Helios Towers
Q3 2024 Results

Thursday, 7th November 2024

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Highlights

Tom Greenwood

Chief Executive Officer, Helios Towers

Hi everyone and welcome to the Helios Towers Q3 2024 Global Investor Call. I hope everyone is doing well and thank you very much for your time today. We are very much looking forward to giving you an update of our strong progress year-to-date, our FY24 outlook and a look into FY25, which very much continues within our disciplined growth and capital allocation framework.

On page two we have got the usual line up of me, Tom, Manjit and Chris. We will cover the business, strategic and financial highlights, and then be open for Q&A at the end.

Highlights

Tenancy additions ahead of expectations

Moving now to page five. The business continues to strongly move forward with, now, over 2,000 tenancy additions year-to-date and a tenancy ratio of 2.04, making clear progress towards our 2.2 by 2026 target, and with the outperformance so far this year being driven from Tanzania and Oman. We continue to see strong demand across all three key drivers, being coverage gaps, capacity gaps and 4G/5G technology upgrades as data consumption continues to increase exponentially. It is forecast that data consumption in Africa and Middle East will increase by four times by 2028, driven by the increasing access to smartphones and the behavioural shift towards streaming, lifestyle, social and AI applications. Our laser focus on operational delivery in terms of site power uptime at 99.99% and speed of rollout means that we are able to continue supporting all our customers' needs of network quality and coverage to ensure the populations in our markets are served well for all their growing mobile communication demands.

Continued adjusted EBITDA growth and ROIC expansion

Our tenancy growth and tenancy ratio expansion continues to be the key driver for our financial metrics growth; year-to-date EBITDA up 16% year-on-year, ROIC up 1 percentage point to 13% and leverage down 0.3x.

FY24 guidance updated

In terms of our full-year '24 guidance, we are expecting to end the year strongly with a touch above 2,400 tenancy additions, EBITDA coming in top of the range at around $420 million, representing a 14% year-over-year increase, leverage below 4.0x and free cash flow neutral.

The continued delivery on these metrics very much reflects our disciplined capital allocation policy, which is focused on equity value creation, high quality double-digit enterprise growth, reducing leverage, and this year being the inflection point on free cash flow, turning the business from historically being high investment and negative free cash flow to being free cash flow generative from next year, whilst continuing with the high-quality growth. All of this being underpinned by $5.3 billion worth of future committed revenue, equated to just over seven years of remaining leases before renewals, which provides the business with a very strong base off which to grow.

KPIS Expected to Meet or Exceed High-End of Prior Guidance

Organic tenancy additions

Now moving to page six. We see strong and consistent progression on all the key metrics here. As you can see, we expect tenancy additions momentum to continue at a similar rate to last year at around 2,400, with the majority of these being colocations, thereby driving tenancy ratio up to the 2.04 that you see today.

Adjusted EBITDA

EBITDA growth this year of 14%, reflecting a $50 million increase in EBITDA this year which is all organic. This is actually 10% higher than the organic component of growth last year, which was $46 million, the balance last year being the inorganic growth from the Oman and Malawi acquisitions coming through for a full year.

PFCF and ROIC

Finally, the EBITDA growth continues to drive ROIC upwards by around 1 percentage point this year, which now very much starts to be above our WACC to generate real value, consistent with this year being the free cash flow inflection point.

Tenancy Ratio Expansion Driving ROIC and Free Cash Flow Growth

Moving now to page seven, where we see the progression and the execution of our strategic plans over the past few years and beyond. Following the expansion strategy in 2021 and '22, which saw high investment and negative free cash flow to double our platform, we see our organic strategy to drive tenancy ratio, cash flow and returns really starting to deliver now, with tenancy ratio up 0.23x and ROIC up almost 3 percentage points since the end of our acquisition trail in 2022. Consequently, we see the negative free cash flow reversing from -$700 million in 2022 to zero this year and growing thereafter, all pointing to increasing equity returns through continued ROIC expansion and leverage reduction as we continue with the momentum towards our 2.2 tenancy ratio by 2026.

Continued Delivery with FY 2025 Targets in Accordance with our Disciplined Capital Allocation Framework

Optimised organic adjusted EBITDA growth, ROIC expansion and deleveraging

On page eight we show our capital allocation framework very much being delivered and continuing into FY25. Our key focus remains high-quality and high-returning organic growth, characterised with tenancy ratio expansion each year towards our 2.2 by '26 target, double-digit EBITDA growth and ROIC expansion of 1 to 2 percentage points each year. We continue to focus on leverage reduction of around half a turn each year, which will see us sub-4 this year and around 3, 3.5 by the end of 2025. By 2026, with another half turn of leverage reduction, we expect to be around 3x leverage, which opens the door for potential investor distributions at that point. M&A remains the lowest priority for us in our capital allocation framework, and although we continue to monitor the market we do not expect anything material within this timeframe.

All in all, very much on track and disciplined in terms of our capital allocation framework, delivery against strategic objectives and drive for equity value creation.

With that, I will hand over to Manjit and look forward to talking with you at the Q&A.

Financial Results

Manjit Dhillon

Chief Financial Officer, Helios Towers

Thank you, Tom, and hello everyone. It is great to be speaking with you all again.

Operational & Financial Highlights

Starting on slide ten, I will be going through the financial results. We continue the strong momentum from H1 into Q3, driving tenancy rollout and lease-up, which resulted in progression against a number of financial and non-financial metrics, as set out on this page, and I will be drilling into that detail now over the next few slides.

Q3 2024: Consistent and Strong Tenancy Additions Driven by Structural Growth, Leading Market Positions and Customer Service Excellence

Moving on to slide number 11, our sites and tenancy growth.

Sites

From a site perspective, we saw our sites grow 2% year-on-year, representing an incremental 223 sites and 150 sites rolled out year-to-date. We are very selective in our approach to new site rollout, ensuring that sites have clear potential for lease-up, and try to partner with MNOs to identify and build in the most attractive locations. We will continue to allocate capital on site builds as they help to expand and densify mobile networks, offer attractive returns and build the base to which we can drive further lease-up.

Tenancies

From a tenancy perspective, we added 2,397 tenancies year-on-year, that is a 9% increase. Driven by Oman, which has added over 800 tenancies alone, and Tanzania.

Tenancy ratio

Our tenancy ratio now is 2.04x and that is tracking very well to our 2.2 tenancy ratio target by 2026, following a 0.14x tenancy ratio expansion year-on-year.

Q3 2024: Tenancy Additions Delivering +11% Adjusted EBITDA Growth

Moving on to slide 12. We have seen revenue and EBITDA growth predominantly driven by tenancy additions, which I have just spoken about, and we have seen revenue growth of 6% and EBITDA growth of 11% year-on-year, with Middle East & North Africa and Central & Southern Africa delivering year-on-year EBITDA growth of 31% and 19% respectively. Our EBITDA margin increased by 2 percentage points to 54%, again predominately driven by colocation lease-up and operational improvements, and also due to Oman, a high-margin market growing fastest.

Adjusted EBITDA Growth is Highly Correlated to Tenancy Additions and Resilient to FX, CPI and Power Price Movements

On to slide 13, and here we present the usual analysis showing the key drivers of revenue and EBITDA growth in more detail. As with previous results presentations, the key driver of growth has been tenancy additions, with the escalators effectively working to offset macro movements to protect our EBITDA on a dollar basis. This is shown clearly on the two bridges presented

here, with power, CPI and FX broadly offsetting one another to ensure growth is being driven predominantly by tenancy additions and operational improvement. Six per cent revenue growth from organic tenancy additions drove 6% revenue growth year-on-year, 9% EBITDA growth from tenancy additions being the predominant driver of 11% EBITDA growth year-on-year. In short, the analysis here continues to demonstrate that our business continues to operate as designed.

CapEx is Tightly Controlled and Focused on Accretive Opportunities

Q3 ’24

Moving on to slide 14. CapEx is tightly controlled and focused on capital-efficient opportunities that drive ROIC expansion. In the first nine months of 2024, we incurred total CapEx of $113 million, which is primarily made up of $59 million growth CapEx, reflecting the strong and consistent tenancy growth we have seen this year, and $31 million of non- discretionary CapEx.

FY24 guidance

In terms of guidance, while we have increased our tenancy guidance by 20% from the mid-point, we have only marginally increased our CapEx guidance from the range of $155 million to $190 million, now to $170 to $180 million. This reflects the higher proportion of colocations coming through, which have highly attractive returns. For non-discretionary CapEx, there is no change to full-year expectations and guidance remaining consistent at $45 million.

Strong Financial Position with Largely Fixed Rate Debt and No Near-Term Maturities

On to slide 15, looking at our leverage and debt. Our net leverage at the end of Q3 decreased by 0.3x year-on-year to 4.2x. Leverage has remained consistent quarter-on-quarter at 4.2, and this is mainly due to timing of cash receipts. Generally, Q1 and Q3 are quarters where we do often see receipts straddle period ends. However, we continue to guide to leverage reducing to sub-4 by the end of the year.

We have approximately $255 million of undrawn facilities at both Group and OpCo levels, and together with $115 million of cash from balance sheet means we have roughly around $370 million of available funds. About 50% of our cash from balance sheet is held at Group, with the remainder spread amongst the OpCos for CapEx and working capital purposes. Finally, as a reminder, 92% of our debt is at fixed rates following our successful bond refinance earlier in the year, and we have no near-term maturities until 2027.

FY 2024 Guidance Updated

Finally, moving on to slide 16, our guidance. Both Tom and I have gone through the main changes during the presentation, but to quickly run through the details. As we continue to see progress in our 2.2x strategy by ’26, we increase our guidance on tenancy additions from 1,900 to 2,100 to, now, 2,400 tenancy additions. For adjusted EBITDA, we expect that to be broadly $420 million, in that range, coming at the top end of our prior guidance range. We also guide portfolio free cash flow to land at the top range of our prior guidance, at around $290 million. For CapEx, we have tightened upwards the range marginally to $170 to $180 million. Finally, there is no change to our expectation to reducing net leverage to below 4x and free cash flow to become neutral by the end of the year.

All in all, I am really pleased with the results so far this year, reflecting the efforts of our fantastic colleagues. Whilst we are just two months away from the end of the year, we remain focused on executing the rest of the 2024 plan and gear up for what looks to be another good year for Helios Towers in ’25.

With that, I will pass back to Tom to wrap up.

Key Takeaways

Tom Greenwood

Chief Executive Officer, Helios Towers

Thanks very much, Manjit. Page 17, just to wrap up again. We are seeing consistent, strong tenancy additions coming through, with over 2,000 year-to-date and around 2,400 last 12 months; this continuing to drive double-digit EBITDA growth and ROIC expansion. We have reiterated guidance and clarified EBITDA guidance for top end of the range at around $420 million for the end of this year, and very much looking forward to delivering FY25 very much in the focused range of our capital allocation policy, as previously stated.

With that, I will hand back to Ada for the Q&A.

Q&A

Graham Hunt (Jefferies): Yeah, thanks very much. I have got three questions, if that is all right? First one is just on cash flow. Firstly, in Q3 I think there were some working capital outflows. Could you just help us understand what drove that? Then, if I think about the full year, I think your guidance implies some cash flow inflow into the year end to meet your leverage target, so just trying to understand that bridge between current net debt and the net debt that you are seeing at the end of the year.

Second question, just on the DRC. Are you seeing any change from your MNOs that could signal a move away from US dollar? Just been seeing some headlines from the central bank trying to push more use of the Congolese francs, so just trying to get a sense of what you are seeing there. Then, similarly on FX in Tanzania, could you just give us a quick update on what you are seeing in terms of your USD availability there? Thank you.

Manjit Dhillon: Sure. I will take those. Thanks very much, Graham. On the first one on free cash outflow, so far, year-to-date up to Q3, we had seen a free cash flow outflow of about $20 million, and that is predominantly driven by working capital. As I mentioned earlier, you do often find that in Q1 and Q3 receipts can straddle period end. As it stands today, having closed or in the process of closing books for October, we are now free cash flow neutral, so that has reversed. So it really is just a timing issue as it comes through. On that basis, we are in a good place.

In terms of hitting our leverage target, yeah, what you will probably see is a little bit of free cash flow accretion, it is what we are expecting, at least from where we were in Q3. So you will expect a Q4 positive free cash flow, which has to be the case given that we were negative year-to-date, and EBITDA landing broadly where we have guided to.

I will take both DRC and Tanzania FX points in one, really. In DRC, we are not seeing any changes in terms of that FX mix. We are still seeing, actually, the majority of deposits in that

market being in dollars. So, for us, we still view that as being a dollarized market, so no change there. In terms of Tanzania, we are actually seeing more availability in terms of dollars from our side. We have actually never had a problem getting our hands on liquid currencies in that market because we have been, always, moving up funds very, very regularly. So I would say that is no change on either front there.

Graham Hunt: Thanks Manjit. Thanks.

Tom Greenwood: Thanks.

Emmet Kelly (Morgan Stanley): Yes, good morning everybody. So I just had a question, please, on the 2025 guidance. Manjit, you have highlighted many times how there is a high correlation between the number of tenancies and EBITDA growth, so I think we had tenancy growth of 9% driving EBITDA growth of 11%. If I look at the guidance for '25 it looks like, if I look at tenancies, you are looking at the tenancy ratio going from 2.1 up to 2.2, so it suggests about 5% growth in tenancies. But the EBITDA growth guidance suggests something a bit better because you are looking at, I think, over 10% EBITDA growth. Could you maybe just say a few comments, please, on the bridge between that tenancy growth and the EBITDA growth for next year?

Secondly, Tom, just a question on M&A. How should we think about M&A, say, in 2026 when you reach your target of three turns of leverage? Would you be more open to M&A at that point or do you think shareholder returns remain the priority, either through buybacks or dividends? Thank you.

Manjit Dhillon: Thanks Emmet. Yeah, I will take the first one then I will hand over to Tom. In terms of guidance, when you have the bridge that we show that is actually more the impact from our dollar basis, so when we look at the organic tenancy growth and how that translates to EBITDA, that is the dollar impact of that. Now, if you are looking purely at the tenancy movement versus EBITDA movement it is never going to be exactly one to one, and that is mainly due to the fact that different tenancies have different contributions. To give you an example, Oman will have a lower revenue per tenant, but a quite high margin. But if you were comparing an Omani tenancy versus, say, a DRC tenancy you will have more of an EBITDA impact, just from a quantum perspective, given that you get a higher revenue per tenant.

So, really, when we are looking at 2025 what we will see is a combination of that organic tenancy growth perhaps being broadly split amongst the three big markets, but also a combination of operational improvements as well. The final part being that you are also going to see the majority of our tenancies, we expect, being colocations, and, again, that has an EBITDA benefit too. Those are the broad, key moving parts. One is the mix, second one is going to be the operational improvement and the third one is the mix of sites versus colos being predominantly colos, so that is why you do see a slight decoupling between the tenancies and the EBITDA growth.

Tom Greenwood: Yeah. Hey, Emmet, Tom here. Actually, the numbers on your question, they are regarding the tenancy ratio. Within the tenancy ratio there are some colocations, but also some build-to-suits, so, actually, it is not implying a 5% tenancy increase. It would be more than that, assuming there are build-to-suits in those numbers, which there are. So, yeah, I think we are looking at a pretty strong pipeline for next year as we stand, and look forward to continuing to deliver at similar momentum, I would say, as the past couple of years.

On the M&A question and looking a bit further out, FY26, at which point we expect to have reached 2.2 on the tenancy ratio, and that feeds down through the P&L and into the cash flow for being cash flow generative and leverage being at around 3x. I think at that point, very much so, that puts us in the frame for potential investor distributions at that point, and as any board or management team would need to do is to weigh up the value creation opportunities at that time. But I think, very much so, we are targeting continued organic growth and we will continue to assess the M&A opportunities, but they would have to be very accretive from a value perspective. I think the reality is the organic growth in our markets, given all of the mega trends which are continuing for many, many years ahead, the organic growth is going to continue, and that provides a very strong cash flow and therefore the ability to do some investor distributions at that time.

Emmet Kelly: Great, thank you very much.

Tom Greenwood: Thanks Emmet.

Rohit Modi (Citibank): Thank you so much, guys. Three from my side. Firstly, I understand there is a lot of focus on tenancy additions, but if you can give any colour on what is your pipeline around site additions; how do you look at the demand from operators in terms of adding more anchor tenant sites on the geographies?

Secondly, there has been a couple of news flows around network sharing in some of your markets. I do not think there is any concrete agreement as of now, but there has been some news flow around network sharing. How do you look at it? If any of the operators goes for network sharing, will you receive any kind of network sharing fee or how do you look at the impact for you from network sharing on your footprint?

Thirdly, I think the threshold for leverage has been 4x earlier. Now, given you already guided, anything you look at in 2026? I am just trying to understand why not 2025, given you are already within your leverage guidance in 2025? That is what you are guiding, 3.5. Why not looking at it in 2025 and extending it to 2026?

Manjit Dhillon: Thanks.

Tom Greenwood: Yeah.

Manjit Dhillon: Thanks Rohit. Do you want to take the first couple?

Tom Greenwood: Yeah. Hey, Rohit, thanks. It is Tom here. I will take the first couple. The pipeline for anchor tenants or build-to-suits versus colos, I think, in general, the pipeline is reasonably strong. Clearly, 2024 is close to being finished, so our teams and our customers' teams are very much now planning 2025, and, for this point in time, we are seeing a strong order book and a strong potential order book to come in. So I think we are feeling in a reasonably strong place there and largely expect the momentum of the past couple of years to continue as we move into next year and, of course, into the year after, FY26 as well, and getting to that 2.2x tenancy ratio by that point, which is our headline strategic target. We are making good moves towards that, I would say.

On network sharing, it is relatively uncommon, it can be done. As is industry standard, there are fees that the telco or infrastructure provider would collect if that were to be done, but it is something that we do not see too much of at all.

Manjit Dhillon: Perfect. I will take the third one, which, Rohit, you were breaking up a little bit for us, but I think it was based on why you get leverage down to 3 before you start making investor disbursements, or at least I will answer that question, then you can stop me if I have got the wrong one. In our perspective, even if we get to, say, 3.5 at the end of next year, generally outside of the M&A cycles we have actually been, normally, between 3 to 3.5. I do think that, given our trajectory, it is better to be closer to 3 at the moment before we start doing what is a sustainable dividend, I guess, there afterwards, or however we choose to do investor disbursements.

So, I think our general focus here is continue on the track that we have got. As we start to get towards that point, then we will start to give more guidance out to the market in terms of our thinking. But I think the positive element of this is that we are seeing our capital allocation priorities really come through the numbers; you have seen it now for the last couple of years and you will continue to see it next year. So we are progressing well on the plan.

Rohit Modi: Thank you. That was my question, thank you.

Tom Greenwood: Thank you very much for everyone dialling in today and thanks for everyone asking the questions, we really appreciate it. As always, please get in contact with us if you have any follow-up, we are always happy and keen to jump on a call or meet with you. Other than that, we look forward to seeing you all soon, either at a conference or at our full-year FY24 reporting, which will be in March, so very much look forward to talking with everyone either then or beforehand. Take care and have a great day.

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