you now see that it's at 60%, with IT making up now 15% of the total envelope, and around 12% towards Digital Infrastructure. And Fintech, which is really capex light here but obviously very important for us from a scaling perspective, makes up about 6% of the total envelope.

Now, in terms of how we are funding this, we have a very clear strategy on how this will be funded, and you can see that on your right-hand side. For Connectivity, for us, it's important that, because it's capital intensive, we fund it through a combination of cash generated from operations, debt funding, as well as equity or even strategic partnerships. For Fintech, which is high-growth and asset-light, we will be using internally generated cash as well as strategic partnerships to match the capital structure with the investments that we are making.

Digital Infrastructure, Mazen has touched on some of it as well, is that we will be looking at a combination of JV partnerships as well as debt funding. So, partner capital will be important as we now start thinking about greenfield data centres, and this is important for us for managing the health of our balance sheet. And importantly, across all of this, we do maintain a clear commitment that our Group net debt to EBITDA ratio will be at or below 1x over the medium term.

Just a bit of recap on the **IHS pro forma financial effect**. We shared this with you when we released our Q1 results. And as we said, the proposed transaction is expected to be earnings and free cash flow accretive and does support our long-term Digital Infrastructure strategy. So, as we've previously also communicated, the debt stack in IHS as well as the acquisition funding will result in an uplift in our Group leverage, but our expectation remains that the leverage will return to targeted levels within two to three years. So, importantly, financing synergies are expected to be realised on an ongoing basis over the tenure of the debt. So, we will actively manage that through funding optimisation, refinancing strategies, as well as interest cost reductions.

Now, how do we unlock this for shareholders? We have already communicated to you our **enhanced shareholder remuneration framework**. We have linked it to distributions more directly to free cash flows and equity free cash flow specifically, and we've also introduced the share buyback as I said. So, just as a reminder, we are targeting a minimum of 40% to 60% of equity free cash flow with up to a further 20% through buyback programme as Ralph mentioned earlier on.

So, ladies and gentlemen, I think it's important to share with you some of these points that I would like you to **take away**.

We are targeting service revenue growth ahead of inflation with the medium-term growth expected to remain at least in the high teens, supported by structurally high demand for our services across all our markets. We also see a clear path to sustained margin expansion, supported by our ongoing efficiency programme with a targeted R10 billion to R12 billion, with AI and operational simplification playing a significant part for us going forward.

And this is obviously from an already-improved EBITDA margin of 44.5%* that we delivered in 2025. Returns have also strengthened meaningfully with a return on capital employed compounding from 18% in 2021 to 27%. And as I indicated we are ramping that up, targeting low 30%s over time, well above our weighted average cost of capital across the cycle.

Ladies and gentlemen, that brings me to the end of my presentation. It's important also to mention that the balance sheet remains in a position of strength, so it gives us a very good foundation for us to be able to invest in the future going forward. And again, shareholder remuneration is a key priority for us, and we will deliver on those commitments. I'll now end my presentation.

Nastassia Arendse
This is the moment where you get to engage with both Ralph and Tsholo. And we do have some of the other leaders who are still in the room. Ralph, please join us on stage and Tsholo. There is a question over here.

Pallavi Ambekar
Thank you for the very informative Investor Day today. My question relates to what Charles presented on the AI deployment in MTN Group. A lot of emphasis on the benefits from AI Inside in the Group, and how certain you were of those benefits. Can you maybe talk a little bit about the B2C, I mean the AI to consumer deployment? Because I think the AI Inside is almost table stakes for a company like yourselves. What will actually entrench your moat is if you use your customer data to enhance their offering. So, if you could just talk a little bit about that. Where do you see the most upside potential? Is it the connectivity or telco side of your business? Or is it the fintech side of your business? Could you give us some examples of what you're thinking of there? Thanks.

Ralph Mupita
As you say, Pallavi, AI Inside is probably table stakes, but I think the point Charles wanted to make was as MTNers we have got to practice what we preach and what we take out to the markets. I think there are a couple of areas on AI to consumer. I think the hyper-personalisation is a pretty straightforward one. Ferdi spoke about the challenges in South Africa because of intermediation and the fact that we want a much more direct. Actually, in the rest of Africa, we have that much more direct, because most of the top-up is from the bank channel, so we know the customer. So, I think the hyper-personalisation, the kind of more-for-more type offerings, that should drive more value across the piece.

And in the Fintech space, I think the big thing we've got to deal with is fraud detection. Fraud is a big issue. We have all the social engineering happening. You heard the stories in Ghana. Some of these stories are quite unfortunate. People lose wallet balances through social engineering. It undermines trust. So, I wouldn't say there's more of Connectivity versus Fintech. Hyper-personalisation, Fintech much more on the fraud side.

The one area that I'm personally excited about, I'm sure most people are enthusiastic about, is revenue assurance. So, most telcos lose about 3% of revenue from fraud. I think everyone has accepted that there's at least 3%. Now if you see Tsholo's number R219 billion, and you improve that by 1%, it's a meaningful amount. So, I'm quite keen on that, because there's a lot of revenue leakage that has been accepted by telcos as 'well, this is normal'. I mean, you improve that by one percentage point. For me, it's the hyper-personalisation and on the fintech side, fraud detection and dealing with the social engineering issues which could undermine the brand.

Nastassia Arendse
Any other questions?

Nadim Mohamed
Nadim Mohamed from Standard Bank Securities. Just on your Digital Infra ambitions, I noticed on the capex slide, you're looking to allocate 15% to 18% of capex to Digital Infrastructure. A rough guesstimate, that sounds like you could build about two, maybe three data centres of the size of the Dabengwa Data Centre over the next few years? Is that sort of your ambition? And secondly, what does the return profile look like of these Digital Infra investments relative to your normal capex and your other Fintech capital allocation priorities?

Ralph Mupita
I think you did the maths very quickly. And your maths is right. We're taking a phased approach. So, we speak about phase one. 80 megawatts to 150 in phase one, demand-led. We're saying to Mazen, yes, you want to build them. We'll start in Nigeria and South Africa, to be clear. So, that capacity that we talk about phase one, we said we're going in markets where we're strong, where we see the workloads, and the opportunity, it'll be Nigeria and SA. Let's complete phase one, and we'll come back and talk about phase two. There's no ability to fund a one gigawatt data centre, certainly right now. So, you're talking about two, one in South Africa, one in Nigeria, phase one.

Yeah, I guess Charles spoke to some of the issues that we've got to think about. Can you deal with these tokens per watt per user? The economics are going to be important. But I think the most important thing is we're anchoring it with our own workloads. So, we anticipate we're going to go into a partnership. The partner, this is what they do. They understand how to build data centres. We'll partner them. We'll have a minority stake. What we are bringing is our own workloads, our own connectivity to customers, particularly the enterprise customers. So, our formula right now is we'll be a minority shareholder in these data centres. You saw the R1 billion to R2 billion. We are on that minority range of equity investment. But we will be bringing in our workloads so that we can monetise kind of day one, demand-driven. We want to make sure that we can anchor it with signing up, for example, the hyperscalers to come in. So it's like building a big retail mall in Sandton. You won't do it without big retailers already anchoring. So, we need in these to anchor decent workloads beyond ourselves as we build. But as I said, phase one, anticipate that you'll see it in Nigeria and South Africa.

Tsholofelo Molefe
So, just to clarify the capex envelope that you're seeing there, to Ralph's point, partner capital for greenfield data centres. So, what you see in the Digital Infrastructure, the 12% is the combination of the fibre, the subsea cables, brownfield data centres, and a bit of the tower maintenance. So, there isn't greenfield data centres accommodated in that because obviously we're taking a minority share.

Nastassia Arendse
I'm going to read this question that come through. What is the free cash flow accretion of the IHS deal? Any colour/ moving parts you can share there would be appreciated.

Tsholofelo Molefe
Yeah, so I think it's in the presentation that I gave. I did give some of the numbers there. And I think Roy can give you more detail after this, but it's in the presentation that I shared there in terms of the pro forma financial effects.

Nastassia Arendse
Perfect. Over to you.

Preshendran Odayar
It's Preshendran from 36ONE. So, just a similar question to what Nadim was talking about, capex and infrastructure. And just looking back onto fibre, you mentioned that you want to go from 140,000 kilometres 3x by 2030. If I look over the last five years, you went from 85,000 to 140,000 kilometres. Probably all of that is your own build. So, my question is leading on, is that fibre going to come from your own build because your capex envelope is going to be very, very stretched to meet that? Or the more leading question is, are you going to look at buying a fibre operator?

Ralph Mupita
No, we can't put into our own plans inorganic of that nature. I think Mazen kind of alluded to it. The Africa50-type partnerships, we will do more of those. ProjectEast2West. Particularly if we're going across the continent. The continent needs a lot more fibre for the growth in data traffic, needs more resilience. There are a couple of choke points which are quite risky for us in the long term, concentration of fibre cables in the Middle East and actually in West Africa. So a lot of that will be partnership-driven. And I think you need to think of both the Fintech as well as Digital Infra as these are spaces that we think we are well aligned to doing partners. Partner capability and partner capital. We won't build out 3x from 144,000 all our own balance sheet and still maintain the envelope.

Nastassia Arendse
I'm going to take one more question that's come through here. And it relates to South Africa: are you currently prioritising growth, market share recovery or returns? And if those objectives were to come into conflict, which one wins?

Ralph Mupita
It's the tyranny of 'and'. I think people like to think about 'or'. At MTN we say it's 'and'. So, I mean, we want growth with returns. And what Ferdi was talking about is we're not chasing growth for growth's sake. We are chasing quality growth in South Africa. South Africa, we feel, is becoming more like Europe. And what you see in Europe is what we anticipate we will see here. Europe went through a period of pressure on the telcos. And that pressure eventually released, probably a year or two ago, pretty much driven by market consolidation and the ability to lift up prices. So, in South Africa, we're saying to Ferdi, Dineo, Yolanda and the broader team take the hard medicine now, which is to take this structural cost reset. It's very painful, but I think it's necessary medicine, because it's not an attractive market in aggregate if you think about what South Africa should be generating.

So, it's not a trade-off. You've got to ultimately deliver both. And as Ferdi said, what South Africa does is provide us with a foundation. Yes, we've got growth vectors ex-SA that are part of our equity story. But what you do want is an SA that is generating enough cash flow to fund the debt at the centre, to be a base on the Group dividend, to finance the Group overhead, and that's not a small thing to do. So, it's not a trade-off, it's an 'and'.

Nastassia Arendse
All right. Just checking one last time. Any questions?

Nhyira Asante
Hi, this is Nhyira Asante from Barclays. I just wanted to ask, post the IHS deal, is MTN then looking to consolidate any other tower infrastructure assets within the markets that you operate in?

Ralph Mupita
I think the IHS deal is going to be a bit like eating an elephant for us. We have to raise external financing to do the transaction, US$1.1 billion. So, that's priority one. On the fourth part of Tsholo's capital allocation framework we have M&A that's value accretive. If there was an opportunity that came and we thought was compelling, we would consider it. So, there is not a strict, 'no, we won't look at it'. But it's a high hurdle test to get to that point. So right now, the IHS transaction makes

Commented [HG1]: Confirm this is dollars – I understand it to be. Ralph didn't mention the currency in the audio sense for us. Five markets, 100% overlap, 70% of the customer revenue is MTN. The other 30% is very important third-party clients. So, there isn't kind of a plan beyond where we've got to now, but you know we'll remain open if the opportunities do arise.

Nastassia Arendse
We are going to close this Q&A session. If there are any other questions that you have that are left unanswered, and perhaps maybe you want a little more one-on-one time with the other leaders as well, we can do that after this session. Thank you so much.

**In constant currency.*
End of session 5.
Edited for accuracy.

END OF TRANSCRIPT