

# Telefonica (TEF.MC)

## Analysing Strategic Review 'decision tree' explains investor uncertainty but highlights upside potential

BUY

TEF.MC	12m Price Target: <b>€5.20</b>	Price: <b>€4.67</b>	Upside: <b>11.3%</b>
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Telefonica management is conducting a strategic review which we understand is balancing a desire to reduce its debt while also reviewing the scope to improve operational returns through M&A. With a CMD planned for 2H25, the uncertain outcome of the review is a key investor concern. Press speculation has covered just about every possible outcome. In this report, we look at the financial impact of a range of scenarios. Overall, we note several that could strengthen TEF's assets, avoid the need for a rights issue and create value. Key findings:

**1) Acquisition to drive German consolidation the most accretive scenario:** a German deal would be accretive to returns in most instances, and could be achieved without a rights issue. It would be positive for Buy-rated UTDI/DT, neutral for VOD. If TEF were to pursue further Spanish market consolidation, in fixed and/or mobile, this would likely also boost returns, but on a less material scale. **2) Scenarios less obviously accretive: UK buyout of VMO2 partner; industry-adjacent deals would have to be analysed on a case-by-case-basis:** our VMO2 buyout scenario sees 2030E ROIC 2-3.5pp lower. It would also likely require dilutive equity financing. But if it supported UK fibre market consolidation, it could eventually be value accretive to TEF, and Buy-rated BT. **3) Organic de-gearing could avoid a rights issue:** while press reports highlight a possible rights issue, we argue it may not be necessary. TEF ND/EBITDA is 3.6x on a 'fully loaded' basis. It must stay <4x to retain IG status. Absent deals, TEF's balance sheet is de-gearing fairly rapidly at 0.3x p.a. Not all M&A would necessarily require a rights issue.

**We remain Buy rated, though note uncertainty around which path management will choose to take.** On an organic basis, we model above-consensus estimates and above-sector-average returns improvement.

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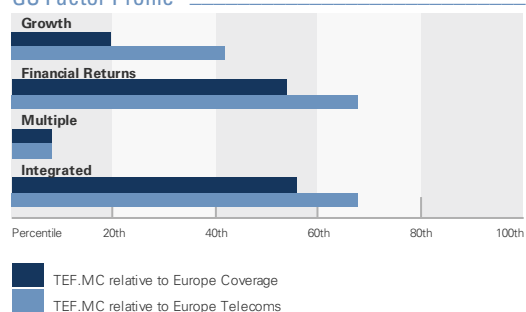
### Key Data

Market cap: €26.3bn / \$30.0bn  
Enterprise value: €51.0bn / \$58.2bn  
3m ADTV: €48.7mn / \$54.0mn  
Spain  
Europe Telecoms  
M&A Rank: 3  
Leases incl. in net debt & EV?: Yes

### GS Forecast

	12/24	12/25E	12/26E	12/27E
Revenue (€ mn)	37,894.6	36,834.5	36,946.6	37,673.1
EBIT (€ mn)	4,354.3	4,503.2	4,553.1	4,852.5
EPS (€)	0.29	0.36	0.40	0.45
P/E (X)	14.2	13.0	11.8	10.3
EV/EBITDA (ex lease,X)	4.0	4.5	4.2	3.8
Dividend yield (%)	7.4	6.4	6.4	6.4
FCF yield (%)	15.5	16.0	14.9	16.1
CROCI (%)	27.2	28.9	30.3	34.2
N debt/EBITDA (ex lease,X)	1.8	1.7	1.5	1.2
	<b>3/25</b>	<b>6/25E</b>	<b>9/25E</b>	<b>12/25E</b>
EPS (€)	0.06	0.09	0.10	0.12

### GS Factor Profile



Source: Company data, Goldman Sachs Research estimates. See disclosures for details.

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Buy

## Telefonica (TEF.MC)

Rating since Dec 14, 2022

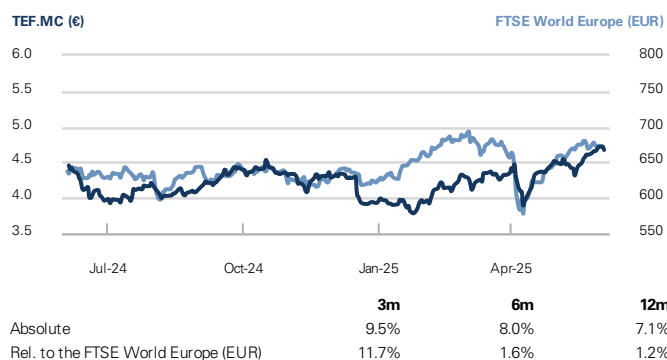
## Ratios &amp; Valuation

	12/24	12/25E	12/26E	12/27E
EV/sales (X)	1.3	1.4	1.3	1.2
EV/EBITDAR (X)	4.1	4.1	3.9	3.6
EV/EBITDA (excl. leases) (X)	4.0	4.5	4.2	3.8
EV/EBIT (X)	11.5	11.3	10.7	9.4
P/E (X)	14.2	13.0	11.8	10.3
Dividend yield (%)	7.4	6.4	6.4	6.4
EV/GCI (X)	1.2	1.3	1.4	1.4
CROCI (%)	27.2	28.9	30.3	34.2
ROIC (%)	(85.4)	(110.8)	(125.6)	(123.2)
ROA (%)	4.5	4.9	4.9	5.0
Days inventory outst, sales	9.1	9.2	9.0	8.8
Asset turnover (X)	NM	NM	NM	NM
Capex/D&A (%)	51.3	40.4	38.6	38.4
Net debt/equity (excl. leases) (%)	82.9	71.7	60.1	47.1
EBIT interest cover (X)	-	-	-	-
FCF cover of dividends (X)	2.5	2.8	2.6	2.8

## Growth &amp; Margins (%)

	12/24	12/25E	12/26E	12/27E
Total revenue growth	(6.8)	(2.8)	0.3	2.0
EBITDA growth	8.4	(0.2)	0.4	3.1
EBIT growth	67.9	3.4	1.1	6.6
Net inc. growth	281.5	25.2	10.3	14.2
EPS growth	282.5	25.1	10.3	14.2
DPS growth	0.0	0.0	0.0	0.0

## Price Performance



Source: FactSet. Price as of 3 Jun 2025 close.

## Income Statement (€ mn)

	12/24	12/25E	12/26E	12/27E
Total revenue	37,894.6	36,834.5	36,946.6	37,673.1
Total operating expenses	(25,542.9)	(24,510.8)	(24,567.7)	(24,916.3)
R&D	0.0	0.0	0.0	0.0
Other operating inc./exp.)	-	-	-	-
<b>EBITDA</b>	<b>12,351.7</b>	<b>12,323.7</b>	<b>12,378.9</b>	<b>12,756.8</b>
Depreciation & amortisation	(7,997.4)	(7,820.5)	(7,825.8)	(7,904.3)
<b>EBIT</b>	<b>4,354.3</b>	<b>4,503.2</b>	<b>4,553.1</b>	<b>4,852.5</b>
Net interest inc./exp.)	(1,733.8)	(1,545.3)	(1,401.9)	(1,260.5)
Income/(loss) from associates	(49.3)	(103.5)	(50.0)	(50.0)
Profit/(loss) on disposals	-	-	-	-
Total other net	-	-	-	-
<b>Pre-tax profit</b>	<b>2,571.3</b>	<b>2,854.4</b>	<b>3,101.1</b>	<b>3,542.0</b>
Provision for taxes	(689.9)	(617.8)	(620.2)	(708.4)
Minority interest	(263.5)	(211.6)	(248.1)	(283.4)
Preferred dividends	-	-	-	-
<b>Net inc. (pre-exceptionals)</b>	<b>1,617.9</b>	<b>2,025.1</b>	<b>2,232.8</b>	<b>2,550.2</b>
Post-tax exceptionals	-	-	-	-
<b>Net inc. (post-exceptionals)</b>	<b>1,617.9</b>	<b>2,025.1</b>	<b>2,232.8</b>	<b>2,550.2</b>
<b>EPS (basic, pre-exception)</b> (€)	<b>0.29</b>	<b>0.36</b>	<b>0.40</b>	<b>0.45</b>
<b>EPS (basic, post-exception)</b> (€)	<b>0.29</b>	<b>0.36</b>	<b>0.40</b>	<b>0.45</b>
Wtd avg shares out. (basic) (mn)	5,635.7	5,637.3	5,637.3	5,637.3
Tax rate (%)	26.8	21.6	20.0	20.0
Common dividends declared	1,690.7	1,691.2	1,691.2	1,691.2
DPS (€)	0.30	0.30	0.30	0.30

## Balance Sheet (€ mn)

	12/24	12/25E	12/26E	12/27E
Cash & cash equivalents	8,061.6	9,529.8	11,212.7	13,176.5
Accounts receivable	10,445.5	8,584.0	8,351.5	8,346.2
Inventory	954.0	906.3	906.3	906.3
Other current assets	2,908.0	5,784.3	5,784.3	5,784.3
<b>Total current assets</b>	<b>22,369.2</b>	<b>24,804.3</b>	<b>26,254.7</b>	<b>28,213.2</b>
Net PP&E	-	-	-	-
Net intangibles	-	-	-	-
Total investments	15,777.2	15,015.3	14,667.4	14,310.3
Other long-term assets	31,041.3	32,690.9	34,528.2	36,409.2
<b>Total assets</b>	<b>100,501.9</b>	<b>99,497.1</b>	<b>99,645.1</b>	<b>100,291.0</b>
Accounts payable	14,605.7	12,837.7	12,941.3	13,249.4
Short-term debt	5,589.6	4,826.4	4,826.4	4,826.4
Short-term lease liabilities	2,226.3	2,024.0	2,024.0	2,024.0
Other current liabilities	3,311.9	5,196.6	5,139.2	5,051.8
<b>Total current liabilities</b>	<b>25,733.5</b>	<b>24,884.7</b>	<b>24,930.8</b>	<b>25,151.6</b>
Long-term debt	33,192.3	32,865.0	32,865.0	32,865.0
Long-term lease liabilities	6,077.4	5,767.6	5,767.6	5,767.6
Other long-term liabilities	12,749.9	12,447.4	12,148.8	11,840.2
<b>Total long-term liabilities</b>	<b>52,019.5</b>	<b>51,080.0</b>	<b>50,781.4</b>	<b>50,472.8</b>
<b>Total liabilities</b>	<b>77,753.0</b>	<b>75,964.7</b>	<b>75,712.2</b>	<b>75,624.4</b>
Preferred shares	-	-	-	-
<b>Total common equity</b>	<b>19,347.2</b>	<b>19,578.8</b>	<b>19,987.4</b>	<b>20,713.4</b>
Minority interest	3,401.6	3,953.6	3,945.5	3,953.2
<b>Total liabilities &amp; equity</b>	<b>100,501.9</b>	<b>99,497.1</b>	<b>99,645.1</b>	<b>100,291.0</b>
<b>Capital employed</b>	<b>61,530.7</b>	<b>61,223.7</b>	<b>61,624.3</b>	<b>62,358.1</b>
Adj for unfunded pensions & GW	-	-	-	-

## Cash Flow (€ mn)

	12/24	12/25E	12/26E	12/27E
Net income	1,617.9	2,025.1	2,232.8	2,550.2
D&A add-back	7,997.4	7,820.5	7,825.8	7,904.3
Minority interest add-back	263.5	211.6	248.1	283.4
Net (inc)/dec working capital	(221.9)	353.5	336.0	313.5
Other operating cash flow	1,054.1	670.7	(57.8)	(88.6)
<b>Cash flow from operations</b>	<b>10,711.0</b>	<b>11,081.3</b>	<b>10,584.9</b>	<b>10,962.8</b>
Capital expenditures	(5,141.0)	(4,226.2)	(4,033.6)	(4,059.5)
Acquisitions	-	-	-	-
Divestitures	31.0	1,008.9	-	-
Others	375.0	(1,337.0)	(168.2)	(168.2)
<b>Cash flow from investing</b>	<b>(4,735.0)</b>	<b>(4,554.3)</b>	<b>(4,201.8)</b>	<b>(4,227.7)</b>
Repayment of lease liabilities	(2,016.0)	(2,641.9)	(2,619.9)	(2,671.5)
Dividends paid (common & pref)	(1,887.0)	(1,810.2)	(1,691.2)	(1,691.2)
Inc/(dec) in debt	1,720.2	(1,090.4)	-	-
Other financing cash flows	(4,306.2)	(1,960.8)	(3,009.0)	(3,080.1)
<b>Cash flow from financing</b>	<b>(4,473.0)</b>	<b>(4,861.4)</b>	<b>(4,700.2)</b>	<b>(4,771.3)</b>
<b>Total cash flow</b>	<b>911.0</b>	<b>1,468.1</b>	<b>1,682.9</b>	<b>1,963.8</b>
Reinvestment rate (%)	47.0	39.4	39.4	38.1

Source: Company data, Goldman Sachs Research estimates.

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## PM Summary

Telefonica is conducting a strategic review which, based on management comments, we understand is balancing a desire to reduce its debt while also reviewing the scope to improve operational returns through M&A. With a CMD planned for 2H25, the uncertain outcome of the review is a key investor concern. As a result, there has been a lot of press speculation on what Telefonica could do — this has included reports that TEF could buy assets in adjacent industries (e.g. IT), pursue deals to consolidate Spanish and German telecoms markets, and that it could buy out the 50% stake in VMO2 that it doesn't own. Press speculation has covered just about every possible outcome. Management has also indicated that they are open to potential deals in Spain, the UK and Germany with the aim of establishing a competitive national champion.

Our organic outlook for TEF's assets remains above consensus with above-sector-average returns improvement. **We maintain our Buy rating, though note the uncertainty around which path management will choose to take.**

**Our bullish Digital Infrastructure sector thesis...**: we introduced our Digital Infrastructure thesis more than two years ago, predicated on deregulation as European regulators and government authorities increasingly aim to incentivise network investment - necessary after two decades of heavy regulation dragging the sector ROIC below WACC. To date, deregulation has centered on fibre broadband, driving incumbents' fibre broadband investment, which is now being monetised. We showed in our recent December 2024 sector report that this has supported a step change in sector growth and returns, consensus upgrades and outperformance over the last 18 months. The best positioned operators for fibre deregulation are delivering 4%+/10%+ EBITDA/FCF growth (FY24/FY25E). This is more growth than we've seen in the European telecoms sector for over a decade. We expect the ramping growth and bifurcation to continue.

**...and the growing potential of mobile consolidation, TEF could take advantage in Germany:** another leg to Digital Infrastructure deregulation is, potentially, mobile consolidation. We highlighted in our December 2024 sector report, European authorities appear more open to in-market mobile consolidation. This is to revive mobile network investment suppressed by historical regulation. UK 4-to-3 consolidation was approved with limited remedies. The EU has supported a Mario Draghi white paper proposing looser competition regulation and has a new competition authority head in place. Our conversations with telco operator management highlights growing optimism for EU approval of consolidation, with limited remedies – this includes Telefonica management, as well as Telenor management, as highlighted in our recent Nordic field-trip report. We highlight in our December 2024 report: 1) evidence on c.1-2pp pa EBITDA market repair growth consolidation benefits; and 2) new analysis on growth & returns boosts and equity upside by company if exposed to markets that will/can consolidate — UK, Italy, Sweden, France & *Germany*.

**In this note, we lay out detailed analysis of the financial impact of a range of options across Telefonica’s core markets and capital structure, including: German consolidation; UK buyout of VMO2 partner; further consolidation of the Spanish market; de-gearing organically and via a rights issue — possibly in conjunction with a deal.** Key conclusions of scenario analysis:

**German consolidation: the most returns-accretive scenario, and could be achieved in most cases without a rights issue.** To gauge the impact of potential M&A in Germany, we contemplate a hypothetical acquisition in Germany, employing a set of generic assumptions, flexing for: 1) deal EV/EBITDA multiple, based on precedent transactions, and 2) EBITDA, based on the range generated by operators in Germany (excl. the incumbent). This analysis implies most transactions would be accretive to returns, and would not pose a risk to TEF’s IG credit rating. We also note that a deal structure that avoids full takeout initially, e.g. a merger with call option, could further alleviate balance sheet concerns.

**Exhibit 1: Our scenario analysis of a hypothetical acquisition in Germany, in efforts to consolidate the market, implies returns accretion and limited risk to TEF’s IG credit rating in most cases**

ROIC pp and % change in year 5 and leverage (ND/EBITDA) pre and post a hypothetical transaction in year 1 (x)

		Potential German consolidation					Year 1: 3.3x leverage pre transaction									
		ROIC change in year 5 (pp)					ROIC change in year 5 (%)					Year 1: leverage post transaction (x)				
		Deal multiple (x)					Deal multiple (x)					Deal multiple (x)				
		6	8	10	12	6	8	10	12	6	8	10	12			
EBITDA (€mn)	500	1.1pp	0.9pp	0.7pp	0.5pp	8.7%	7.1%	5.5%	3.9%	3.4	3.5	3.6	3.6			
	750	1.0pp	0.7pp	0.5pp	0.2pp	8.6%	6.2%	3.8%	1.6%	3.5	3.6	3.7	3.8			
	1,000	1.0pp	0.6pp	0.3pp	-0.1pp	8.5%	5.3%	2.3%	-0.5%	3.5	3.6	3.8	3.9			
	1,250	1.0pp	0.5pp	0.1pp	-0.3pp	8.4%	4.5%	0.9%	-2.5%	3.5	3.7	3.9	4.1			
	1,500	1.0pp	0.4pp	-0.1pp	-0.5pp	8.2%	3.7%	-0.5%	-4.3%	3.6	3.8	4.0	4.2			
	1,750	1.0pp	0.4pp	-0.2pp	-0.7pp	8.1%	2.9%	-1.8%	-6.1%	3.6	3.9	4.1	4.4			

Source: Goldman Sachs Global Investment Research

**UK VMO2 buyout: would likely be returns dilutive.** A potential buyout (as per [press reports](#)) would simplify TEF’s ownership of the asset but would reduce its ROIC by 2-3.5pp in year 5, on our analysis (8.5-10% vs. 12% on a standalone basis / 8% WACC) unless it precipitated a greater likelihood of scale deals to consolidate the UK fibre market. It would likely require a material TEF equity dilution to fund the deal. The deal would be positive for VMO2 longer term, potentially positive for BT if it drove fibre consolidation, as we have previous discussed in our BT notes ([here](#) & [here](#)).

**Exhibit 2: Our analysis indicates that a potential VMO2 buy out would be ROIC dilutive, by c.2-3.5pp in Y5, implying limited ROIC improvement vs. 2.5pp on standalone basis...**

Potential VMO2 buy out				
	Deal multiple (x)			
	6	8	10	12
Year 5 ROIC change (pp)	-2.0pp	-2.0pp	-2.7pp	-3.5pp
Year 5 ROIC change (%)	-16.8%	-16.8%	-22.6%	-28.7%
4Y ROIC improvement (pp)	0.6pp	0.6pp	0.1pp	-0.8pp
<u>100% of VMO2</u>				
Implied EV (€bn)	28.8	38.4	48.0	57.6
Implied equity (€bn)	4.0	13.6	23.2	32.8
<u>50% of VMO2</u>				
Implied EV (€bn)	14.4	19.2	24.0	28.8
Implied equity (€bn)	2.0	6.8	11.6	16.4

Source: Goldman Sachs Global Investment Research

**Exhibit 3: ...further, this transaction could raise leverage to above levels implied for Telefonica to maintain its credit rating**

Potential VMO2 buy out				
	Deal multiple (x)			
	6	8	10	12
Year 1 leverage post transaction (x)	3.9	4.2	4.5	4.8
Year 1 leverage pre transaction (x)	3.3	3.3	3.3	3.3
Leverage change (x)	0.6	0.9	1.2	1.4

Telefonica needs to stay **comfortably** <4x to avoid credit rating downgrade\*

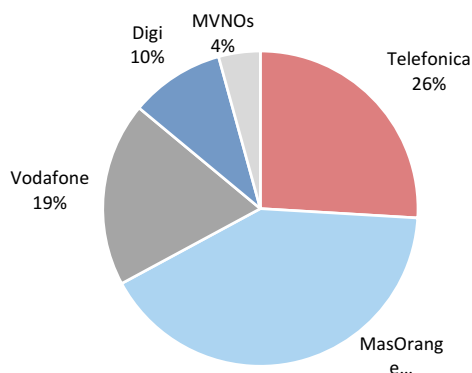
(\* We use leverage definition that includes leases, hybrids and pension commitments amongst others. This definition comes closest to S&P's leverage calculation, and for Telefonica to retain its credit investment rating with S&P it needs to stay comfortably below 4x.

Source: Goldman Sachs Global Investment Research

**Further consolidation of the Spanish market: unlikely to 'move the needle' on returns.** There are multiple opportunities Telefonica could explore in Spain, as also speculated in [the press](#), but it is not exactly clear what it could do to improve market structure materially given the mobile market has recently undergone consolidation, and in fixed Telefonica has high fibre network ownership and subscribers share. However, the company could opt for bolt-on acquisitions in both mobile and fixed and/or deals in adjacent industries. Any potential deals in fixed and/or mobile could potentially boost returns similarly to the German consolidation analysis we laid out earlier, as they would leverage on synergies and could bring some market repair. However, we would expect boost to be on a less material scale. **We note that acquisitions in adjacent industries in Spain or other countries would need to be analysed on a case-by-case basis, but investors would likely question synergies.**

**Exhibit 4: The Spanish mobile market has already undergone significant consolidation with the MasOrange merger; therefore it is unclear what Telefonica could do to improve market structure materially...**

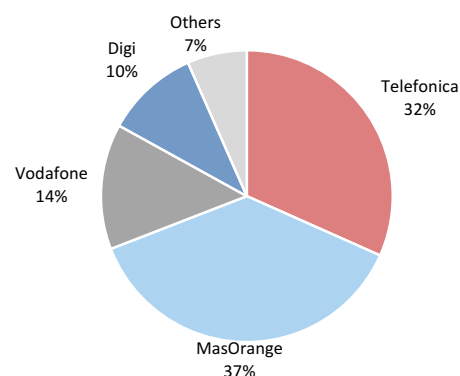
Mobile market share by subscriber, 2024



Source: Data compiled by Goldman Sachs Global Investment Research

**Exhibit 5: ...the same holds for the fixed market, where Telefonica already has a high market share**

Broadband market share by subscribers, 2024

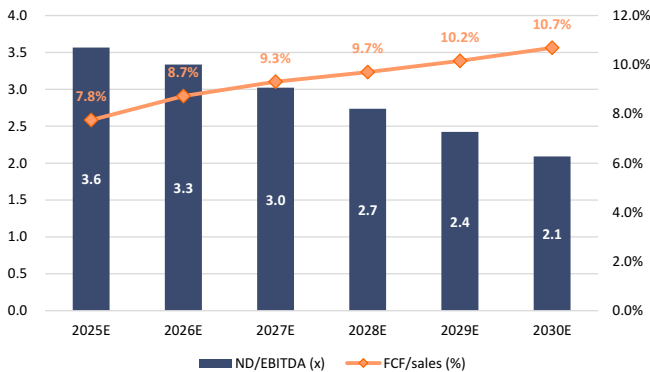


Source: Data compiled by Goldman Sachs Global Investment Research

**De-gearing organically and via a rights issue: absent deals, we would argue that TEF's balance sheet is already on a path to de-gear organically to sustainable levels, and while press reports suggest the possibility of a rights issue, we argue it may not be necessary.** Our Buy rating is predicated on TEF's accelerating FCF and returns growth, supported by the recently consolidated Spanish mobile market, Hispam assets sales and Brazilian market structure. We model 'fully loaded' ND/EBITDA (including hybrids and leases) falling by c.0.3x p.a. to 3.3x/2.7x by 2026/28, materially below S&P's c.4x threshold for IG status - a key focus for TEF. We argue this is a broadly structurally sustainable level given TEF's growth outlook of +2%/+8% 2025-29 EBITDA/FCF CAGR. **While a rights issue may not be necessary, outside of large-scale M&A ambitions, we show that a €1-10bn issue (c.3%-37% of MV) would lead to a 0.1x-0.8x reduction in fully loaded ND/EBITDA to 3.5x-2.8x in 2025E.** Later in the note, we also consider Telefonica raising external funds to pursue de-gearing alongside transactions as laid out above.

**Exhibit 6: We model 'fully loaded' ND/EBITDA falling by -0.3x p.a. to 2.7x in 2028E on an organic basis, materially below S&P's 4x threshold for IG status**

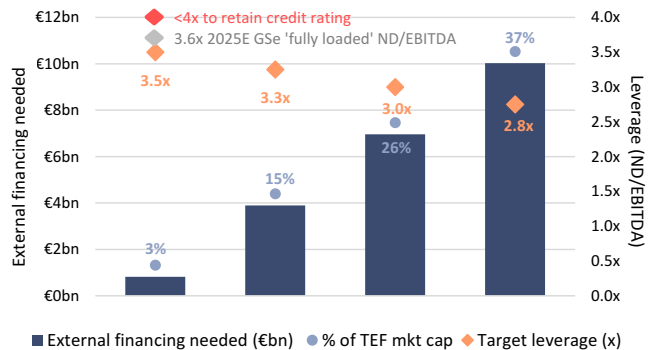
Leverage (x) and FCF/sales (%), 2025-30E



Source: Goldman Sachs Global Investment Research

**Exhibit 7: While a rights issue may not be necessary, we show that a €1-10bn issue (c.3-37% of MV) would lead to a 0.1x-0.8x reduction in fully loaded ND/EBITDA**

External financing potentially needed to reduce leverage in year 0 (2025E), all else equal



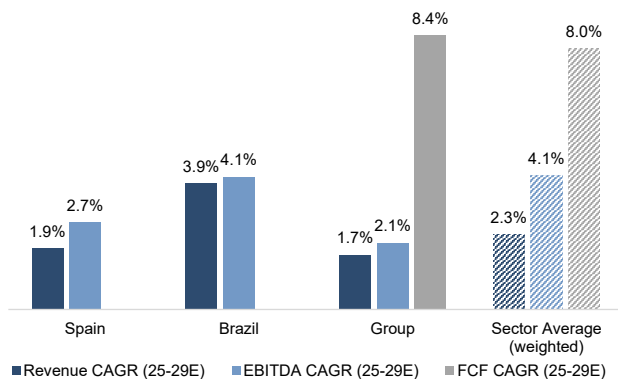
Source: Goldman Sachs Global Investment Research

**Organic drivers of our Buy rating: domestic and Brazilian performance, portfolio simplification is a further positive.**

We model above-consensus estimates and above-sector-average returns improvement. In Spain, Telefonica has enjoyed improved rationality in its domestic market since 2022, which, together with its low churn and benefits from MasOrange consolidation, should lead to a sustained Spanish service revenues growth, in our view. Further, we expect the Brazilian asset (Vivo) to see further improvements, driven by continued price increases within a rational competitive setting (i.e. 3-player mobile). These two core assets together with the structural reduction of Group capex should boost cash flow generation going forward. Telefonica's dividends remain well covered on our estimates. Also, Telefonica's ongoing portfolio simplification in Hispam is a positive as it could help it unwind some complexity discount on our EV/IC vs. ROIC approach.

**Exhibit 8: Our Buy rating is supported by Telefonica's growth in the recently consolidated Spanish market, Hispam sales and resilient Brazilian business...**

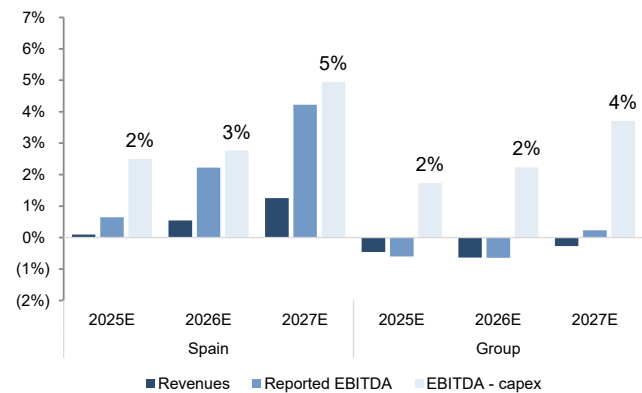
TEF's growth vs. sector average, 2025-29E CAGR



Source: Goldman Sachs Global Investment Research

**Exhibit 9: ...these core markets drive our above-consensus estimates for the group**

GS vs. Visible Alpha Consensus Data, 2025-27E

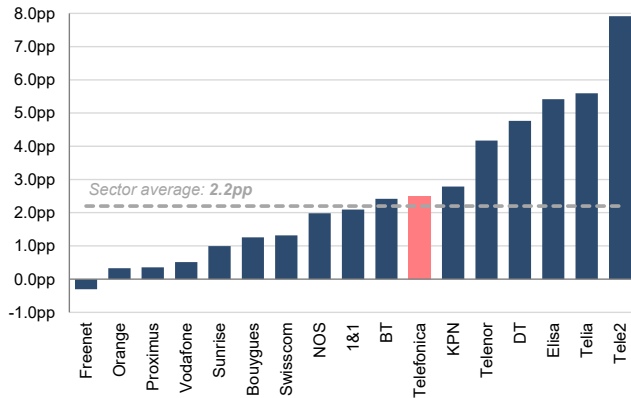


We note that consensus is not fully comparable with our estimates as not all analyst estimates exclude the recently concluded Hispam deals and FX assumptions vary.

Source: Visible Alpha Consensus Data, Goldman Sachs Global Investment Research

**Exhibit 10: Our organic outlook for TEF's assets supports above-sector-average returns improvement...**

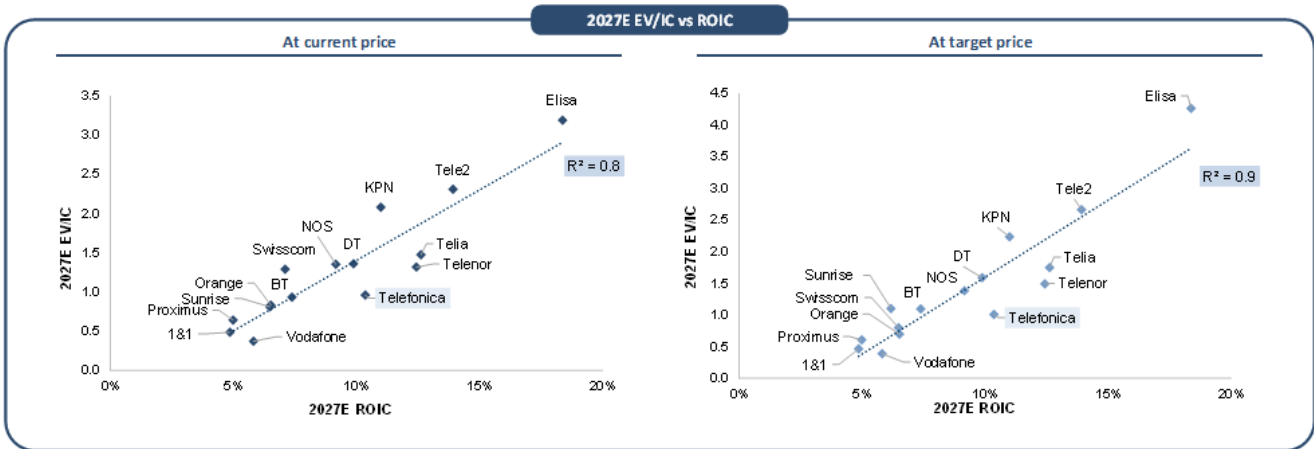
ROIC improvement 2025-29E



Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 11: ...and we find that ROIC is the key driver of valuation in the sector, the correlation between EV/IC and ROIC is very high. Within this framework, Telefonica currently trades at a discount to the line of best fit on sector valuation given its complexity, but its organic performance together with Hispam simplification should help reduce it**

2027E EV/IC vs ROIC on current and target price



Source: Goldman Sachs Global Investment Research, Factset.

**Exhibit 12: Summary Financials**  
 Breakdown by geography, 2023-2030E

	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
<b>Revenue</b>								
Spain	12,654	12,791	12,959	13,163	13,400	13,671	13,959	14,266
<i>growth</i>	1.3%	1.7%	1.3%	1.6%	1.8%	2.0%	2.1%	2.2%
Germany	8,615	8,492	8,390	8,134	8,227	8,326	8,430	8,540
<i>growth</i>	4.8%	(1.4%)	(1.2%)	(3.1%)	1.2%	1.2%	1.3%	1.3%
Brazil	9,650	9,618	9,132	9,368	9,750	10,166	10,628	11,078
<i>growth</i>	8.5%	7.2%	5.5%	4.7%	4.1%	4.3%	4.5%	4.2%
Hispan	8,381	5,405	5,041	4,962	4,970	4,990	5,023	5,069
VMO2 (UK JV)	12,547	12,839	12,018	12,360	12,852	12,759	12,817	12,996
<i>growth</i>		(2.1%)	(5.2%)	3.0%	4.0%	(0.7%)	0.5%	1.4%
<b>Total Revenue</b>	<b>40,653</b>	<b>37,895</b>	<b>36,834</b>	<b>36,947</b>	<b>37,673</b>	<b>38,486</b>	<b>39,380</b>	<b>40,299</b>
<i>growth</i>	3.7%	1.6%	1.2%	1.0%	2.0%	2.2%	2.3%	2.3%
Total incl. 50% VMO2 (UK JV)	46,813	44,203	42,843	43,127	44,099	44,865	45,789	46,797
<b>EBITDA</b>								
Spain	3,229	4,614	4,715	4,822	4,949	5,090	5,239	5,397
margin	25.5%	36.1%	36.4%	36.6%	36.9%	37.2%	37.5%	37.8%
<i>growth</i>	(0.8%)	0.7%	1.6%	2.3%	2.6%	2.8%	2.9%	3.0%
Germany	2,640	2,764	2,609	2,351	2,394	2,439	2,487	2,536
margin	30.6%	32.6%	31.1%	28.9%	29.1%	29.3%	29.5%	29.7%
<i>growth</i>	3.2%	4.7%	(5.6%)	(9.9%)	1.9%	1.9%	1.9%	2.0%
Brazil	4,128	4,116	3,770	4,061	4,262	4,300	4,422	4,609
margin	42.8%	42.8%	41.3%	43.3%	43.7%	42.3%	41.6%	41.6%
<i>growth</i>	10.6%	7.3%	5.3%	11.0%	5.0%	0.9%	2.8%	4.2%
Hispan	1,696	-872	1,106	1,066	1,071	1,080	1,092	1,106
VMO2 (UK JV)	4,620	4,684	4,656	4,802	4,946	5,079	5,226	5,382
margin	36.8%	36.5%	38.7%	38.9%	38.5%	39.8%	40.8%	41.4%
<i>growth</i>		(3.0%)	0.7%	3.3%	3.0%	2.7%	2.9%	3.0%
<b>Total EBITDA</b>	<b>11,730</b>	<b>12,813</b>	<b>12,280</b>	<b>12,379</b>	<b>12,757</b>	<b>12,990</b>	<b>13,320</b>	<b>13,729</b>
margin	28.9%	33.8%	33.3%	33.5%	33.9%	33.8%	33.8%	34.1%
<i>growth</i>	2.7%	5.7%	1.0%	2.5%	3.1%	1.8%	2.5%	3.1%
Total incl. 50% VMO2 (UK JV)	13,908	15,120	14,599	14,780	15,230	15,529	15,932	16,420
<b>Capex</b>								
Spain	1,587	1,546	1,403	1,356	1,367	1,381	1,396	1,419
% of sales	12.5%	12.1%	10.8%	10.3%	10.2%	10.1%	10.0%	10.0%
Germany	1,133	1,141	926	833	830	827	825	823
% of sales	13.2%	13.4%	11.0%	10.2%	10.1%	9.9%	9.8%	9.6%
Brazil	1,660	1,579	1,412	1,393	1,420	1,451	1,486	1,537
% of sales	17.2%	16.4%	15.5%	14.9%	14.6%	14.3%	14.0%	13.9%
Hispan	786	491	435	401	392	384	377	372
% of sales	9.4%	9.1%	8.6%	8.1%	7.9%	7.7%	7.5%	7.3%
VMO2 (UK JV)	2,408	2,396	2,427	2,508	2,634	2,628	2,627	2,611
% of sales	19.2%	18.7%	20.2%	20.3%	20.5%	20.6%	20.5%	20.1%
<b>Total Capex</b>	<b>5,396</b>	<b>4,937</b>	<b>4,276</b>	<b>4,083</b>	<b>4,109</b>	<b>4,143</b>	<b>4,184</b>	<b>4,251</b>
% of sales	13.3%	13.0%	11.6%	11.1%	10.9%	10.8%	10.6%	10.5%
Total incl. 50% VMO2 (UK JV)	6,600	6,142	5,489	5,337	5,426	5,457	5,497	5,557
% of sales	14.1%	13.9%	12.8%	12.4%	12.3%	12.2%	12.0%	11.9%
<b>EBITDA - capex</b>								
Spain	1,642	3,068	3,312	3,466	3,582	3,709	3,843	3,977
Germany	1,507	1,623	1,683	1,518	1,564	1,612	1,662	1,713
Brazil	2,468	2,537	2,358	2,667	2,842	2,849	2,937	3,072
Hispan	910	-1,363	671	664	679	696	714	734
VMO2 (UK JV)	2,212	2,288	2,229	2,294	2,312	2,452	2,599	2,771
<b>Total EBITDA - capex</b>	<b>6,334</b>	<b>7,876</b>	<b>8,004</b>	<b>8,296</b>	<b>8,648</b>	<b>8,846</b>	<b>9,136</b>	<b>9,477</b>
Total incl. 50% VMO2 (UK JV)	7,440	9,021	9,119	9,443	9,804	10,072	10,435	10,863

Source: Company data, Goldman Sachs Global Investment Research

**Note:** given that the company expects to complete its strategic review by YE25, we assume that these potential transactions could be announced in 2025E and then closed in 2026E at the earliest, which is year 1 in our analysis.

## Germany: potential consolidation is ROIC accretive and could be supported by the balance sheet without risk to credit rating


Telefonica's new management has spoken out on the need for consolidation in Europe, where in-market mobile consolidation is the first step. This comes on top of a number of supportive updates from authorities across Europe in 2024, and telco management teams believe that the EU's approach is changing. Therefore, we see greater reason to believe consolidation will materialise and, as we wrote in our outlook, we believe mobile consolidation potential is now too big to ignore.

Bloomberg reported that Telefonica's management is open to deals in Spain, Germany and the UK. In this section, we analyze a range of hypothetical transactions in Germany as we see scope for in-market mobile consolidation there. **Our analysis indicates that the impact of potential consolidation for most deal sizes would be ROIC accretive and could be supported by Telefonica's balance sheet.** Indeed, it would be the most returns-accretive scenario compared to the other scenarios we consider in this note. From a strategic perspective, such a transaction would bring mobile market repair benefits, assuming no punitive remedies; historically we have seen a 1-2pp p.a. boost to EBITDA growth from churn reduction across Europe. Therefore, we would expect consolidation to drive higher returns, and a re-rating for companies involved. As discussed previously, stocks with the most upside from consolidation in Europe are those exposed to 4-player mobile markets and/or with higher gearing and this includes Telefonica.

To gauge the impact of a potential M&A in Germany, we contemplate a hypothetical acquisition in Germany, employing a set of generic assumptions. The key inputs which we flex for are: 1) deal EV/EBITDA multiple - where we use a range observed in precedent transactions (Exhibit 59), and 2) EBITDA - based on a range of EBITDA generated by operators in Germany (excl. the incumbent). Below, we lay out our assumptions in detail. We take no view on the likelihood of any specific transaction. For illustrative purposes, our analysis suggests a deal at 9x EBITDA (the midpoint of our assumed valuation range) would boost TEF ROIC by 0.1-0.8pp across our acquired EBITDA range (+12.2-12.9% from standalone c.12.1% 2030E ROIC). Such a deal would raise TEF's 2026E ND/EBITDA by 0.2-0.7x to 3.5-4x, on a 'fully loaded' basis, keeping it broadly within S&P's investment grade threshold, we believe. We also note that a deal structure that avoids full takeout initially, e.g. a merger with call option, could further alleviate balance sheet concerns. We note such a deal would be a material positive for United Internet/1&1, a modest positive for DT, and broadly neutral for VOD as we have previously discussed in earlier analysis of the potential impact from German in-market mobile consolidation.

**Exhibit 13: Our scenario analysis of a hypothetical acquisition in Germany, in efforts to consolidate the market, implies it would be accretive to returns...**

ROIC pp and % change in year 5

 Potential German consolidation

ROIC change in year 5 (pp)

	EBITDA (€mn)	Deal multiple (x)			
		6	8	10	12
	500	1.1pp	0.9pp	0.7pp	0.5pp
	750	1.0pp	0.7pp	0.5pp	0.2pp
	1,000	1.0pp	0.6pp	0.3pp	-0.1pp
	1,250	1.0pp	0.5pp	0.1pp	-0.3pp
	1,500	1.0pp	0.4pp	-0.1pp	-0.5pp
	1,750	1.0pp	0.4pp	-0.2pp	-0.7pp


ROIC change in year 5 (%)

	EBITDA (€mn)	Deal multiple (x)			
		6	8	10	12
	500	8.7%	7.1%	5.5%	3.9%
	750	8.6%	6.2%	3.8%	1.6%
	1,000	8.5%	5.3%	2.3%	-0.5%
	1,250	8.4%	4.5%	0.9%	-2.5%
	1,500	8.2%	3.7%	-0.5%	-4.3%
	1,750	8.1%	2.9%	-1.8%	-6.1%

Source: Goldman Sachs Global Investment Research

**Exhibit 15: For context, we also show the implied EV at each flexed multiple and EBITDA**

Implied EV (€mn)

 Potential German consolidation


Implied EV at each multiple and EBITDA (€mn)

	EBITDA (€mn)	Deal multiple (x)			
		6	8	10	12
	500	3,000	4,000	5,000	6,000
	750	4,500	6,000	7,500	9,000
	1,000	6,000	8,000	10,000	12,000
	1,250	7,500	10,000	12,500	15,000
	1,500	9,000	12,000	15,000	18,000
	1,750	10,500	14,000	17,500	21,000

Source: Goldman Sachs Global Investment Research

**Exhibit 14: ...as it implies improvement of up to 3.2pp over 4 years vs. 2.5pp TEF's ROIC improvement on a standalone basis**

ROIC improvement over 4 years (pp)

 Potential German consolidation

ROIC improvement over 4 years (pp)

	EBITDA (€mn)	Deal multiple (x)			
		6	8	10	12
	500	3.2pp	3.0pp	2.9pp	2.7pp
	750	3.2pp	2.9pp	2.7pp	2.4pp
	1,000	3.2pp	2.8pp	2.5pp	2.2pp
	1,250	3.1pp	2.7pp	2.3pp	1.9pp
	1,500	3.1pp	2.6pp	2.2pp	1.7pp
	1,750	3.1pp	2.5pp	2.0pp	1.5pp


Telefonica's 4Y ROIC improvement on a standalone basis is **2.5pp**

Green shade indicates when ROIC improvement is higher than Telefonica's ROIC on a standalone basis.

Source: Goldman Sachs Global Investment Research

**Exhibit 16: Most transactions would not pose a risk to Telefonica's investment grade credit rating**

Leverage (ND/EBITDA) pre and post hypothetical a generic transaction in year 1 (x)

 Potential German consolidation

Year 1: leverage pre transaction (x)

3.3

Year 1: leverage post transaction (x)

	EBITDA (€mn)	Deal multiple (x)			
		6	8	10	12
	500	3.4	3.5	3.6	3.6
	750	3.5	3.6	3.7	3.8
	1,000	3.5	3.6	3.8	3.9
	1,250	3.5	3.7	3.9	4.1
	1,500	3.6	3.8	4.0	4.2
	1,750	3.6	3.9	4.1	4.4

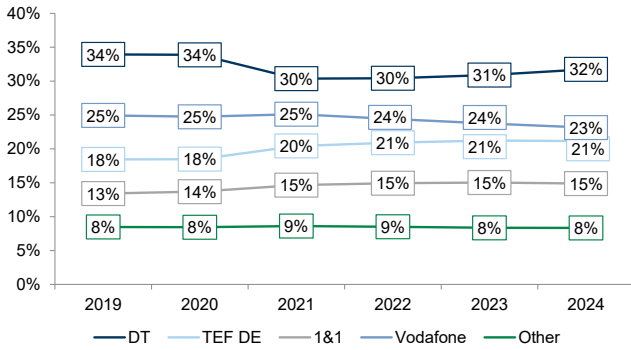
Telefonica needs to stay **comfortably <4x** to avoid credit rating downgrade

Source: Goldman Sachs Global Investment Research

The German telecom market is of average structural market quality in our view - it is generally broadly stable and rational for a 4-player mobile market, and we have seen modest price increases over the past two years. However, we saw increased price competition over the past 12-18 months mainly prompted by 1&1's wholesale contract switch, and any prolonged or worsened competition poses further downside risk to each operator's financials. **However, we note this intensified competition could pressure operators to engage in discussions that could drive German mobile market consolidation – where all operators would benefit from market repair.** In our analysis of a hypothetical acquisition in Germany, in efforts to consolidate the market, we add market repair boost to both our generic company and Telefonica Germany based on historical precedents. For Telefonica Germany (TEF DE), this implies c.3.5%/5% structural EBITDA/EBITDA-capex growth p.a.

**Exhibit 17: German mobile market is generally stable and rational for a 4-player market...**

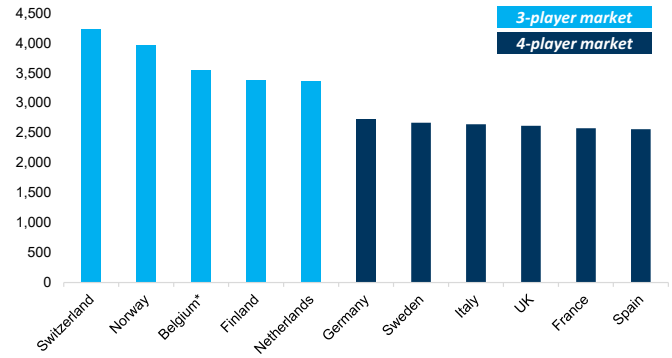
Mobile postpaid market share, 2019-24



Source: Data compiled by Goldman Sachs Global Investment Research

**Exhibit 18: ...Germany is relatively less concentrated and so has scope to see further consolidation, especially in light of recent price competition**

HHI index – mobile markets

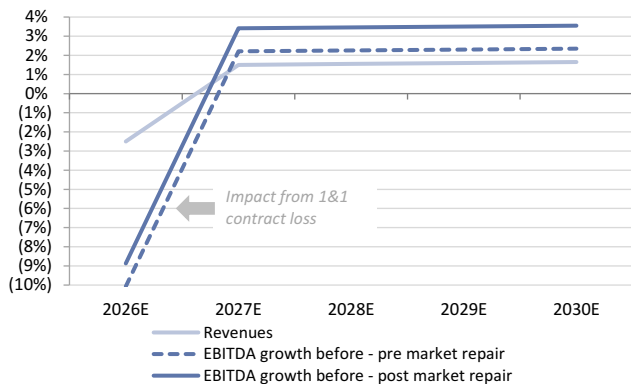


\*New entrant threat.

Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 19: Market repair benefits from consolidation would enable sustainable EBITDA growth of 3.5% p.a. through the decade for TEF DE...**

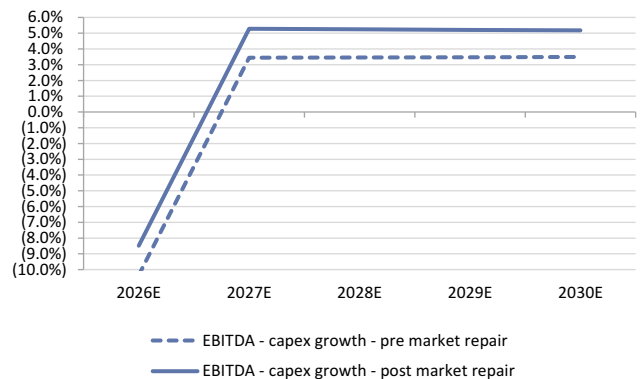
Telefonica Germany: revenue and EBITDA growth (%), 2026-30E



TEF DE = Telefonica Deutschland, i.e. Telefonica Germany.

Source: Goldman Sachs Global Investment Research

**Exhibit 20: ...and EBITDA - capex of c.5% vs. c.3% pre market repair**  
Telefonica Germany: EBITDA - capex growth (%), 2026-30E

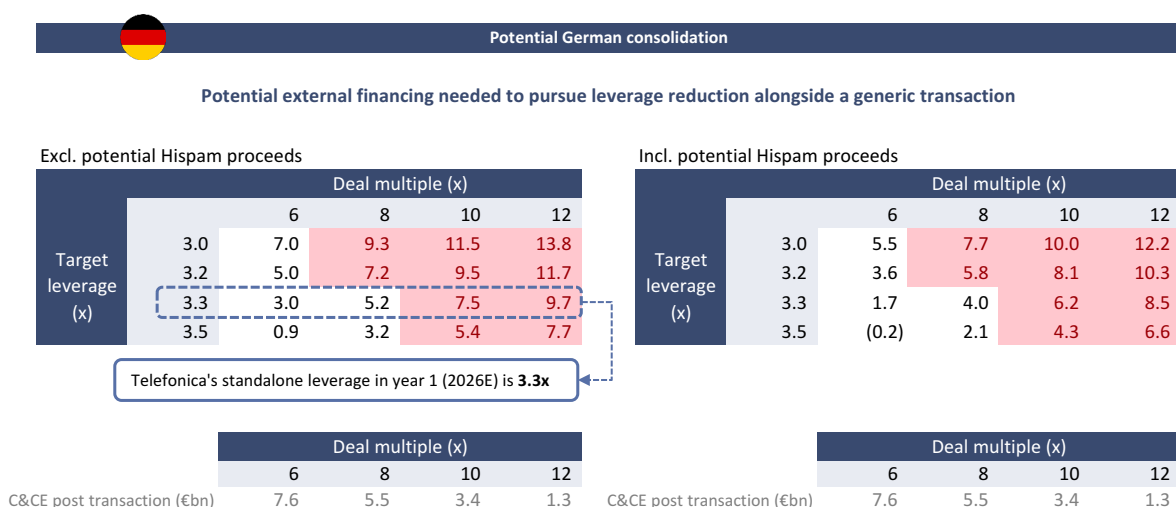


Source: Goldman Sachs Global Investment Research

We also consider a case in which Telefonica pursues deleveraging alongside a transaction. This would likely require external financing. In the illustrative analysis below, we assess the potential external financing needed to allow for deleveraging, assuming a transaction at the mid-point of our assumed EBITDA range (c.€1.1bn). Here, we also consider a scenario that considers potential proceeds from the sale of the company’s remaining Hispam assets (full details in the later section: *Leverage reduction*). For the purposes of this analysis, we assume for simplicity the combined entity looks to maintain its cash position and hence the transaction is fully funded through external financing, although we acknowledge it is possible for Telefonica to combine this with partial deployment of its own cash. Lastly, we note recent press reports that shareholders would support external financing such as a rights issuance.

**Exhibit 21: If Telefonica looks to reduce leverage as well as undertake an acquisition, it may need to seek external financing such as a rights issuance to maintain its investment grade status**

Potential external financing needed in year 1 (€bn); illustrative, assuming a deal at the mid-point of our considered EBITDA range (c.€1.1bn)



i) Cash & cash equivalents (C&CE) not considered in the above external financing analysis. Red shading is for context and denotes where implied valuation exceeds C&CE; ii) assumed Hispam proceeds are pro forma at the mid point of a valuation range implied by regional deal multiples (for details, see Leverage reduction section).

Source: Goldman Sachs Global Investment Research

**Pro forma assumptions**

**In our pro forma analysis,** we contemplate a range of scenarios where Telefonica acquires a company in Germany in a pursuit of mobile market consolidation. Below we outline our assumptions:

**Generic company**

- **EBITDA:** based on **range of EBITDA** generated by telecom operators in Germany (excl. incumbent), which, with our assumed valuation range (see below), implies a wide spread of enterprise values (as showed in Exhibit 15).
- **EBITDA growth & margin:** based on the average domestic growth and margins of telecom operators in Germany, which is 2% and 25%, respectively.
- **Capex:** 18% of sales based on the average of German telecom operators and levels we generally observe in sector. We also assume steady capex decline of 0.1% p.a. which is also in line with the general sector trajectory as most companies are past

capex peak.

- **Leverage:** at 2x ND/EBITDA in line with the sector average.

#### **Transaction:**

- **Valuation multiples:** we consider a range of 6-12x EV/EBITDA which is in line with precedent transaction multiples we have seen in the sector since 2005 ([Exhibit 59](#)).
- **Market repair boost:** we assume this transaction is primarily focused on mobile market consolidation which should bring market repair benefits, and historically we have seen a 1-2pp p.a. boost to EBITDA growth from churn reduction (*see end of this section for more details*). Therefore, we assume a 2pp p.a. boost to mobile EBITDA growth in the case of German mobile consolidation, with a smaller uplift on fixed EBITDA growth too, as we assume the two entities will merge their entire business operations. For Telefonica Germany, the mobile/fixed split is 70%/30%, while for a generic company we assume it's 50%/50% to ensure we are not overstating the boost.
- **Synergies:** based on precedent transactions, we assume synergies are 8% of the combined German entity's revenues (i.e. Telefonica Germany + a generic entity) on a 4-year run rate, and split is 70%/30% between opex/capex.
- **Integration costs:** also based on precedent transactions, integration costs are equivalent to 8% of the combined German entity's revenues (i.e. Telefonica Germany + a generic entity) over 4 years, and split is also 70%/30% between opex/capex.
- **Telefonica's leverage:** our comprehensive leverage 'fully loaded' calculation includes leases, 100% of hybrids, and employee benefits commitments, among others, and implies 3.3x 2026E ND/EBITDA. This approach brings us the closest to S&P's leverage calculation, and for Telefonica to retain its rating with S&P it needs to stay *comfortably below 4x*. We consider S&P the most relevant reference point for Telefonica given the company's BBB- rating which places it just one notch above high-yield territory. Fitch assigns a BBB rating which implies more headroom. As such, we believe focusing on the S&P threshold provides a more meaningful lens for gauging management's financial flexibility. We use this approach in all scenario analysis in this note.
- **Transaction financing:** for simplicity we model Telefonica financing the deal with cash.
- **Timing:** given that the company expects to complete its strategic review by YE25, we assume that this potential transaction is announced in 2025E and then closes in 2026E the earliest which is year 1 in our analysis.

We also lay out an illustrative flow-through of our analysis in [Exhibit 23](#) and [Exhibit 24](#). This illustrative flow-through is at the mid-point of our considered EBITDA range (c.€1.1bn) and valuation range (at 9x EV/EBITDA multiple). The key assumptions behind our analysis are in [Exhibit 22](#).

**Exhibit 22: Key assumptions behind our analysis**

In EURmn, unless stated otherwise; illustrative analysis employing the mid-point of our considered EBITDA range (c.€1.1bn) and valuation range (9x multiple)

FOCUS: TEF acquiring a generic company in Germany			
<b>Deal assumptions</b>			
Generic company			
EV/EBITDA multiple (x)		9	
2026E EV		10,125	
2026E EBITDA		1,125	
2026E ND/EBITDA (x)		2.0	
2026E ND		2,250	
2026E equity value		7,875	
<b>Generic company assumptions</b>			
EBITDA margin (%)		25%	
EBITDA growth (%)		2%	
Capex as % of revenues		18%	
<b>Generic company OpFCF</b>			
EBITDA		1,125	
Capex		(810)	
<b>OpFCF</b>		<b>315</b>	
<b>Generic company BS</b>			
Gross cash		759	
Gross cash as a % of EV		8%	
Gross debt		3,009	
% of OpFCF used to pay down gross debt / increase cash		35%	
<b>Market repair boost</b>			
Mobile: EBITDA growth boost from mkt repair p.a. (pp)		2.0pp	
Structural EBITDA growth in consolidated market		3.5%	
<b>Fixed: EBITDA growth boost from mkt repair p.a. (pp)</b>		<b>0.5pp</b>	
Structural EBITDA growth in consolidated market		3.5%	
<b>Blended: EBITDA growth boost form mkt repair p.a. (pp)</b>		<b>1.6pp</b>	
Structural EBITDA growth in consolidated market		3.5%	
<b>Synergies (4Y run rate)</b>			
Opex synergies	Ass.	Weight	% of rev. weighted
	8%	70%	5.6%
Capex synergies	8%	30%	2.4%
			Increment p.a.
			1.4pp
			0.6pp
<b>Integration costs (4Y run rate)</b>			
Opex integration costs	Ass.	Weight	% of rev. weighted
	8%	70%	5.6%
Capex integration costs	8%	30%	2.4%
			Impact p.a.
			1.4pp
			0.6pp

% mobile business in GE

	TEF D	Generic
	70%	50%
	30%	50%
	1.6pp	1.3pp
	3.5%	3.3%

Source: Goldman Sachs Global Investment Research

**Exhibit 23: Analysis in detail: impact from a generic transaction on German operations**

In EURmn, unless stated otherwise; illustrative flow-through analysis employing the mid-point of our considered EBITDA range (c.€1.1bn) and valuation range (at 9x multiple)

German operations In €mn	Telefonica Germany						Generic company						Combined entity (ass. TEF consolidates generic company)					
	2025E	2026E	2027E	2028E	2029E	2030E	2025E	2026E	2027E	2028E	2029E	2030E	Announced	Y1	Y2	Y3	Y4	Y5
<b>Summary financials</b>																		
<b>Simply adding two entities up...</b>																		
Revenues	8,390	8,134	8,227	8,326	8,430	8,540	4,410	4,500	4,590	4,682	4,775	4,871	12,800	12,634	12,817	13,008	13,205	13,411
% growth	(1.2%)	(3.1%)	1.2%	1.2%	1.3%	1.3%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	(1.3%)	1.5%	1.5%	1.5%	1.5%	1.6%
<b>EBITDA excl. mkt repair</b>	<b>2,609</b>	<b>2,351</b>	<b>2,394</b>	<b>2,439</b>	<b>2,487</b>	<b>2,536</b>	<b>1,103</b>	<b>1,125</b>	<b>1,148</b>	<b>1,170</b>	<b>1,194</b>	<b>1,218</b>	<b>3,712</b>	<b>3,476</b>	<b>3,542</b>	<b>3,610</b>	<b>3,681</b>	<b>3,754</b>
% total growth	(5.6%)	(9.9%)	1.9%	1.9%	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	(6.4%)	1.9%	1.9%	2.0%	2.0%	2.0%
% margin	31.1%	28.9%	29.1%	29.3%	29.5%	29.7%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	27.5%	27.6%	27.8%	27.9%	28.0%	28.0%
Capex	926	833	830	827	825	823	794	810	822	833	845	857	1,720	1,643	1,651	1,661	1,670	1,680
as a % of revenues	11.0%	10.2%	10.1%	9.9%	9.8%	9.6%	18.0%	18.0%	17.9%	17.8%	17.7%	17.6%	13.0%	12.9%	12.8%	12.8%	12.6%	12.5%
<b>EBITDA - capex excl. mkt repair</b>	<b>1,683</b>	<b>1,518</b>	<b>1,564</b>	<b>1,612</b>	<b>1,662</b>	<b>1,713</b>	<b>309</b>	<b>315</b>	<b>326</b>	<b>337</b>	<b>349</b>	<b>360</b>	<b>1,992</b>	<b>1,833</b>	<b>1,890</b>	<b>1,949</b>	<b>2,010</b>	<b>2,074</b>
% growth	(9.8%)	3.0%	3.1%	3.1%	3.1%	3.1%	2.0%	3.5%	3.4%	3.4%	3.4%	3.4%	(8.0%)	3.1%	3.1%	3.1%	3.1%	3.2%
<b>Adding market repair impact...</b>																		
<b>EBITDA incl. mkt repair</b>	<b>2,609</b>	<b>2,391</b>	<b>2,472</b>	<b>2,558</b>	<b>2,647</b>	<b>2,740</b>	<b>1,103</b>	<b>1,138</b>	<b>1,175</b>	<b>1,214</b>	<b>1,253</b>	<b>1,294</b>	<b>3,712</b>	<b>3,529</b>	<b>3,648</b>	<b>3,771</b>	<b>3,900</b>	<b>4,034</b>
Abs. boost from mkt repair	40	78	118	160	204	240	13	28	43	59	76	96	54	106	161	219	280	340
pp growth boost from mkt repair	1.6pp	1.6pp	1.6pp	1.6pp	1.6pp	1.6pp	1.3pp	1.3pp	1.3pp	1.3pp	1.3pp	1.3pp	1.4pp	1.5pp	1.5pp	1.5pp	1.5pp	1.5pp
% total growth incl. mkt repair	(8.4%)	3.4%	3.4%	3.4%	3.5%	3.5%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	(4.9%)	3.4%	3.4%	3.4%	3.4%	3.4%
Capex	926	833	830	827	825	823	794	810	822	833	845	857	1,720	1,643	1,651	1,661	1,670	1,680
as a % of revenues	11.0%	10.2%	10.1%	9.9%	9.8%	9.6%	18.0%	18.0%	17.9%	17.8%	17.7%	17.6%	13.0%	12.9%	12.8%	12.8%	12.6%	12.5%
<b>EBITDA - capex incl. mkt repair</b>	<b>1,683</b>	<b>1,559</b>	<b>1,643</b>	<b>1,730</b>	<b>1,822</b>	<b>1,918</b>	<b>309</b>	<b>328</b>	<b>354</b>	<b>380</b>	<b>408</b>	<b>436</b>	<b>1,992</b>	<b>1,887</b>	<b>1,996</b>	<b>2,110</b>	<b>2,230</b>	<b>2,354</b>
% growth	(7.4%)	5.4%	5.3%	5.3%	5.3%	5.3%	6.4%	7.7%	7.5%	7.2%	7.0%	7.0%	(5.3%)	5.8%	5.7%	5.6%	5.6%	5.6%
<b>Adding integration costs &amp; synergies...</b>																		
<b>EBITDA incl. integration costs &amp; synergies</b>													<b>3,712</b>	<b>3,529</b>	<b>3,825</b>	<b>4,125</b>	<b>4,430</b>	<b>4,742</b>
Opex integration costs													(177)	(177)	(177)	(177)	(177)	0
Opex synergies													177	354	531	707	707	707
Capex	926	833	830	827	825	823	794	810	822	833	845	857	1,720	1,643	1,651	1,661	1,670	1,680
Capex integration costs													76	76	76	76	76	76
Capex synergies													(76)	(152)	(227)	(303)	(303)	(303)
<b>EBITDA - capex post integration costs &amp; synergies</b>													<b>1,992</b>	<b>1,887</b>	<b>2,249</b>	<b>2,616</b>	<b>2,988</b>	<b>3,365</b>
Abs. impact on TEF Germany OpFCF													369	685	1,004	1,326	1,651	1,976
% impact on TEF Germany OpFCF													24%	44%	62%	80%	96%	96%

Source: Goldman Sachs Global Investment Research

**Exhibit 24: Analysis in detail: impact from a generic transaction on Group financials**

In EURmn, unless stated otherwise; illustrative flow-through analysis employing the mid-point of our considered EBITDA range (c.€1.1bn) and valuation range (at 9x multiple)

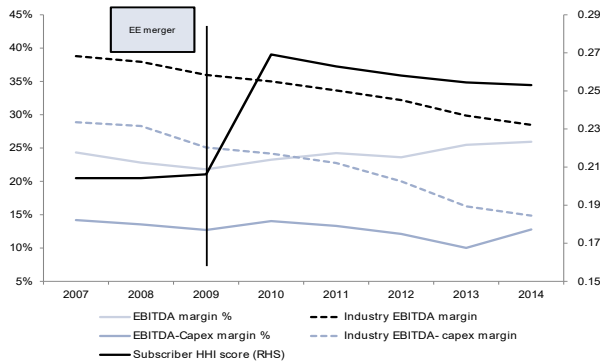
Group In €mn	TEF group						Generic company						Combined entity (ass. TEF consolidates generic company)					
	2025E	2026E	2027E	2028E	2029E	2030E	2025E	2026E	2027E	2028E	2029E	2030E	Announced	Y1	Y2	Y3	Y4	Y5
<b>Key financials</b>																		
<b>EBITDA</b>	12,280	12,379	12,757	12,990	13,320	13,729	1,103	1,125	1,148	1,170	1,194	1,218	13,504	13,904	14,160	14,514	14,946	15,380
Boost from mkt repair													54	106	161	219	280	340
Integration costs													(177)	(177)	(177)	(177)	(177)	0
Synergies													177	354	531	707	707	707
<b>EBITDA incl. everything</b>	<b>13,558</b>	<b>14,187</b>	<b>14,675</b>	<b>15,263</b>	<b>15,934</b>	<b>16,616</b>	<b>1,103</b>	<b>1,125</b>	<b>1,148</b>	<b>1,170</b>	<b>1,194</b>	<b>1,218</b>	<b>13,558</b>	<b>14,187</b>	<b>14,675</b>	<b>15,263</b>	<b>15,934</b>	<b>16,616</b>
Abs. impact on TEF's EBITDA	1,278	1,808	2,348	2,888	3,428	3,968	13	28	43	59	76	96	1,179	1,430	1,685	1,944	2,203	2,462
% impact on TEF's EBITDA	9.5%	11.2%	13.0%	14.6%	16.1%	17.4%	1.3%	2.5%	3.8%	5.1%	6.4%	7.9%	8.6%	10.1%	11.7%	13.3%	14.9%	16.5%
Capex	4,276	4,083	4,109	4,143	4,184	4,251	794	810	822	833	845	857	4,893	4,931	4,976	5,029	5,109	5,199
Integration costs													76	76	76	76	76	76
Synergies													(76)	(152)	(227)	(303)	(303)	(303)
<b>Capex incl. everything</b>	<b>4,893</b>	<b>4,855</b>	<b>4,825</b>	<b>4,802</b>	<b>4,805</b>	<b>4,805</b>	<b>810</b>	<b>746</b>	<b>682</b>	<b>618</b>	<b>554</b>	<b>490</b>	<b>4,893</b>	<b>4,855</b>	<b>4,825</b>	<b>4,802</b>	<b>4,805</b>	<b>4,805</b>
Abs. impact on TEF's capex													19.8%	18.2%	16.5%	14.8%	13.0%	11.2%
% impact on TEF's capex																		
<b>EBITDA - capex</b>	<b>8,004</b>	<b>8,296</b>	<b>8,648</b>	<b>8,846</b>	<b>9,136</b>	<b>9,477</b>	<b>309</b>	<b>315</b>	<b>326</b>	<b>337</b>	<b>349</b>	<b>360</b>	<b>8,611</b>	<b>8,974</b>	<b>9,184</b>	<b>9,484</b>	<b>9,838</b>	<b>10,190</b>
<b>EBITDA - capex incl. everything</b>	<b>8,664</b>	<b>9,332</b>	<b>9,850</b>	<b>10,462</b>	<b>11,129</b>	<b>11,829</b>	<b>309</b>	<b>315</b>	<b>326</b>	<b>337</b>	<b>349</b>	<b>360</b>	<b>8,664</b>	<b>9,332</b>	<b>9,850</b>	<b>10,462</b>	<b>11,129</b>	<b>11,829</b>
Abs. impact on TEF's OpFCF	369	685	1,004	1,326	1,651	1,976							369	685	1,004	1,326	1,651	1,976
% impact on TEF's OpFCF	2.7%	5.1%	7.5%	9.9%	12.3%	14.7%							2.7%	5.1%	7.5%	9.9%	12.3%	14.7%
<b>Transaction's impact on CF &amp; BS</b>																		
<b>Cash flow</b>																		
Additional FCF from acquisition + mkt repair													369	685	1,004	1,326	1,651	1,976
Price paid for acquisition													(7,875)	0	0	0	0	0
<b>Transaction net CF impact</b>													<b>(7,506)</b>	<b>685</b>	<b>1,004</b>	<b>1,326</b>	<b>1,651</b>	<b>1,976</b>
<b>Balance sheet</b>																		
Gross cash (C&E)	9,530	11,213	13,176	15,368	17,827	20,591	759	873	991	1,113	1,240	1,377	9,530	11,972	14,050	16,359	18,940	21,831
Cumulative cash impact of transaction													0	(7,506)	(6,822)	(5,818)	(4,492)	(2,841)
<b>Gross cash post transaction</b>	<b>9,530</b>	<b>11,213</b>	<b>13,176</b>	<b>15,368</b>	<b>17,827</b>	<b>20,591</b>	<b>759</b>	<b>873</b>	<b>991</b>	<b>1,113</b>	<b>1,240</b>	<b>1,377</b>	<b>9,530</b>	<b>4,466</b>	<b>7,228</b>	<b>10,541</b>	<b>14,448</b>	<b>18,990</b>
Gross debt post transaction	53,332	52,526	51,720	50,914	50,108	49,302	3,009	2,895	2,777	2,655	2,529	2,403	55,535	54,615	53,691	52,763	51,831	50,899
Gross cash post transaction	9,530	11,213	13,176	15,368	17,827	20,591	759	873	991	1,113	1,240	1,377	4,466	7,228	10,541	14,448	18,990	23,531
<b>Net debt post transaction</b>	<b>43,802</b>	<b>41,313</b>	<b>38,544</b>	<b>35,546</b>	<b>32,281</b>	<b>28,711</b>	<b>2,250</b>	<b>2,022</b>	<b>1,786</b>	<b>1,542</b>	<b>1,290</b>	<b>1,026</b>	<b>51,070</b>	<b>47,387</b>	<b>43,150</b>	<b>38,316</b>	<b>32,842</b>	<b>27,368</b>
Net debt / EBITDA post transaction (x)	3.6	3.3	3.0	2.7	2.4	2.1	2.0	1.8	1.5	1.3	1.1	0.9	3.8	3.3	2.9	2.5	2.1	1.7
Abs. impact on TEF's leverage (x)													0.4	0.3	0.2	0.1	0.0	0.0
<b>Transaction's impact on returns</b>																		
<b>ROIC calculations</b>																		
% adj. tax (weighted)	20%	20%	20%	20%	20%	20%	30%	30%	30%	30%	30%	30%	21%	21%	21%	21%	21%	21%
% EBITDA weight	92%	92%	92%	92%	92%	92%	8%	8%	8%	8%	8%	8%	6.8%	7.3%	7.9%	8.5%	9.1%	9.7%
<b>NOPAT</b>	<b>6,272</b>	<b>6,637</b>	<b>6,918</b>	<b>7,077</b>	<b>7,309</b>	<b>7,582</b>							<b>6,859</b>	<b>7,389</b>	<b>7,799</b>	<b>8,283</b>	<b>8,812</b>	<b>9,341</b>
% growth	4.2%	5.7%	4.2%	3.3%	3.7%	3.7%							7.7%	5.5%	6.2%	6.2%	6.4%	6.4%
Incremental IC from transaction	69,909	68,328	66,789	65,283	63,837	62,472							7,875	7,875	7,875	7,875	7,875	7,875
Invested capital incl. goodwill													<b>76,203</b>	<b>74,664</b>	<b>73,158</b>	<b>71,712</b>	<b>70,347&lt;/</b>	

more open to in-market mobile consolidation. This is to revive mobile network investment suppressed by historical regulation. UK 4-to-3 consolidation was approved with limited remedies. The EU has supported a [Mario Draghi white paper](#) proposing looser competition regulation and has a new competition authority head in place. Our conversations with telco operator management highlights growing optimism for EU approval of consolidation, with limited remedies – this includes Telefonica management, as well as Telenor management, as highlighted in our recent [Nordic field-trip report](#). We re-highlighted in our December 2024 report the evidence on c.1-2pp pa EBITDA market repair growth consolidation benefits.

We have found strong evidence of margin expansion from mobile consolidation. When approved with limited remedies, consolidation has historically driven c.3-5pp margin expansion. Looking at evidence from the Netherlands, UK, Austria and Germany, we found that consolidation boosted EBITDA growth by 1-2pp p.a. through margin expansion, driven by lower churn. Below, we consider a number of cases where consolidation raised EBITDA growth in the relevant market(s), in line with our previous analysis.

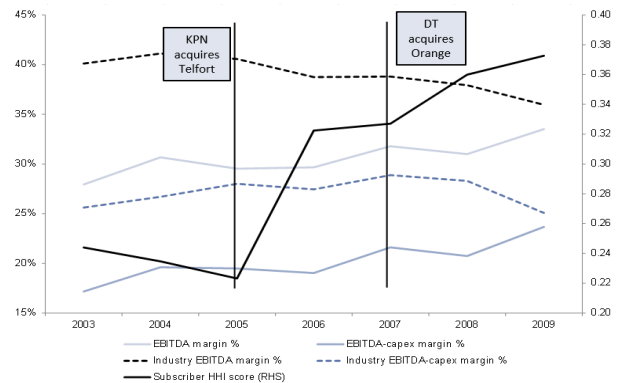
**Exhibit 25: When approved with limited remedies, consolidation has historically driven c.3-5pp margin expansion, driven by lower churn**

Example of EE merger in the UK: UK subscriber HHI vs. EBITDA/ EBITDA-capex margins for UK and European industry average



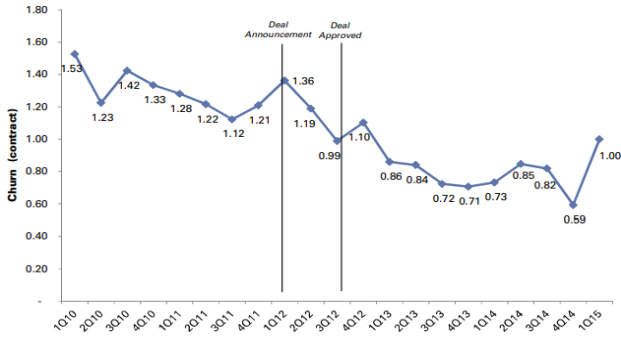
Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 26: Dutch EBITDA/EBITDA-capex margins improved by 1/2 pp pa following each round of mobile consolidation**  
Dutch subscriber HHI vs. EBITDA/ EBITDA-capex margins for UK and European industry average



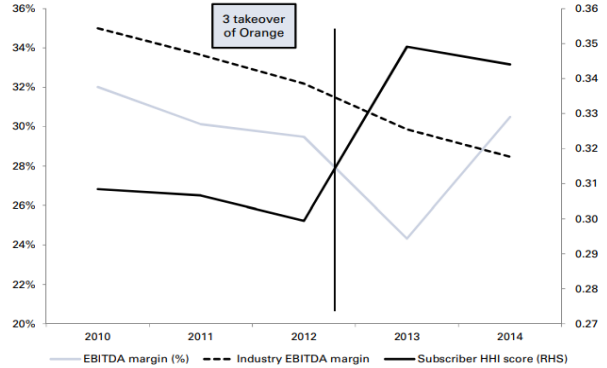
Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 27: Telekom Austria's churn reduced materially after consolidation was announced in 2012...**  
Telekom Austria contract churn (% per month)



Source: Company data, Goldman Sachs Global Investment Research

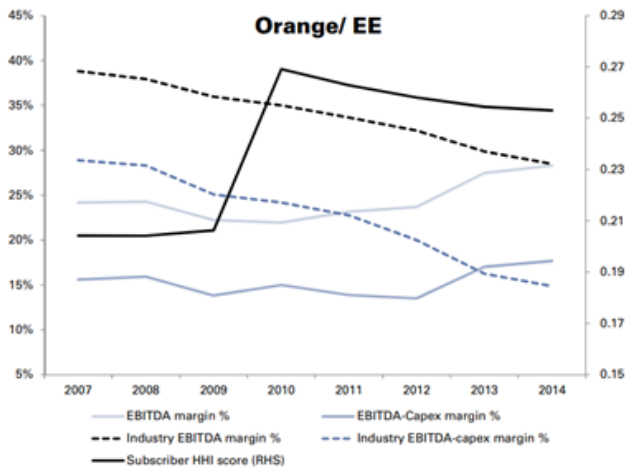
**Exhibit 28: ...driving Austrian market EBITDA margin improvement relative to European peers**  
Austrian subscriber HHI vs. EBITDA margins for Austrian and European industry average



Source: Company data, Goldman Sachs Global Investment Research

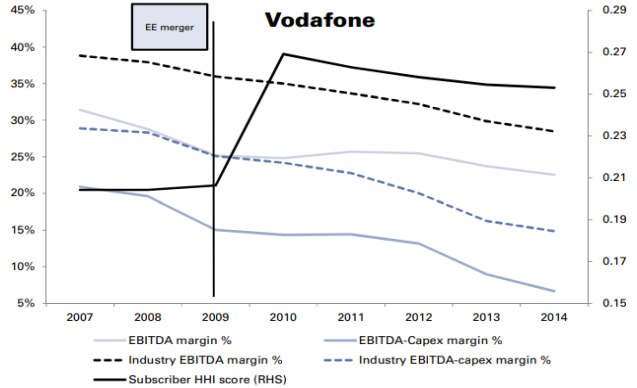
Our analysis indicates that even mobile operators that do not participate in consolidation directly see an EBITDA boost in consolidating markets. In the UK, following the DT/Orange merger to form EE, EBITDA margins at the combined entity improved 3pp from 22% to 25%. O2 and Vodafone also benefited indirectly from consolidation, with margin stabilisation and improvement in the years following the merger. We see the same evidence in the Netherlands for passive participants.

**Exhibit 29: EE benefitted from material opex and capex synergies after merger**  
UK subscriber HHI vs. EBITDA/ EBITDA-capex margins for Orange/EE and European industry average



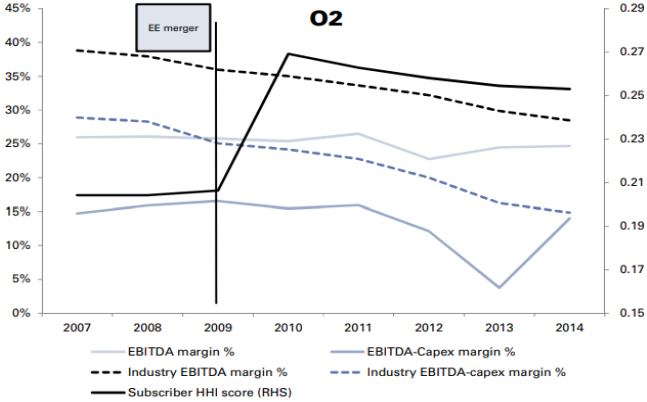
Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 30: Vodafone also realised margin improvement in a period of reduced competition...**  
UK subscriber HHI vs. EBITDA/ EBITDA-capex margins for Vodafone and European industry average



Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 31: ...as did O2 over the same period**  
UK subscriber HHI vs. EBITDA/ EBITDA-capex margins for O2 and European industry average



Source: Company data, Goldman Sachs Global Investment Research

## UK: a potential VMO2 buyout would likely be ROIC dilutive and take leverage to above 4x

Recently, [Bloomberg](#) reported that Telefonica is investigating the potential to buy out the 50% it doesn't own in UK operator VMO2 from Liberty Global (currently a 50/50 JV). We have built a simplified pro forma model of this potential transaction, assuming that Telefonica intends to acquire VMO2 with cash. **Our analysis indicates that this transaction would be ROIC dilutive, and would raise leverage to beyond levels implied for Telefonica to maintain its credit rating.**

This implies a transaction would require external financing, such as a rights issuance. From a strategic perspective, we note a number of complexities for Telefonica associated with such a deal as we discussed in [our recent note](#). That said, operationally, once through its fibre upgrade, VMO2 has scope to be a high structural quality fibre operator in a duopolistic market, in our view. The deal would then be positive for VMO2, and potentially positive for BT if it drove fibre consolidation.

Our pro forma analysis indicates that a potential VMO2 buyout would not be accretive to ROIC, with 2-3.5pp ROIC reduction in year 5 which translates to 8.5-10% ROIC vs. c.12% for Telefonica on standalone basis (vs. WACC at c.8%). The analysis implies limited ROIC improvement over the 4 years (2025-29E) vs. 2.5pp for Telefonica on a standalone basis. Further, this transaction implies that leverage would increase to beyond levels implied for Telefonica to maintain its credit rating (4x ND/EBITDA). Telefonica already has higher-than-sector-average leverage today and VMO2 is at >5x ND/EBITDA. Therefore, the strategic merits of this deal relative to other opportunities that TEF could pursue seem less obvious to us.

**Exhibit 32: Our analysis indicates that a potential VMO2 buyout would be ROIC dilutive, by c.2-3.5pp in Y5, implying limited ROIC improvement vs. 2.5pp on a standalone basis...**

Potential VMO2 buy out				
	Deal multiple (x)			
	6	8	10	12
Year 5 ROIC change (pp)	-2.0pp	-2.0pp	-2.7pp	-3.5pp
Year 5 ROIC change (%)	-16.8%	-16.8%	-22.6%	-28.7%
4Y ROIC improvement (pp)	0.6pp	0.6pp	0.1pp	-0.8pp
<b>100% of VMO2</b>				
Implied EV (€bn)	28.8	38.4	48.0	57.6
Implied equity (€bn)	4.0	13.6	23.2	32.8
<b>50% of VMO2</b>				
Implied EV (€bn)	14.4	19.2	24.0	28.8
Implied equity (€bn)	2.0	6.8	11.6	16.4

Source: Goldman Sachs Global Investment Research

**Exhibit 33: ...further, this transaction could raise leverage to above levels implied for Telefonica to maintain its credit rating**

Potential VMO2 buy out				
	Deal multiple (x)			
	6	8	10	12
Year 1 leverage post transaction (x)	3.9	4.2	4.5	4.8
Year 1 leverage pre transaction (x)	3.3	3.3	3.3	3.3
Leverage change (x)	0.6	0.9	1.2	1.4

Telefonica needs to stay **comfortably <4x** to avoid credit rating downgrade\*

(\* We use leverage definition that includes leases, hybrids, and pension commitments among else. This definition comes closest to S&P's leverage calculation, and for Telefonica to retain its credit investment rating with S&P it needs to stay comfortably below 4x.

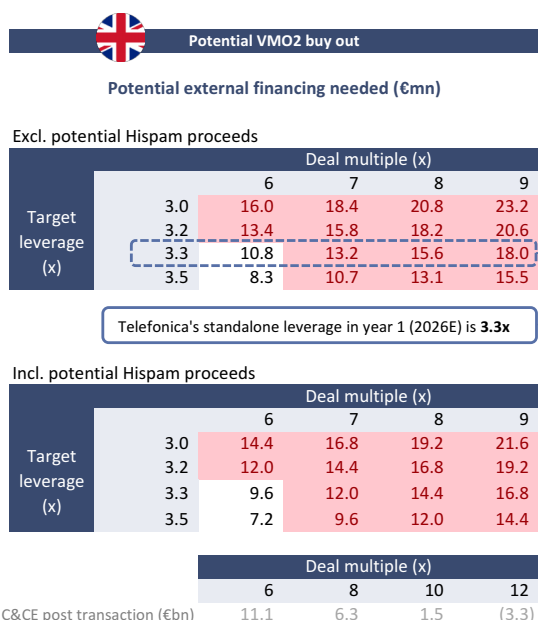
Source: Goldman Sachs Global Investment Research

As discussed above, if Telefonica were to pursue this transaction, our analysis implies it would need to opt for external financing. The size of the external financing would be higher if the company also looks to pursue de-gearing at the same time, as we analyze below. For the purposes of this analysis, we assume for simplicity the combined entity looks to maintain its cash position and hence the transaction is fully funded through external financing, although we acknowledge it is possible for Telefonica to combine this with partial deployment of its own cash. For example, if Telefonica looks to retain its year 1 (2026E) leverage of 3.3x, it would need €10-18bn of external financing which compares to its current c.€27bn market cap. The need for external financing only lessens slightly incorporating potential proceeds from the sale of the company's remaining Hispam assets.

In terms of the strategic benefits of a deal, **in the short term** we note VMO2's cable operations have suffered from negative subscriber trends in recent quarters as it has been losing customers to fibre operators including BT and other UK 'altnets'. It is currently upgrading its network to fibre, and potentially expanding its coverage. However, it is unclear how much of this will be done via 'new' fibre build vs. a 'buy' strategy of acquiring existing fibre 'altnets', and how this will be financed. Over the **longer term, however, as we have highlighted in our recent BT note, we expect the UK fibre market to end up as a duopoly.** This follows our expectation of some consolidation of BT's fibre competitors, which include VMO2 and fibre 'altnets'. This could mean VMO2 ends up as a high structural quality fibre operator in a duopoly market structure, which can deliver compelling growth and returns improvement.

Below, we lay out the key assumptions of our pro forma analysis.

**Exhibit 34: If Telefonica wants to retain its investment grade status or reduce leverage alongside the transaction, our analysis implies it would need to seek external financing such as a rights issuance**  
 Potential external financing needed in year 1 (€bn)

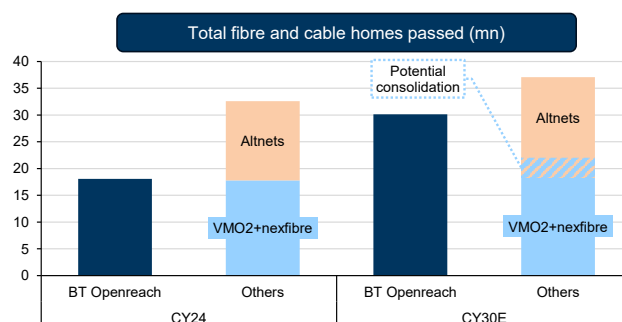


i) Cash & cash equivalents (C&CE) not considered in the above external financing analysis. Red shading is for context and denotes where implied valuation exceeds C&CE; ii) assumed Hispam proceeds are pro forma at the mid point of a valuation range implied by regional deal multiples (for details, see Leverage reduction section).

Source: Goldman Sachs Global Investment Research

**Exhibit 35: We expect VMO2/altnet consolidation to create a near-duopoly structure in the UK fibre market over the long term, which could mean VMO2 ends up as a high structural quality fibre operator in a duopoly market structure**

UK market structure: cable and fibre homes passed, current vs. CY30E



VMO2 based on GSe; 'potential consolidation' shown above is illustrative and considers the level of incumbent-altnet overlap

Source: Company data, Goldman Sachs Global Investment Research

### Proforma assumptions

**In our pro forma analysis**, we assume no change in VMO2's current strategy, and do not assume Nexfibre is impacted by this transaction. Therefore, we simply integrate the two companies' financials, and we make the assumptions and adjustments (Exhibit 36) listed below. Also, we lay out an illustrative flow-through of our analysis at a 9x EV/EBITDA multiple (the midpoint of our assumed valuation range) in Exhibit 37 and Exhibit 38. The key assumptions are:

- **Valuation multiples:** we consider a range of 6-12x EV/EBITDA multiples which is in line with precedent transaction multiples we have seen in the sector (Exhibit 59). We note that the speculated valuation for VMO2 at the time of the merger was £31.4bn, implying 8x 2025E EV/EBITDA multiple (here, here).
- **Leverage:** our comprehensive leverage calculation includes leases, hybrids, and employee commitments, among others, and implies 3.3x 2026E ND/EBITDA. This approach brings us the closest to S&P's leverage calculation, which we deem the most relevant for this analysis as flagged earlier, and for Telefonica to retain its rating with S&P it needs to stay comfortably below 4x. We also note that S&P excludes VMO2 from its Telefonica's standalone leverage definition, in line with our approach.
- **Integration costs:** we see limited synergies in this deal, so we only assume c.€74mn of integration costs over 5 years from a potential TSA with Liberty post

transaction. This is based on Liberty's guidance for <\$200mn of central costs in 2025E. In our LBTY model, we forecast c.\$170mn central costs this year, and in this analysis we assume that 50% of these costs are tied to VMO2 (as VMO2 represent 50% of LBTY's revenues/EBITDA).

- **Transaction financing:** also, for simplicity we model Telefonica financing the deal with cash. However, our analysis above shows this would raise leverage to above levels implied for Telefonica to maintain its credit rating. At 1Q results, when asked about capital structure and a potential rights issuance / dividend cuts, the CFO said it was too early to speak about this as the company is under strategic review.
- **Timing:** as previously mentioned, given that the company expects to complete its strategic review by YE25, we assume that this potential transaction could be announced in 2025E and then closed in 2026E the earliest which is year 1 in our analysis.

### Exhibit 36: Key assumptions behind our analysis

In EURmn, unless stated otherwise; illustrative analysis employing the mid-point of our assumed valuation range (at 9x multiple)

#### FOCUS: TEF acquiring remaining 50% stake in VMO2

Deal assumptions	
TEF buys 100% of VMO2 and consolidates it	
EV/EBITDA multiple (x)	9
2026E EV	43,220
2025E ND	(24,845)
2026E equity	18,375
Telefonica's share	50%
Telefonica's remaining 50% share	9,187
Integration costs (over 5Y)	
Opex + capex integration costs (e.g. TSA w/ LBTY)	168

Spot						
In \$mn	€1 to \$X	In €	% VMO2 relatec	VMO2	Impact p.a.	
168	1.1	147	50%	74	15	

Source: Goldman Sachs Global Investment Research

### Exhibit 37: Analysis in detail: impact from a potential VMO2 buy out on Group financials (1)

In EURmn, unless stated otherwise; illustrative flow-through analysis employing the mid-point of our assumed valuation range (at 9x multiple)

In €mn	TEF group						VMO2						Combined entity (ass. TEF consolidates VMO2)					
	2025E	2026E	2027E	2028E	2029E	2030E	2025E	2026E	2027E	2028E	2029E	2030E	Announced	Y1	Y2	Y3	Y4	Y5
<b>Key financials</b>																		
FX: 1EUR to XGBP						2.2%												2.0%
<b>Revenues</b>	36,834	36,947	37,673	38,486	39,380	40,299	12,018	12,360	12,852	12,759	12,817	12,996	48,852	49,307	50,525	51,245	52,197	53,295
% growth	(2.8%)	0.3%	2.0%	2.2%	2.3%	2.3%	(6.4%)	2.8%	4.0%	(0.7%)	0.5%	1.4%	0.9%	2.5%	1.4%	1.9%	1.9%	2.1%
% change in TEF's revenues													33%	34%	33%	33%	32%	
<b>EBITDA</b>	12,280	12,379	12,757	12,990	13,320	13,729	4,656	4,802	4,946	5,079	5,226	5,382	16,936	17,181	17,703	18,069	18,545	19,111
% growth	0.8%	3.1%	1.8%	2.5%	3.1%		3.1%	3.0%	2.7%	2.9%	3.0%		1.4%	3.0%	2.1%	2.6%	3.1%	
% margin	33.3%	33.5%	33.9%	33.8%	33.8%	34.1%	38.7%	38.9%	38.5%	39.8%	40.8%	41.4%	34.7%	34.8%	35.0%	35.3%	35.5%	35.9%
% change in TEF's EBITDA													39%	39%	39%	39%	39%	39%
<b>Capex</b>	4,276	4,083	4,109	4,143	4,184	4,251	2,427	2,508	2,634	2,628	2,627	2,611	6,592	6,743	6,771	6,811	6,863	6,863
% sales	11.1%	10.9%	10.8%	10.6%	10.5%		20.3%	20.5%	20.6%	20.5%	20.5%	20.1%	13.4%	13.3%	13.2%	13.0%	12.9%	12.9%
% change in TEF's capex													61%	64%	63%	63%	61%	
<b>EBITDA - capex</b>	8,004	8,296	8,648	8,846	9,136	9,477	2,229	2,294	2,312	2,452	2,599	2,771	10,575	10,945	11,284	11,720	12,234	12,234
Opex + capex integration costs (e.g. TSA)													(15)	(15)	(15)	(15)	(15)	
% change in TEF's EBITDA - capex													27%	27%	28%	28%	29%	
<b>FCF calculations</b>																		
<b>EBITDA - capex</b>	8,004	8,296	8,648	8,846	9,136	9,477	2,229	2,294	2,312	2,452	2,599	2,771	10,575	10,945	11,284	11,720	12,234	12,234
WC	264	336	313	295	269	248	(214)	(213)	(213)	(213)	(213)	(213)	123	100	82	56	35	35
Interest	(1,159)	(1,086)	(975)	(827)	(687)	(531)	(1,342)	(1,340)	(1,340)	(1,390)	(1,439)	(1,489)	(2,426)	(2,315)	(2,217)	(2,126)	(2,020)	(2,020)
Dividends received	264	298	307	352	401	462	0	0	0	0	0	0	298	307	352	401	462	462
Tax	(369)	(402)	(500)	(567)	(664)	(799)	0	0	0	0	0	0	(402)	(500)	(567)	(664)	(799)	(799)
Dividends paid to minorities	(175)	(256)	(276)	(284)	(293)	(299)	0	0	0	0	0	0	(256)	(276)	(284)	(293)	(299)	(299)
Pre-retirement commitments	(1,040)	(1,040)	(1,040)	(1,040)	(1,040)	(1,040)	0	0	0	0	0	0	(1,040)	(1,040)	(1,040)	(1,040)	(1,040)	(1,040)
Leases	(2,641)	(2,620)	(2,671)	(2,742)	(2,820)	(2,911)	(145)	(145)	(145)	(145)	(145)	(145)	(2,764)	(2,816)	(2,886)	(2,965)	(3,055)	(3,055)
Hybrid coupons	(300)	(300)	(300)	(300)	(300)	(300)	0	0	0	0	0	0	(300)	(300)	(300)	(300)	(300)	(300)
Spectrum	(168)	(168)	(168)	(168)	(168)	(168)	0	0	0	0	0	0	(168)	(168)	(168)	(168)	(168)	(168)
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>FCFtal (after spectrum &amp; before M&amp;A)</b>	2,678	3,057	3,338	3,566	3,833	4,139	528	596	614	704	801	924	3,638	3,938	4,255	4,620	5,048	5,048
Abs. impact on TEF's FCFtal													581	599	689	787	909	909
% impact on TEF's FCFtal													19%	18%	19%	21%	22%	22%

Source: Goldman Sachs Global Investment Research

**Exhibit 38: Analysis in detail: impact from a potential VMO2 buy out on Group financials (2)**

In EURmn, unless stated otherwise; illustrative flow-through analysis employing the mid-point of our assumed valuation range (at 9x multiple)

	2025E	2026E	2027E	2028E	2029E	2030E	2025E	2026E	2027E	2028E	2029E	2030E	2025E	2026E	2027E	2028E	2029E	2030E	
<b>Transaction's impact on CF &amp; BS</b>																			
<b>Cash flow</b>																			
Additional FCF from acquisition + mkt repair													581	599	689	787	787	909	
Price paid for acquisition													(9,187)	0	0	0	0	0	
<b>Transaction net CF impact</b>													<b>(8,606)</b>	<b>599</b>	<b>689</b>	<b>787</b>	<b>787</b>	<b>909</b>	
<b>Balance sheet</b>																			
Gross cash (C&CE)	9,530	11,213	13,176	15,368	17,827	20,591	1,339	1,337	1,337	1,337	1,337	1,337	10,869	12,550	14,514	16,705	19,164	21,928	
Cumulative cash impact													0	(8,606)	(8,007)	(7,318)	(6,531)	(5,622)	
<b>Gross cash post transaction</b>													<b>10,869</b>	<b>3,944</b>	<b>6,507</b>	<b>9,388</b>	<b>12,633</b>	<b>16,307</b>	
Gross debt	53,332	52,526	51,720	50,914	50,108	49,302	26,184	26,149	26,149	26,149	26,149	26,149	78,675	77,869	77,063	76,257	75,451		
Gross cash	9,530	11,213	13,176	15,368	17,827	20,591	1,339	1,337	1,337	1,337	1,337	1,337	3,944	6,507	9,388	12,633	16,307		
<b>Net debt</b>	<b>43,802</b>	<b>41,313</b>	<b>38,544</b>	<b>35,546</b>	<b>32,281</b>	<b>28,711</b>	<b>24,845</b>	<b>24,812</b>	<b>24,812</b>	<b>24,812</b>	<b>24,812</b>	<b>24,812</b>	<b>74,732</b>	<b>71,363</b>	<b>67,676</b>	<b>63,624</b>	<b>59,145</b>		
Net debt / EBITDA	3.6	3.3	3.0	2.7	2.4	2.1	5.3	5.2	5.0	4.9	4.7	4.6	4.3	4.0	3.7	3.4	3.1		
Abs. impact on TEF's leverage													1.0	1.0	1.0	1.0	1.0		
<b>Transaction's impact on returns</b>																			
<b>ROIC calculations</b>																			
% adj. tax	22%	20%	20%	20%	20%	20%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	14%	14%	14%	14%	14%	14%	
<b>NOPAT</b>	<b>6,272</b>	<b>6,637</b>	<b>6,918</b>	<b>7,077</b>	<b>7,309</b>	<b>7,582</b>	<b>2,229</b>	<b>2,294</b>	<b>2,312</b>	<b>2,452</b>	<b>2,599</b>	<b>2,771</b>	<b>9,094</b>	<b>9,413</b>	<b>9,704</b>	<b>10,079</b>	<b>10,521</b>		
Total LT assets	74,693	73,390	72,078	70,769	69,464	68,190	42,948	42,948	42,948	42,948	42,948	42,948	119,317	118,004	116,696	115,391	114,117		
o/w goodwill	16,708	15,926	15,135	14,339	13,537	12,728	21,338	21,338	21,338	21,338	21,338	21,338	40,242	39,452	38,656	37,853	37,044		
Total current assets	24,804	26,255	28,213	30,431	33,025	35,948	5,150	5,150	5,150	5,150	5,150	5,150	22,779	25,337	28,244	31,625	35,457		
Cash & equivalents	9,530	11,213	13,176	15,368	17,827	20,591	1,356	1,356	1,356	1,356	1,356	1,356	3,944	6,507	9,388	12,633	16,307		
Current liabilities ex ST debt	20,058	20,104	20,325	20,549	20,826	21,075	5,053	5,053	5,053	5,053	5,053	5,053	25,158	25,379	25,602	25,879	26,128		
<b>IC (incl. goodwill)</b>	<b>69,909</b>	<b>68,328</b>	<b>66,789</b>	<b>65,283</b>	<b>63,837</b>	<b>62,472</b>	<b>41,688</b>	<b>41,688</b>	<b>41,688</b>	<b>41,688</b>	<b>41,688</b>	<b>41,688</b>	<b>112,995</b>	<b>111,456</b>	<b>109,950</b>	<b>108,504</b>	<b>107,139</b>		
<b>ROIC incl. goodwill</b>	<b>9.0%</b>	<b>9.7%</b>	<b>10.4%</b>	<b>10.8%</b>	<b>11.4%</b>	<b>12.1%</b>	<b>5.3%</b>	<b>5.5%</b>	<b>5.5%</b>	<b>5.9%</b>	<b>6.2%</b>	<b>6.6%</b>	<b>8.0%</b>	<b>8.4%</b>	<b>8.8%</b>	<b>9.3%</b>	<b>9.8%</b>		
Abs. impact on TEF's ROIC (pp)													(1.7 pp)	(1.9 pp)	(2.0 pp)	(2.2 pp)	(2.3 pp)		
% impact on TEF's ROIC													(17.1%)	(18.5%)	(18.6%)	(18.9%)	(19.1%)		
TEF's ROIC 4Y improvement (pp)						2.5pp												0.3pp	
Abs. impact on TEF's 4Y ROIC improvement (pp)																			(2.2 pp)

Source: Goldman Sachs Global Investment Research

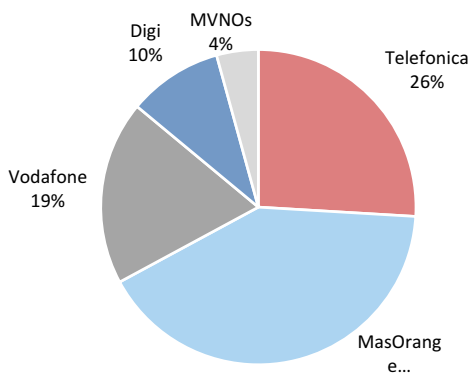
**Note:** for any further details on assumptions or model, please reach out to the team.

## Spain: various possible scenarios, but unclear what Telefonica could do to improve market structure materially

**There are multiple opportunities Telefonica could explore in Spain, as has been speculated in the press, but it is not exactly clear what it could do to improve market structure materially.** The Spanish mobile market has already undergone significant consolidation with the MasOrange merger, which effectively reduced the competitive field from 4.5 to 3.5 operators (with DIGI accounting for 0.5 as it has yet to build its own network). As a result, the scope for further structural improvement in the market could be challenging from a regulatory standpoint. However, it has been speculated in the local press. If consolidation were to progress from 3.5 to 2.5 MNOs, it would represent the first move of its kind in Europe and could trigger meaningful market repair. In our view, it would lead to a re-rating not only of Spanish stocks but also of the entire European telecom sector. A potentially more viable near-term opportunity would be a small bolt-on MVNO acquisition for example, which could deliver incremental scale with limited regulatory friction and minimal capital outlay. On fixed, with c.40% FTTH subscriber share and extensive fibre network ownership, Telefonica is well-placed to potentially pursue selective altnet acquisitions to enlarge its customer base which could imply limited capex. It could also see some market repair benefit if fibre consolidation happens elsewhere. However, it is unclear if Telefonica could pursue a more sizeable acquisition in fixed given its market share and that it is cheap to build in Spain. **Potential deals in fixed and/or mobile could potentially boost returns profile similarly to the German consolidation analysis we laid out earlier, as they would leverage on synergies and could bring some market repair.** However, bolt-on deals are unlikely to move the needle on returns. Alternatively, Telefonica could pursue deals in adjacent industries in Spain like IT, security or B2B, as there is an increasing focus by European governments on this. **Acquisitions in adjacent industries would need to be analysed on a case-by-case basis, but investors are likely to question synergies.**

**Exhibit 39: The Spanish mobile market has already undergone significant consolidation with the MasOrange merger, therefore it is unclear what Telefonica could do to improve market structure materially...**

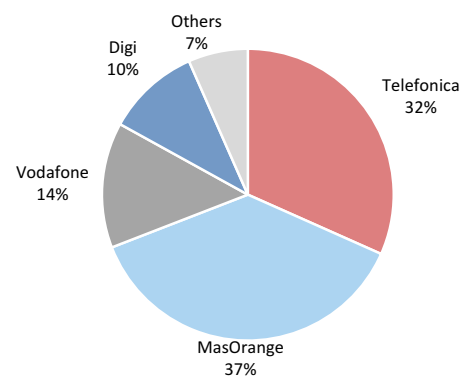
Mobile market share by subscriber, 2024



Source: Data compiled by Goldman Sachs Global Investment Research

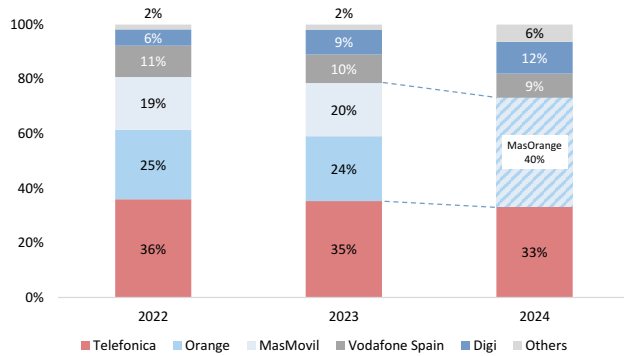
**Exhibit 40: ...the same holds for the fixed market, where Telefonica already has a high market share...**

Broadband market share by subscribers, 2024



Source: Data compiled by Goldman Sachs Global Investment Research

**Exhibit 41: ...therefore, various scenarios are possible but it's unclear if sizeable deals would be feasible...**  
 FTTH share by lines 2022-25



Source: Regulator data, Data compiled by Goldman Sachs Global Investment Research

**Exhibit 42: ...or Telefonica could opt for bolt-on deals to increase subscriber share, as it also has high network ownership**  
 Spain: FTTH coverage - # of homes covered vs. # of self-built homes & % uptake

	# of homes covered	% uptake	# of self-built homes
Telefonica	31	31%	31
MasOrange	26	25%	18
Vodafone	23	6%	4
DIGI	7	27%	1
ONIVIA	10	37%	10
AVATEL	4	16%	4
Bluevia	5	n.m.	0
Fibra de Telefonica	3	15%	3
adamo	3	22%	3
eLanta	3	22%	3
Olin Group	2	19%	2
CONEXUS	1	n.m.	0
Total homes passed	c31		

Uptake: number of FTTH customers over number of homes covered. It helps measure how many customers actually connect to the network available.

Source: Data compiled by Goldman Sachs Global Investment Research, Company data

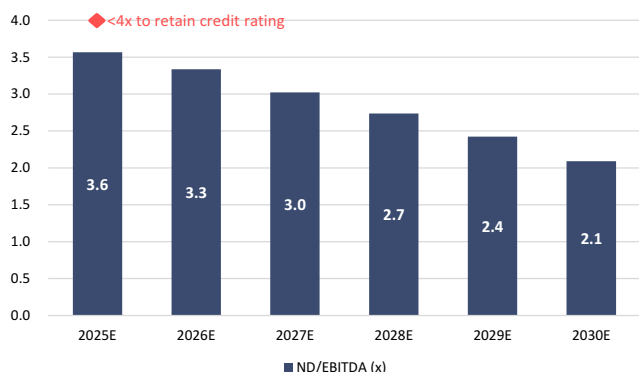
## Leverage reduction: organically and/or via a rights issue

**Absent deals, we would argue that TEF’s balance sheet is already on a path to de-gear organically to sustainable levels, and while press reports suggest the possibility of a rights issue, we argue it may not be necessary.** Indeed, our Buy rating is predicated on TEF’s accelerating FCF and returns growth, supported by the recently consolidated Spanish mobile market, Hispam asset sales and Brazilian market structure (*see next section for more details*). This drives our above-consensus estimates, although currently pressured by FX. We model ‘fully loaded’ ND/EBITDA (incl. 100% hybrids, leases and employee compensation) falling by -0.3x p.a. to 3.3x/2.7x by 2026/28E on an organic basis. This is materially below S&P’s c.4x threshold for investment grade status - a key focus for TEF, i.e. to retain its IG rating with S&P, Telefonica needs to stay *comfortably below 4x*. We argue this is a broadly structurally sustainable level given Telefonica’s growth outlook of 2%/8% 2025-29E EBITDA/FCF CAGR.

**While a rights issue may not be necessary, outside of large-scale M&A ambitions, we show that a €1-10bn issue (c.3-37% of MV) would lead to a 0.1-0.8x reduction in fully loaded ND/EBITDA to 3.5x-2.8x in 2025E.** This move could address some balance sheet pressure without committing to near-term strategic transactions.

**Exhibit 43: We model ‘fully loaded’ ND/EBITDA falling by -0.3x pa to 2.7x in 2028E on organic basis, materially below S&P’s 4x threshold for IG status - key focus for TEF...**

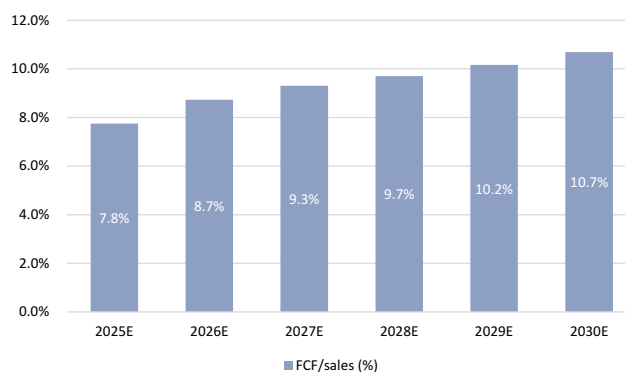
Leverage (x), 2025-30E



Source: Goldman Sachs Global Investment Research

**Exhibit 44: ...this is supported by strong FCF generation, with c.2.4pp 2025-29E FCF/sales improvement and 8% 2025-29E FCF CAGR**

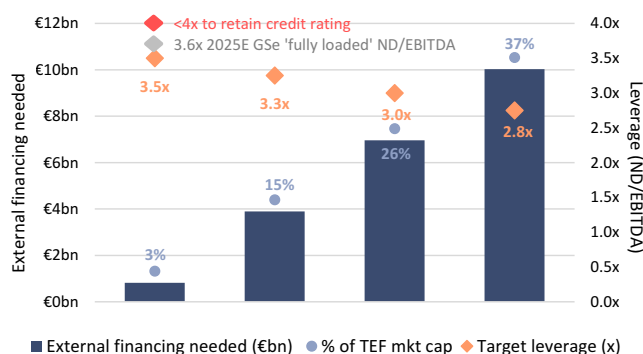
FCF/sales (%), 2025-30E



Source: Goldman Sachs Global Investment Research

**Exhibit 45: While a rights issue may not be necessary, we show that a €1-10bn issue (c3-37% of MV) would lead to a 0.1x-0.8x reduction in fully loaded ND/EBITDA...**

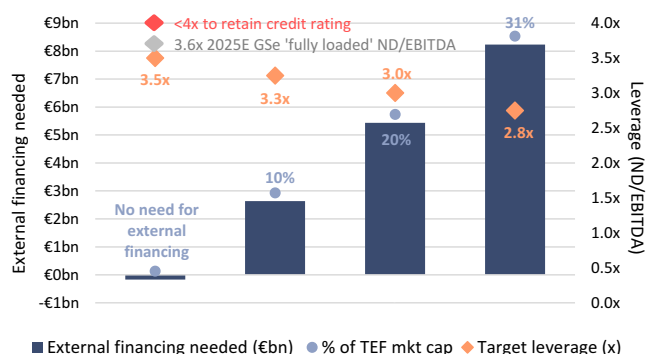
External financing potentially needed to reduce leverage in year 0 (2025E), all else equal



Source: Goldman Sachs Global Investment Research

**Exhibit 46: ...and the picture improves but does not materially change with potential Hispam proceeds**

External financing potentially needed to reduce leverage in year 0 (2025E), all else equal



Note assumed Hispam proceeds are pro forma at the mid point of a valuation range implied by regional deal multiples.

Source: Goldman Sachs Global Investment Research

**While proceeds from Telefonica’s ongoing Hispam asset sales will support portfolio simplification, they are unlikely to materially improve the balance sheet on their own.**

To understand the potential proceeds from the remaining Hispam assets, we consider a range of valuation multiples (Exhibit 47) based on precedent transactions which we assign to the remaining assets. This implies that Telefonica could potentially get an additional €3.7-5.8bn from the remaining Hispam assets. While the Hispam asset sales bring in valuable cash proceeds, they do not necessarily translate into immense leverage improvement because of the associated EBITDA loss, as we can see on Exhibit 46 or Exhibit 21.

This portfolio simplification has been the company’s focus, and new management is executing on it at a rapid pace. At recent results, the CFO also mentioned that the reduction in Hispam exposure means that the group could support more leverage. We view this portfolio simplification as strategically positive as it helps sharpen the company’s geographic focus, reduces FX volatility and regulatory risk, and free ups management bandwidth to concentrate on core European and Brazilian operations. We note that Brazilian organic performance remains solid, and while FX exposure related to it persists, we acknowledge that a sale of this asset appears unlikely given that it’s considered a core asset by the company. Together, we believe these actions - deleveraging and simplification - would not only ease investor concerns but also place the company in a stronger position to potentially re-engage in M&A in the future from a position of greater financial and strategic flexibility when the timing is favourable.

**Exhibit 47: Precedent transactions imply potential proceeds from the remaining Hispam assets of €3.7-5.8bn**  
Implied valuation range (EV/EBITDA)

Potential proceeds from the remaining Hispam assets								
	Deal multiple (x)							
	3.5	4.0	4.5	5.0	5.5	6.0	6.5	7.0
Potential proceeds from Hispam assets (€bn)	3.7	4.0	4.3	4.6	4.9	5.2	5.5	5.8

Source: Goldman Sachs Global Investment Research

**Exhibit 48: Telefonica Hispam: overview of the remaining assets and potential proceeds at low and high multiples within the range observed**

In EURmn, unless stated otherwise

	TEF's stake	EBITDA (in €mn)		Potential deal proceeds		
		2026E	Valuation (in €mn)	At low multiple (x)	Valuation (in €mn)	At high multiple (x)
Argentina	100%		1,200	5.0	1,200	5.0
Perú	100%		0.9	0.0	0.9	0.0
Chile	99%	288	999	3.5	1,998	7.0
Colombia	68%	353	1,100	3.1	1,100	3.1
México	100%	109	381	3.5	762	7.0
Others excl. Uruguay	100%	223	781	3.5	1,562	7.0
Uruguay	100%	92	389	4.2	389	4.2
Venezuela	100%					
Ecuador	100%					
<b>Hispam</b>	<b>94%</b>	<b>1,066</b>	<b>4,851</b>	<b>3.3</b>	<b>7,013</b>	<b>4.8</b>
<b>Hispam excl. closed deals</b>		<b>1,066</b>	<b>3,650</b>	<b>3.6</b>	<b>5,812</b>	<b>5.7</b>

■ Closed transactions  
■ In sale process

For transactions that are in process, we use valuation available through press releases

Source: Data compiled by Goldman Sachs Global Investment Research, Company data

**Exhibit 49: We use precedent transactions to derive an implied range for potential LatAm proceeds**

LatAm: precedent transactions multiples			
LatAm: precedent transactions		Price	EV/EBITDA implied
<b>Some TEF transactions</b>			
May-25	TEF Uruguay sale	€389mn	4.2x
Apr-25	TEF Peru sale	€0.9mn	0.0x
Feb-25	TEF Argentina sale	€1,200mn	5.0x
Jul-24	TEF Colombia sale	€1,100mn	3.1x
Jan-22	TEF El Salvador sale	€121mn	5.0x
Aug-21	TEF Costa Rica sale	€425mn	7.0x
Aug-19	TEF Moviles Panama sale	€536mn	-
May-19	TEF Celular de Nicaragua sale	€390mn	-
Jan-19	TEF Moviles Guatemala sale	€293mn	-
<b>Average</b>			<b>4.1x</b>

**Other LatAm transactions\***

<b>Average</b>			<b>6.2x</b>
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LatAm: peer multiples				
Company	Country	2025E EV/EBITDA	2026E EV/EBITDA	2027E EV/EBITDA
America Movil	Mexico	4.7	4.6	4.3
Telefonica Brasil	Brazil	4.7	4.2	4.0
TIM Brasil	Brazil	4.5	4.3	4.1
Megacable	Mexico	4.3	4.1	4.0
Televisa	Mexico	4.8	5.1	5.2
Liberty Latin America	US	5.4	5.2	5.1
Telecom Argentina	Argentina	5.3	4.6	4.2
Entel SA	Chile	3.8	3.6	3.4
Millicom	Luxembourg	4.6	4.5	4.5
<b>Average</b>		<b>4.7</b>	<b>4.5</b>	<b>4.3</b>
Average excl. TEF Brasil		4.7	4.5	4.4

(\*) Please see a full list of all other LatAm transactions in Appendix.

Source: Data compiled by Goldman Sachs Global Investment Research, Company data

Below, we provide a brief case study of Telefonica's latest rights issuance, highlighting its size, structure and strategic purpose as a reference point for how the company has approached equity financing in the past.

### **Case study: 2015 Telefonica's rights issuance**

To better understand Telefonica's previous rationale for a rights issuance, we revisit the 2015 case when the company executed a €3bn rights issue, c.5% of market cap at the time, to partially finance the acquisition of Brazilian broadband operator GVT. This was part of a targeted strategic investment to strengthen Telefonica's position in the core market. When it came to timing, Telefonica first announced an offer to buy GVT from Vivendi in 2014 (EV: c.€7.5bn, EV/EBITDA: c.10.5x). Then, in March 2015 it announced plans for a capital increase alongside Telefonica Brasil. Telefonica offered €3bn through an offering of c.281mn new shares at €10.84 subscription price per new share (c.19% discount to TERP).

At the time, credit rating agency Fitch had a positive take on this rights issuance/deal as it considered it to add synergies rather than debt. The agency perceived it similar to Telefonica Deutschland's E-Plus acquisition in 2014, and said it would improve TEF's competitive position in Brazil for the following reasons: 1) a larger and more integrated business, 2) scope for convergent offerings, 3) benefits from limited overlap in the existing customer base, and 4) geographical expansion as GVT's customers are largely outside Sao Paulo while Telefonica is inside it.

# Organic drivers of our Buy rating: domestic and Brazilian performance, portfolio simplification is a further positive

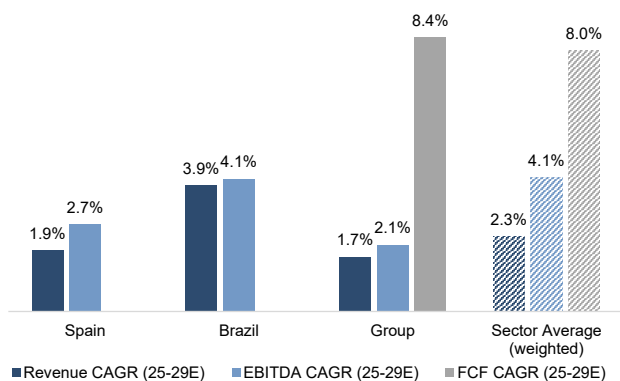
As mentioned in previous section, **our Buy rating is predicated on TEF’s accelerating FCF and returns growth, supported by the recently consolidated Spanish mobile market, Brazilian market structure and Hispam asset sales.** This drives our above-consensus estimates, although currently pressured by FX. We forecast 2%/8% EBITDA/FCF 2025-29E CAGRs.

Telefonica has enjoyed improved rationality in its domestic market since 2022, which, together with its low churn and benefits from MasOrange consolidation, should lead to sustained Spanish service revenues growth, in our view. Further, we expect the Brazilian asset (Vivo) to see further improvements, driven by continued price increases within a rational competitive setting. Together with the structural reduction of Group capex presented at the CMD (TEF guides for <12% group capex/sales by 2026E; although we note medium term guidance is on hold now due to the strategic review), these factors can boost cash flow generation going forward. Telefonica’s dividends remain well covered on our estimates. Its ongoing portfolio simplification in Hispam is a positive as it could help it unwind some complexity discount on our EV/IC vs. ROIC approach. It also helps reduce exposure to volatile FX and regulatory risks.

We note that Telefonica’s German asset remains challenged — in our German telecom report, we analyzed the impact of 1&1’s wholesale contract switch from Telefonica Deutschland’s (O2DE) mobile network and onto VOD’s. We note that TEF Deutschland represents a minority in the overall group’s EBITDA-capex/EV. The company has been focused on offsetting the lost capacity through various new contracts (e.g. with Freenet). However, we believe that the market repair in case of consolidation, as we have discussed in the *Germany* section, would bring the real improvement.

**Exhibit 50: Our Buy rating is supported by Telefonica’s growth in the recently consolidated Spanish market, Hispam sales and resilient Brazilian business...**

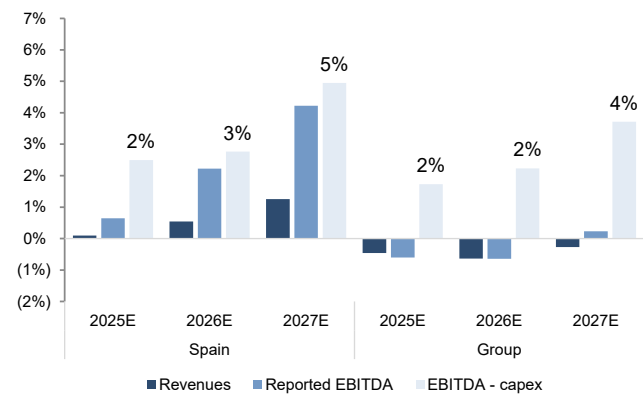
TEF’s growth vs. sector average, 2025-29E CAGR



Source: Goldman Sachs Global Investment Research

**Exhibit 51: ...these core markets drive our above-consensus estimates for the group**

GS vs. Visible Alpha Consensus Data, 2025-27E

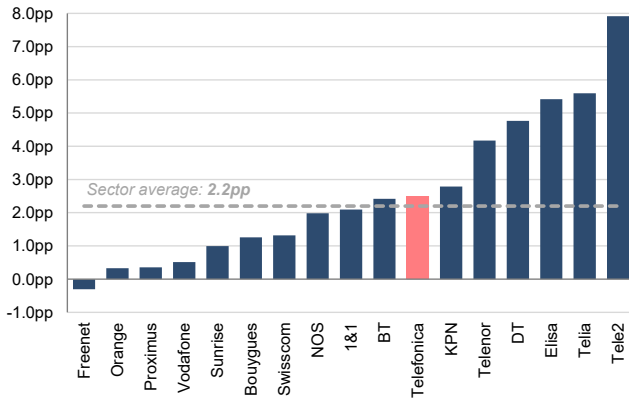


We note that consensus is not fully comparable with our estimates as not all analyst estimates exclude the recently concluded Hispam deals and FX assumptions vary.

Source: Visible Alpha Consensus Data, Goldman Sachs Global Investment Research

**Exhibit 52: Our organic outlook for TEF's assets supports above-sector-average returns improvement...**

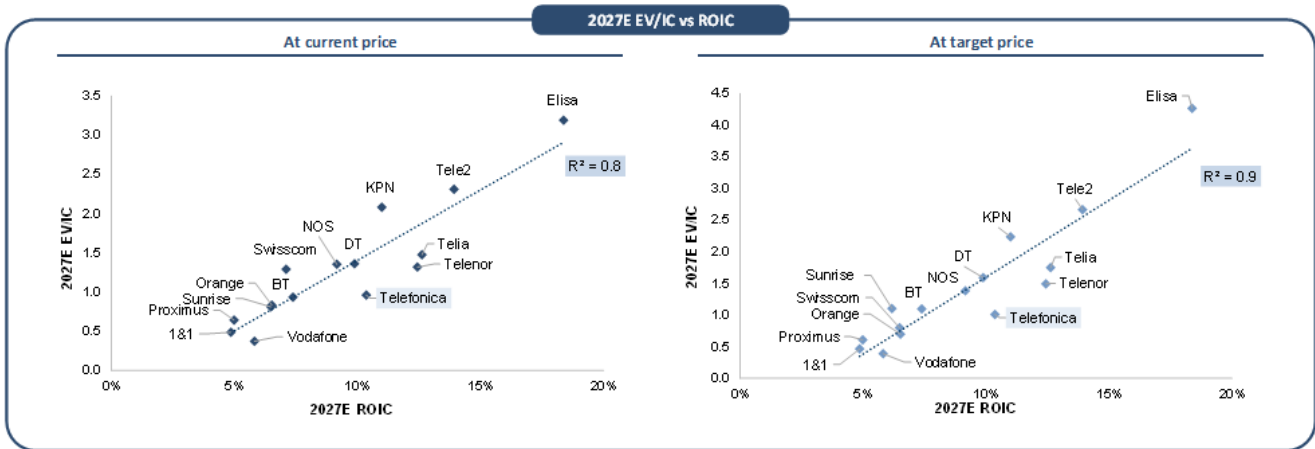
ROIC improvement 2025-29E



Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 53: ...and we find that ROIC is the key driver of valuation in the sector, the correlation between EV/IC and ROIC is very high. Within this framework, Telefonica currently trades at a discount to the line of best fit on sector valuation given its complexity, but its organic performance together with Hispam simplification should help reduce it**

2027E EV/IC vs ROIC on current and target price



Source: Goldman Sachs Global Investment Research

# Summary financials

## Exhibit 54: Summary P&L

In EURmn, except EPS/DPS

Telefonica: Summary P&L (in € mn)	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Revenue	39,992	40,653	37,895	36,834	36,947	37,673	38,486	39,380	40,299
Growth (%)	1.8%	1.7%	1.6%	(2.8%)	0.3%	2.0%	2.2%	2.3%	2.3%
Underlying EBITDA	12,940	13,121	12,813	12,280	12,379	12,757	12,990	13,320	13,729
Growth (%)	(0.6%)	1.4%	1.2%	(4.2%)	0.8%	3.1%	1.8%	2.5%	3.1%
Margin (%)	32.4%	32.3%	33.8%	33.3%	33.5%	33.9%	33.8%	33.8%	34.1%
Exceptionals	88	1,731	-461	44	0	0	0	0	0
Reported EBITDA	12,852	11,390	12,352	12,324	12,379	12,757	12,990	13,320	13,729
Growth (%)	(41.5%)	(11.4%)	(1.7%)	(0.2%)	0.4%	3.1%	1.8%	2.5%	3.1%
Margin (%)	32.1%	28.0%	32.6%	33.5%	33.5%	33.9%	33.8%	33.8%	34.1%
Operating income	4,056	2,593	4,354	4,503	4,553	4,852	5,030	5,293	5,636
Growth (%)	n.m.	(36.1%)	(7.6%)	3.4%	1.1%	6.6%	3.7%	5.2%	6.5%
Margin (%)	10.1%	6.4%	11.5%	12.2%	12.3%	12.9%	13.1%	13.4%	14.0%
Net financial income (expense)	-1,313	-1,904	-1,734	-1,545	-1,402	-1,260	-1,103	-933	-747
Profit before taxes	2,961	(1,473)	2,571	2,854	3,101	3,542	3,877	4,311	4,839
Corporate income tax	-641	899	-690	-618	-620	-708	-775	-862	-968
Tax rate (%)	21.7%	61.0%	26.8%	21.6%	20.0%	20.0%	20.0%	20.0%	20.0%
Profit for the period	2,319	(574)	1,881	2,237	2,481	2,834	3,102	3,449	3,871
EPS basic	0.40	(0.20)	(0.06)	0.40	0.44	0.50	0.55	0.61	0.69
DPS	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30

Source: Company data, Goldman Sachs Global Investment Research

## Exhibit 55: Leverage Calculations Breakdown

Net debt Module	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
<b>Gross Financial Debt</b>	<b>39,079</b>	<b>37,061</b>	<b>38,782</b>						
Cash and cash equivalents	(7,245)	(7,151)	(8,062)						
Adjustments	(5,147)	(2,561)	(3,559)						
<b>Net Financial Debt (co. def.)</b>	<b>26,687</b>	<b>27,349</b>	<b>27,161</b>	<b>24,668</b>	<b>22,179</b>	<b>19,410</b>	<b>16,412</b>	<b>13,147</b>	<b>9,577</b>
Commitments related to employee benefits	3,906	4,510	3,789	3,574	3,574	3,574	3,574	3,574	3,574
Hybrids	7,550	7,550	7,550	7,550	7,550	7,550	7,550	7,550	7,550
<b>Net Financial Debt (GS def.)</b>	<b>38,143</b>	<b>39,409</b>	<b>38,500</b>	<b>35,792</b>	<b>33,303</b>	<b>30,534</b>	<b>27,536</b>	<b>24,271</b>	<b>20,701</b>
Lease Liabilities	8,645	8,920	8,275	8,010	8,010	8,010	8,010	8,010	8,010
<b>Net Financial Debt (GS def. incl. leases)</b>	<b>46,788</b>	<b>48,329</b>	<b>46,775</b>	<b>43,802</b>	<b>41,313</b>	<b>38,544</b>	<b>35,546</b>	<b>32,281</b>	<b>28,711</b>
<b>Leverage Ratios (x)</b>									
<b>Company definitions</b>									
<b>Net Financial Debt / OIBDA (old co. def.)</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.0</b>	<b>1.8</b>	<b>1.5</b>	<b>1.3</b>	<b>1.0</b>	<b>0.7</b>
Leverage reduction	2.1	2.1	2.1	2.0	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
<b>Net Financial Debt / OIBDAaL (new co. def.)</b>	<b>2.5</b>	<b>2.5</b>	<b>2.7</b>	<b>2.6</b>	<b>2.3</b>	<b>1.9</b>	<b>1.6</b>	<b>1.3</b>	<b>0.9</b>
Leverage reduction	n.m.	(0.0)	0.1	(0.1)	(0.3)	(0.4)	(0.3)	(0.4)	(0.4)
<b>GS definitions</b>									
<b>Net Financial Debt (GS def. incl. 50% hybrids) / OIBDAaL</b>	<b>n.m.</b>	<b>3.3</b>	<b>3.4</b>	<b>3.3</b>	<b>3.0</b>	<b>2.7</b>	<b>2.3</b>	<b>2.0</b>	<b>1.6</b>
Leverage reduction	n.m.	n.m.	0.1	(0.1)	(0.3)	(0.4)	(0.3)	(0.4)	(0.4)
<b>Net Financial Debt (GS def. incl. 100% hybrids) / OIBDAaL</b>	<b>2.9</b>	<b>3.0</b>	<b>3.8</b>	<b>3.7</b>	<b>3.4</b>	<b>3.1</b>	<b>2.7</b>	<b>2.3</b>	<b>1.9</b>
Leverage reduction	0.0	0.1	0.8	(0.1)	(0.3)	(0.4)	(0.3)	(0.4)	(0.4)
<b>Net Financial Debt (GS def. incl. 50% hybrids &amp; leases) / OIBDA</b>	<b>n.m.</b>	<b>3.4</b>	<b>3.4</b>	<b>3.3</b>	<b>3.0</b>	<b>2.7</b>	<b>2.4</b>	<b>2.1</b>	<b>1.8</b>
Leverage reduction	n.m.	n.m.	(0.0)	(0.1)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)
<b>Net Financial Debt (GS def. incl. 100% hybrids &amp; leases) / OIBDA</b>	<b>3.6</b>	<b>3.7</b>	<b>3.7</b>	<b>3.6</b>	<b>3.3</b>	<b>3.0</b>	<b>2.7</b>	<b>2.4</b>	<b>2.1</b>
Leverage reduction	(0.3)	0.0	(0.0)	(0.1)	(0.2)	(0.3)	(0.3)	(0.3)	(0.3)

**Exhibit 56: Summary Cash Flow Statement**

In EURmn

Telefonica: Summary Cash Flow (in € mn)	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
<b>EBITDA</b>	12,852	11,390	12,352	12,324	12,379	12,757	12,990	13,320	13,729
Cash interest (incl. interest on leases)	-1,236	-1,811	-1,186	-1,159	-1,086	-975	-827	-687	-531
Dividends received (incl. VMO2 recap)	944	1,246	346	264	298	307	352	401	462
Cash tax	-92	-454	-358	-369	-402	-500	-567	-664	-799
Working capital change	352	313	-222	353	336	313	295	269	248
<b>Cashflow from operating activities</b>	<b>11,763</b>	<b>11,649</b>	<b>10,711</b>	<b>11,081</b>	<b>10,585</b>	<b>10,963</b>	<b>11,302</b>	<b>11,699</b>	<b>12,168</b>
Cash Capex (ex spectrum)	-5,508	-5,851	-5,141	-4,226	-4,034	-4,059	-4,093	-4,134	-4,202
Spectrum	-135	-239	-166	-168	-168	-168	-168	-168	-168
Proceeds on disposals and investments	-1,743	752	31	1,009	0	0	0	0	0
Acquisitions	0	0	0	0	0	0	0	0	0
<b>Cashflow from investing activities</b>	<b>-5,327</b>	<b>-4,286</b>	<b>-4,735</b>	<b>-4,554</b>	<b>-4,202</b>	<b>-4,228</b>	<b>-4,262</b>	<b>-4,302</b>	<b>-4,370</b>
Dividends paid	-1,397	-2,139	-1,887	-1,810	-1,691	-1,691	-1,691	-1,691	-1,691
Dividends paid to minorities	-438	-438	-57	-175	-256	-276	-284	-293	-299
Equity operations (Minorities, buybacks, hybrid coupon)	-555	-1,771	-1,301	-133	-133	-133	-133	-133	-133
Movement in borrowings	-4,033	-701	1,356	-60	0	0	0	0	0
Lease principal payments	-1,996	-2,114	-2,016	-2,642	-2,620	-2,671	-2,742	-2,820	-2,911
V financing	-698	-245	-222	-41	0	0	0	0	0
<b>Cashflow from financing activities</b>	<b>-7,925</b>	<b>-7,186</b>	<b>-4,473</b>	<b>-4,861</b>	<b>-4,700</b>	<b>-4,771</b>	<b>-4,849</b>	<b>-4,938</b>	<b>-5,034</b>
FX	154	-271	-188	-39	0	0	0	0	0
<b>Net increase/(decrease) in C&amp;CE</b>	<b>-1,335</b>	<b>-94</b>	<b>1,315</b>	<b>1,627</b>	<b>1,683</b>	<b>1,964</b>	<b>2,192</b>	<b>2,459</b>	<b>2,764</b>

Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 57: Summary Free Cash Flow Bridge**

In EURm

Summary FCF Bridge	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
OIBDA	12,852	11,390	12,352	12,324	12,379	12,757	12,990	13,320	13,729
Accrued capex	5,819	5,579	5,094	4,305	4,083	4,109	4,143	4,184	4,251
<b>OpFCF</b>	<b>7,033</b>	<b>5,811</b>	<b>7,258</b>	<b>8,019</b>	<b>8,296</b>	<b>8,648</b>	<b>8,846</b>	<b>9,136</b>	<b>9,477</b>
WC & non-cash items	352	1,748	516	264	336	313	295	269	248
Cash interest (incl. int. on leases) & dividends received (incl. recap)	(292)	(1,302)	(1,194)	(895)	(788)	(668)	(475)	(286)	(69)
Taxes and minorities & Other	(530)	(892)	(525)	(550)	(658)	(776)	(851)	(957)	(1,098)
Pre-retirement commitments		(854)	(986)	(1,040)	(1,040)	(1,040)	(1,040)	(1,040)	(1,040)
<b>FCF excl. leases</b>	<b>6,563</b>	<b>4,512</b>	<b>5,069</b>	<b>5,797</b>	<b>6,146</b>	<b>6,478</b>	<b>6,776</b>	<b>7,122</b>	<b>7,518</b>
Leases principal	(1,996)	(2,114)	(2,016)	(2,641)	(2,620)	(2,671)	(2,742)	(2,820)	(2,911)
Leases interest		(445)	(478)	(226)	(217)	(195)	(165)	(137)	(106)
Leases principal & interest		(2,559)	(2,494)	(2,867)	(2,837)	(2,866)	(2,907)	(2,957)	(3,017)
<b>FCF incl. leases</b>	<b>4,567</b>	<b>2,398</b>	<b>3,053</b>	<b>3,155</b>	<b>3,526</b>	<b>3,807</b>	<b>4,034</b>	<b>4,302</b>	<b>4,607</b>
Spectrum (cash)	(135)	(239)	(166)	(168)	-168	-168	-168	-168	-168
<b>FCF excl. leases &amp; incl. spectrum</b>	<b>6,428</b>	<b>4,273</b>	<b>4,903</b>	<b>5,628</b>	<b>5,977</b>	<b>6,310</b>	<b>6,608</b>	<b>6,953</b>	<b>7,350</b>
<b>FCF incl. both leases &amp; spectrum</b>	<b>4,432</b>	<b>2,159</b>	<b>2,887</b>	<b>2,987</b>	<b>3,357</b>	<b>3,638</b>	<b>3,866</b>	<b>4,133</b>	<b>4,439</b>
% dividend coverage	242%	84%	149%	150%	172%	185%	196%	208%	223%
VMO2 recap		736	503	0	0	0	0	0	0
<b>FCF incl. spectrum</b>		<b>1,332</b>	<b>2,692</b>	<b>2,855</b>	<b>3,226</b>	<b>3,507</b>	<b>3,734</b>	<b>4,002</b>	<b>4,307</b>
% growth yoy				6%	13%	9%	6%	7%	8%
<b>FCF calculation as per guidance (excl. spectrum and M&amp;A proceeds)</b>		<b>1,571</b>	<b>2,858</b>	<b>3,023</b>	<b>3,394</b>	<b>3,675</b>	<b>3,903</b>	<b>4,170</b>	<b>4,475</b>
% growth yoy				6%	12%	8%	6%	7%	7%

Source: Company data, Goldman Sachs Global Investment Research

**Exhibit 58: Summary Balance Sheet**

In EURmn

Telefonica: Summary Balance Sheet (in € mn)	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Intangible assets	12,017	11,370	9,875	9,888	10,056	10,225	10,393	10,561	10,729
Goodwill	18,471	18,708	16,461	16,708	15,926	15,135	14,339	13,537	12,728
Property, plant and equipment	23,714	22,944	21,439	17,098	14,138	11,134	8,113	5,074	2,042
Rights of use	8,279	8,448	7,907	9,533	12,153	14,824	17,566	20,386	23,297
Financial investments	19,688	15,858	15,777	15,015	14,667	14,310	13,908	13,458	12,946
Deferred tax assets	4,884	6,240	6,673	6,450	6,450	6,450	6,450	6,450	6,450
<b>Total Non-Current assets</b>	<b>87,053</b>	<b>83,568</b>	<b>78,133</b>	<b>74,693</b>	<b>73,390</b>	<b>72,078</b>	<b>70,769</b>	<b>69,464</b>	<b>68,190</b>
Inventories	1,546	929	954	906	906	906	906	906	906
Receivables and other current assets	9,134	10,132	10,445	8,584	8,352	8,346	8,372	8,508	8,666
Cash and cash equivalents	7,245	7,151	8,062	9,530	11,213	13,176	15,368	17,827	20,591
Other current assets	4,663	2,543	2,908	5,784	5,784	5,784	5,784	5,784	5,784
<b>Total Current assets</b>	<b>22,589</b>	<b>20,756</b>	<b>22,369</b>	<b>24,804</b>	<b>26,255</b>	<b>28,213</b>	<b>30,431</b>	<b>33,025</b>	<b>35,948</b>
<b>Total Assets</b>	<b>109,642</b>	<b>104,324</b>	<b>100,502</b>	<b>99,497</b>	<b>99,645</b>	<b>100,291</b>	<b>101,200</b>	<b>102,490</b>	<b>104,138</b>
Long term debt	35,059	33,360	33,192	32,865	32,865	32,865	32,865	32,865	32,865
Long term lease liabilities	6,657	6,708	6,077	5,768	5,768	5,768	5,768	5,768	5,768
Deferred tax	3,067	2,702	2,905	3,294	3,512	3,721	3,929	4,127	4,296
Provisions	6,505	7,454	6,152	5,591	5,591	5,591	5,591	5,591	5,591
Other long term liabilities	3,546	3,605	3,693	3,563	3,046	2,529	2,012	1,495	978
<b>Total long-term liabilities</b>	<b>54,834</b>	<b>53,829</b>	<b>52,019</b>	<b>51,080</b>	<b>50,781</b>	<b>50,473</b>	<b>50,164</b>	<b>49,846</b>	<b>49,497</b>
Short term debt	4,020	3,701	5,590	4,826	4,826	4,826	4,826	4,826	4,826
Short term lease liabilities	2,020	2,239	2,226	2,024	2,024	2,024	2,024	2,024	2,024
Trade and other payables	13,509	13,957	14,606	12,838	12,941	13,249	13,571	13,975	14,381
Provisions	1,920	1,869	1,614	740	740	740	740	740	740
Others	1,631	1,633	1,698	4,457	4,399	4,312	4,214	4,087	3,929
<b>Total short term liabilities</b>	<b>23,100</b>	<b>23,399</b>	<b>25,734</b>	<b>24,885</b>	<b>24,931</b>	<b>25,152</b>	<b>25,375</b>	<b>25,652</b>	<b>25,901</b>
<b>Total Liabilities</b>	<b>77,934</b>	<b>77,228</b>	<b>77,753</b>	<b>75,965</b>	<b>75,712</b>	<b>75,624</b>	<b>75,540</b>	<b>75,498</b>	<b>75,398</b>
Shareholder funds	25,088	21,852	19,347	19,579	19,987	20,713	21,681	22,960	24,620
Minority interests	6,620	5,244	3,402	3,954	3,945	3,953	3,980	4,031	4,119
<b>Total Equity</b>	<b>31,708</b>	<b>27,096</b>	<b>22,749</b>	<b>23,532</b>	<b>23,933</b>	<b>24,667</b>	<b>25,661</b>	<b>26,992</b>	<b>28,740</b>
<b>Total liabilities and equity</b>	<b>109,642</b>	<b>104,324</b>	<b>100,502</b>	<b>99,497</b>	<b>99,645</b>	<b>100,291</b>	<b>101,200</b>	<b>102,490</b>	<b>104,138</b>

Source: Company data, Goldman Sachs Global Investment Research

## Valuation & key risks

We remain Buy-rated on Telefonica. Our 12-month price target is unchanged at €5.2 and it is based on our EV/IC to ROIC/WACC methodology.

### **Key downside risks to our thesis and price target include:**

**1) Spanish competition/churn:** the Spanish market has seen some rationalization over the past 2-3 years, as various operators continue to increase prices above inflation. We expect for this to improve further with contained churn as the benefits from the MasOrange merger continue to come through. Should this positive momentum deteriorate, it could pose a risk to our estimates and valuation.

**2) German competition:** German mobile competition remains more intense than 12-18 months ago. This is mainly due to 1&1's wholesale contract switch which prompted operators to be more competitive. Therefore, further intensification of price competition would raise more concerns around German telco market rationality, and could pose downside risks to all operators' financials, to different extent. However, we note this intensified competition could pressure operators to engage in discussions that could drive German mobile market consolidation — where all operators would benefit from market repair.

**3) Brazil:** Key risks for Telefonica Brasil (Vivo) are: (1) taxation, (2) execution of regulatory-regime migration and related asset sales; (3) macroeconomic impact on mobile prepaid; (4) execution of growth strategy in IT and new revenue streams; and (5) competition in mobile postpaid and fixed broadband.

**4) LatAm FX and macroeconomic volatility:** Brazil and Hispam represent c.40% of consolidated EBITDA, making Telefonica Group exposed to the FX swings in those markets which could pose downside risks to our estimates. We note that Telefonica hedges on yearly basis (i.e. in 2025 it hedges for 2025), and it always aims to have a high percentage hedged. On top of this, it has natural hedges in places such as interest, debt in local currency, taxes, leasing, capex, minority dividends that are all in local FX.

**5) UK (not consolidated):** Key risks for VMO2 include: cable upgrade cycle (higher/lower capex than expected), value accretive/destructive M&A, and competition/operating trends (better/worse than expected).

**6) M&A execution risk:** Telefonica is currently conducting a strategic review. With a CMD planned for 2H25, the uncertain outcome of the review is a key investor concern. As a result, there has been a lot of press speculation on what Telefonica could do, as we have discussed in this note, including potential deals in Spain and Germany. Management has also indicated that they are open to potential deals in Spain, UK and Germany. Telefonica has experience with both large- and small-scale M&A; however, were integration issues to arise, this would pose a downside risk to valuation. Similarly, investor sentiment could weigh on the shares if the company were to acquire at a valuation not supported by the proposed merits. We see similar execution risk at Telefonica Brasil, but we note that Vivo has a solid track record of integrating acquired

companies and creating long-term value for shareholders via M&A (e.g. GVT).

# Europe Digital Infrastructure

Explore >



## Nordic Telecoms Field trip highlights pricing power, cost efficiencies and consolidation upside; Buy Telenor, Telia, Tele2, Elisa

1 April 2025

We hosted our annual Nordic telecom field trip meeting with group & divisional management of Telenor, Telia, Tele2 and Elisa as well as regulators in Finland, Norway and Sweden. Overall, we find the markets are enjoying greater structural pricing power than historically, supporting above-inflation price rises. Finnish upselling to faster 5G speeds continues apace. Norway and Sweden are seeing price rises in 2025 at least as large as in 2024, with companies reporting no material impact on churn or customer spindown to date. We update our pricing analysis for the Nordic markets.



## Europe Telecom Services Digital Infrastructure: Deregulation, ramping returns & bifurcation offer further compelling opportunities

9 December 2024

In this report, we reiterate our bullish [Digital Infrastructure sector thesis](#) of ramping sector growth and returns owing largely to fibre deregulation. We update our stock-picking framework, focusing on earnings momentum and ROIC improvement. There is still material bifurcation between the best- and least well-positioned for fibre monetisation. We also incorporate the lens of mobile deregulation - consolidation potential is now too big to ignore. Our positive sector view is echoed by the GS strategists' [Overweight stance](#).



## Europe Telecom Services: Digital infrastructure – scope for mobile consolidation rising. Positive for sector, Buy VOD, Tele2

29 November 2021

A series of comments from various industry players suggest to us a raised probability of in-market consolidation. This would mark a significant change in mobile regulation, a topic of focus for the past two decades. However, we believe enough may have changed to mean competition authorities could allow markets to concentrate without offsetting remedies. Consolidation would drive higher operator growth and returns, justifying greater investment. And the resulting re-rating boost to the sector would be material.

More related reads:

- **Europe Telecom Services Reports of Italian consolidation supportive of our bullish Digital Infrastructure thesis** (7 February 2025)
- **Europe Telecom Services: Compelling investment opportunities with ramping FCF, plus scope for earnings upgrades and monetisation** (22 May 2024)
- **Nordic Telecoms: Recent challengers' price rises represent further step-up in competitive rationality; Buy TEL, Telia, Tele2, Elisa** (24 September 2024)

# Appendix

## Exhibit 59: Precedent transactions multiples that we use as a basis for our pro forma scenario analysis

### EV/EBITDA multiples (x)

Date	Precedent multiples	
May-2005	Weather Investments / Wind	7.5x
Jun-2005	KPN / Telfort	8.9x
Jul-2005	Orange S.A. / Amena	6.7x
Aug-2005	Deutsche Telekom / Telering	11.6x
Oct-2005	Telefonica / O2	6.8x
Oct-2005	Telenor / Vodafone Sweden	11.0x
Mar-2006	Liberty sells UPC France	11.4x
Apr-2006	Liberty sells UPC Sweden	9.3x
Aug-2006	Liberty buys Karneval (Czech cable operator)	9.8x
Nov-2006	Liberty sells UPC Belgium to Telenet	10.0x
Jun-2007	France Telecom & Mid Europa / One	8.7x
Jun-2007	Liberty increases effective stake in Telenet by further c.18% to total c.49.7%	6.9x
Sep-2007	Deutsche Telekom / Orange NL	8.7x
Nov-2009	Liberty buys Unitymedia	7.4x
Jan-2010	Liberty sells J.COM	8.3x
Sep-2010	CVC / Sunrise	6.7x
Dec-2010	Liberty buys Aster (Poland cable operator)	7.3x
Mar-2011	Liberty buys KabelBW	8.1x
Jun-2011	Spartan Capital Holdings / Polkomtel	6.4x
Jul-2011	Com Hem changes hands in PE deal	8.9x
Dec-2011	Apax / Orange	6.5x
Feb-2012	Hutchison / Orange Austria	6.9x
May-2012	AMX / KPN	9.8x
Jun-2012	AMX / Telekom Austria	5.3x
Sep-2012	Liberty announces Telenet offer ar EUR35/share	9.1x
Feb-2013	Liberty buys Virgin Media	8.8x
Apr-2013	Telenor / Globul	6.0x
Jun-2013	Vodafone buys Kabel Deutschland	11.6x
Jun-2013	Hutchison / O2 Ireland	10.0x
Aug-2013	O2 Deutschland / E-Plus	9.0x
Aug-2013	AMX / KPN	5.0x
Jan-2014	Liberty Global bids for Ziggo - stated blended multiple	11.3x
Mar-2014	Vodafone bids for Ono	7.5x
Apr-2014	Numericable/SFR	7.0x
Sep-2014	TDC/GET	8.0x
Jan-2015	Altice/PT	6.9x
Feb-2015	BT/EE	6.0x
Apr-2015	Telenet/BASE	4.2x
Jul-2015	Tele Columbus / Primacom	12.9x
Sep-2015	Tele Columbus / Pepcom	9.5x

Date	Precedent multiples (continued)	
Dec-2017	Liberty/DT Austria	10.0x
Jan-2018	Com Hem/Tele2	10.9x
Feb-2018	TDC/consortium	8.0x
Jul-2018	Telia TDC (incl GET)	12.1x
Dec-2018	Iliad / eil (31.6% stake)	6.5x
Jan-2019	DT/Purchase of Tmobile NL	5.3x
Apr-2019	Telenor/DNA	8.4x
Apr-2019	Liberty/Sunrise (sale of UPC Switzerland to Sunrise)	10.0x
May-2019	Vodafone sale of New Zealand business	7.7x
Nov-2019	KKR/ Telecom Italia *	4.7x
Jun-2020	Masmoil/PEP/Civin/KKR	7.8x
Aug-2020	Liberty/Sunrise	10.0x
Sep-2020	Iliad/Play	6.8x
Oct-2020	Toscafund (TAM)/TalkTalk	7.9x
Dec-2020	Morgan Stanley/Kublai/Tele Columbus	8.1x
Jan-2021	Next Private (Drahi)/Altice	6.4x
Mar-2021	Masmoil/Euskaltel	10.1x
May-2021	KKR/ KPN bid *	-
May-2021	EQT-Stonepeak/ KPN bid *	-
Jul-2021	Niel/Iliad	5.5x
Sep-2021	Patrick Drahi/Eutelsat* (rejected bid)	6.5x
Sep-2021	TMO-NL/Apax Partners & Warburg Pincus	8.7x
Nov-2021	KKR/Telecom Italia *	5.0x
Feb-2022	Iliad/Vodafone Italy *	6.2x
Jan-2023	Vodafone Hungary/4iG Nyrt./Corvinus Zrt.	8.4x
Dec-2023	Iliad/Vodafone Italy (2nd bid) *	7.8x
Mar-2024	Orange/MASMOVIL	8.1x
May-2024	Vodafone Spain/Zegona Communications Plc	5.6x
Oct-2024	Vodafone Romania/Hellenic Telecommunications Organization/TKRM *	-
Dec-2024	Vodafone/Three *	-
Jan-2025	Vodafone Italy/Swisscom AG	7.6x

<b>AVERAGE over the past 20 years</b>	<b>8.3</b>
<b>MINIMUM</b>	<b>4.2</b>
<b>MAXIMUM</b>	<b>12.9</b>
<b>AVERAGE over the past 10 years</b>	<b>7.9</b>
<b>MINIMUM</b>	<b>4.2</b>
<b>MAXIMUM</b>	<b>12.9</b>

\*proposed deal, multiple subject to change / failed bid

We use 6-12x as our valuation perimeter given this captures the majority of deals.

Source: Company data, Data compiled by Goldman Sachs Global Investment Research

**Exhibit 60: European telecoms: tradings comps**

Key multiples at current trading price

Telcos	2026E					2027E				
	EV/EBITDA	EV/ (EBITDA-Capex)	FCF Yield	FCF Yield (Unlevered)	Dividend Yield	EV/EBITDA	EV/ (EBITDA-Capex)	FCF Yield	FCF Yield (Unlevered)	Dividend Yield
<b>Incumbents &amp; wireless</b>										
Bouygues	4.3x	7.5x	8.2%	6.8%	5.8%	3.9x	6.5x	10.1%	8.3%	6.0%
BT	5.1x	11.2x	7.2%	3.8%	4.8%	4.8x	8.8x	11.3%	5.9%	4.9%
Deutsche Telekom	7.1x	11.4x	7.1%	5.6%	3.3%	6.6x	10.2x	7.5%	5.8%	3.8%
Elisa Corporation	10.1x	14.9x	5.1%	4.5%	5.3%	9.4x	13.9x	5.6%	4.9%	5.8%
KPN	8.4x	15.6x	6.1%	5.2%	4.7%	8.0x	12.3x	8.1%	6.7%	5.0%
Orange	5.0x	9.7x	8.3%	6.1%	6.4%	4.8x	9.3x	8.8%	6.5%	6.6%
Proximus	3.5x	3.5x	0.7%	1.7%	7.7%	3.5x	3.5x	2.8%	2.6%	7.7%
Swisscom	8.1x	21.0x	4.4%	3.7%	4.6%	7.7x	18.3x	5.5%	4.5%	4.8%
Tele2	10.3x	14.4x	6.5%	5.7%	4.9%	9.6x	13.1x	7.3%	6.4%	5.7%
Telefonica	5.4x	8.1x	12.9%	7.5%	6.4%	5.0x	7.4x	14.0%	8.1%	6.4%
Telenor	8.3x	11.6x	7.4%	5.4%	6.4%	7.8x	10.7x	8.1%	5.9%	6.5%
Telia	6.4x	10.5x	6.5%	5.8%	5.5%	5.9x	9.5x	7.4%	6.6%	5.8%
Vodafone	3.4x	5.6x	7.9%	5.3%	5.0%	3.1x	5.2x	9.7%	6.0%	5.0%
<b>Incumbents &amp; wireless average</b>	<b>6.6x</b>	<b>11.2x</b>	<b>6.8%</b>	<b>5.2%</b>	<b>5.4%</b>	<b>6.2x</b>	<b>9.9x</b>	<b>8.2%</b>	<b>6.0%</b>	<b>5.7%</b>
<b>I&amp;I</b>										
I&I	5.5x	9.0x	6.0%	4.8%	0.3%	4.7x	7.1x	8.6%	7.3%	0.5%
Freenet	6.7x	7.4x	9.6%	8.5%	8.2%	6.3x	6.9x	10.4%	9.1%	8.8%
United Internet	4.0x	7.2x	11.2%	8.0%	2.3%	3.5x	5.6x	16.7%	11.7%	2.5%
<b>Alternative carriers average</b>	<b>5.4x</b>	<b>7.9x</b>	<b>8.9%</b>	<b>7.1%</b>	<b>3.6%</b>	<b>4.8x</b>	<b>6.5x</b>	<b>11.9%</b>	<b>9.3%</b>	<b>4.0%</b>
<b>Cable</b>										
Liberty Global	4.4x	13.0x	5.6%	1.4%	13.2%	4.2x	11.8x	11.9%	2.2%	14.4%
Sunrise	6.2x	10.2x	11.5%	8.1%	8.1%	6.1x	9.8x	11.1%	8.0%	8.4%
NOS	4.6x	8.8x	9.3%	6.1%	9.1%	4.6x	8.6x	9.7%	6.3%	9.1%
<b>Cable average</b>	<b>5.1x</b>	<b>10.7x</b>	<b>8.8%</b>	<b>5.2%</b>	<b>10.1%</b>	<b>4.9x</b>	<b>10.0x</b>	<b>10.9%</b>	<b>5.5%</b>	<b>10.6%</b>
<b>Satellites</b>										
Eutelsat Communications	6.1x	141.3x	-12.8%	-1.2%	0.0%	5.8x	47.1x	-9.4%	0.2%	0.0%
SES SA	3.4x	7.7x	16.8%	11.6%	10.8%	3.4x	8.2x	17.2%	11.8%	11.8%
<b>Satellites average</b>	<b>4.8x</b>	<b>74.5x</b>	<b>2.0%</b>	<b>5.2%</b>	<b>5.4%</b>	<b>4.6x</b>	<b>27.7x</b>	<b>3.9%</b>	<b>6.0%</b>	<b>5.9%</b>
<b>Towers</b>										
Cellnex	13.2x	24.4x	6.7%	4.0%	4.4%	12.4x	18.7x	7.1%	4.2%	5.8%
Inwit	13.3x	17.8x	4.9%	3.8%	5.4%	12.8x	16.8x	5.8%	4.3%	5.8%
<b>Towers average</b>	<b>13.2x</b>	<b>21.1x</b>	<b>5.8%</b>	<b>3.9%</b>	<b>4.9%</b>	<b>12.6x</b>	<b>17.7x</b>	<b>6.5%</b>	<b>4.3%</b>	<b>5.8%</b>

Source: Refinitiv Eikon, Goldman Sachs Global Investment Research

**Exhibit 61: Precedent Hispam transactions multiples that we use as a basis for our Hispam proceeds range EV/EBITDA (x)**

Closing date	Buyer	Seller	Country	Asset involved	Total price paid (mn)	EV/EBITDA (x)
not closed	TIGO	TEF	Uruguay	TEF selling Uruguay operations to TIGO	€389mn	4.2x
not closed	TIGO	TEF	Colombia	Merger-of-equals between TIGO and TEF	€1,100mn	3.1x
not closed	LILAK	TIGO	Costa Rica	Merger in which LILA will hold ~86% interest and TIGO ~14%	n/a	n/a
Feb-25	TEO	TEF	Argentina	100% of TEF operations in Argentina	USD 1,245	4.1x
Apr-25	TecInterna	TEF	Peru	99.3% of TEF operations in Peru	EUR 0.9	0.0x
Mar-25	Group of	Novator	Chile	100% of WOM's operations in Chile (mobile)	n/a	n/a
Jun-24	TV	AT&T	Mexico	~41.3% remaining stake in Sky Mexico (fixed)	n/a	n/a
Jan-25	Group of	Novator	Colombia	WOM's operations in Colombia (mobile)	n/a	n/a
Sep-24	LILAK	EchoStar	Puerto Rico & USVI	>100MHz spectrum and ~85k mobile-prepaid users	USD 255	n/a
Feb-25	TEO	TEF	Argentina	TEF operations in Argentina (mobile+fixed)	USD1,245	4.1x
Aug-23	Vero	Americane	Brazil	Merger-of-equals between regional fixed providers	n.m.	n/a
Jul-22	LILAK	AMX	Panama	LILAK's fixed operation bought AMX's mobile operation	USD 200	n/a
Apr-22	VIV, AMX,	Oi	Brazil	1st, 2nd, 3rd mobile players in Brazil splitting up 4th player's mobile	BRL 15,922*	n/a
Nov-21	Grupo	AT&T	Several LatAm	Vrio (AT&T-owned satellite-TV provider in several LatAm countries)	n/a	n/a
Nov-21	Transtelco	-		Maxcom Telecomunicaciones	MXN 608	n/a
Nov-21	TIGO	Local	Guatemala	45% remaining stake in Tigo's JV in Guatemala (mobile and fixed provider)	USD 2,200	6.2x
Aug-21	LILAK	Telefónica	Costa Rica	Telefónica Costa Rica (mobile)	USD 500	n/a
Nov-20	LILAK	AT&T	Puerto Rico & USVI	AT&T operations in PR & USVI (mobile+fixed)	USD 1,950	n/a
Dec-19	AMX	NII	Brazil	Nextel Brasil (mobile)	USD 948.5	n.m.
Aug-19	TIGO	Telefónica	Panama, Costa Rica, Nicaragua	TIGO's fixed operations buying TEF's mobile	USD 1,650	6.8x
Mar-19	LILAK	Governme	Curaçao	88% stake in UTS (mobile+fixed)	USD 189	6.0x
Jan-19	AMX	TEF	Guatemala	99% of TEF Guatemala (mobile)	EUR 333	n/a
Dec-18	TIGO	Cable	Panama	80% stake in Cable Onda (mobile+fixed)	USD 1,460	7.9x
Oct-18	LILAK	Televisora	Costa Rica	Cabletica (fixed)	CRC 146,000	n/a
May-16	LILAK	Cable & Grupo	Several Caribbean	C&W business (mobile+fixed)	USD 7,400	n/a
Mar-16	TV	Grupo	Mexico	50% interest in Televisión Internacional (fixed/cable)	MXN 6,750	n/a
Jul-15	AT&T	DirecTV	US and LatAm	DirecTV (satellite TV)	USD 67,100	7.7x
Apr-15	AT&T	NII	Mexico	Nextel Mexico (mobile)	USD 2,302	n/a
Jan-15	AT&T	Grupo	Mexico	100% of Iusacell (mobile assets only)	USD 2,500	n/a
Jan-15	Grupo	TV	Mexico	50% remaining equity stake in Iusacell (mostly mobile)	USD 717	n/a
Jan-15	TV	Cablevisió	Mexico	Cablevisión Red (pay-TV)	MXN 10,200	10.2x
Dec-14	VIV	Vivendi	Brazil	GVT (fixed only)	EUR 7,450	10.5x
Dec-06	Axtel	Avantel	Mexico	Avantel (mobile+fixed)	USD 310	4.5x
					<b>LatAm EV/EBITDA multiple, median</b>	<b>6.1x</b>
					<b>Excl. TEF &amp; TV deals</b>	<b>6.2x</b>

\* figure as originally announced, potential adjustments are in arbitrage discussion

Source: Data compiled by Goldman Sachs Global Investment Research

# Disclosure Appendix

## Reg AC

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**Growth** is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

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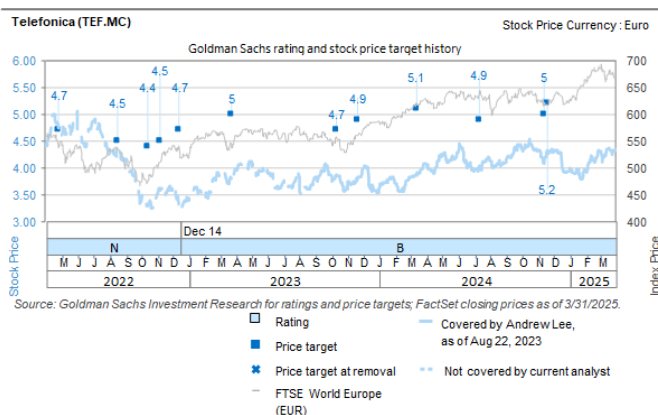
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