COMPANY ASSESSMENT

REPORT SUMMARY

KPN has made strategic decisions that have improved its enterprise go-to-market portfolio while also emphasizing innovation. Its simplification program has also enabled significantly lower costs, validating its ‘value over volume’ approach.

WHAT’S NEW

- KPN introduced KPN Smart Combinations for large and corporate enterprises, a simplified, modular and converged proposition that combines network, ICT and security services.
- KPN has agreed to sell its international network to GTT Communications, Inc. for approximately EUR 50 million in cash.
- KPN, AT&T, Orange and Swisscom activated LTE-M roaming across their IoT networks in a new roaming agreement for low-power devices using IoT across multiple networks in North America and Europe.
- KPN launched a new managed workplace offering based on Microsoft 365 for SMEs and large enterprises. KPN and/or its channel partners manage the migration, implementation and security of the solution.

GLOBALDATA COMPETITIVE INDEX

[Diagram showing GlobalData Competitive Index with categories: Overall, Vision/Strategy, Momentum & Stability, Innovation, Product Portfolio, Go-to-Market, Service & Support. The chart indicates various levels of strength from Vulnerable to Leader.]
RATING UPDATE SUMMARY

Very Strong

KPN has made a number of strategic decisions that have improved its enterprise go-to-market portfolio while also emphasizing innovation. Its simplification program has also enabled significantly lower costs, validating its ‘value over volume’ approach.

PERSPECTIVE - ESSENTIAL ANALYSIS

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Limitations</th>
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<tr>
<td><strong>Customer Focus</strong>: KPN has a sound reputation for customer focus. While strengths in customer service in international and consumer markets are well established, recent improvements in business market customer experience (reflected in a record-high NPS of +3 in Q1 2019) have increased its competitiveness.</td>
<td><strong>Small Base</strong>: KPN’s home market, the Netherlands, is small, mature and competitive, which makes revenue growth hard. The corporate base is under pressure, but KPN’s cloud and workspace, IoT and security initiatives offer new opportunities and reasons to buy.</td>
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<td><strong>Network Platform</strong>: KPN’s dominant network coverage in the regions it serves provides a matchless platform for delivering digital services to the enterprise market. Its open approach allows KPN to insert itself in other digital ecosystems such as public cloud platforms as well as telco consortia.</td>
<td><strong>Consolidation Could Hurt</strong>: Vodafone’s joint venture with Liberty Global’s Ziggo makes it a stronger rival to KPN, as does the 2019 merger of Tele2 and T-Mobile’s Dutch businesses. BT and T-Systems are both strong competitors in the large enterprise space, and any further cooperation between the two could put a squeeze on KPN.</td>
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<td><strong>Covering the Bases</strong>: KPN hosts industry-standard platforms and technology such as Microsoft, Cisco and Mitel for UC as well as Genesys for contact centre, and it uses both LoRa and LTE-M for IoT. It also provides secure access to third-party public clouds (AWS and Azure), to its own virtual private cloud and to on-premises services, all integrated within KPN’s Managed Hybrid Cloud services offering.</td>
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Vision/Strategy

Rating: Very Strong

- KPN’s Business Market strategy is based on three pillars: a converged, simplified product portfolio; transformation of the operating platform; and lean and digital operations. Its vision is to be the number one business service provider in the Netherlands, delivering premium connectivity and undisputed quality service, experience and security. Its go-to-market strategy is based on smart combinations of network, ICT and security services.

- KPN has restructured its business division to achieve stronger customer focus and increased standardization, prioritizing value over volume with fewer, but stickier offerings. As part of its streamlining efforts, it has chosen to accelerate the integration of its recent networking, cloud, IT and security acquisitions.

- Half of KPN’s SME customer base is now served via a converged proposition (i.e., KPN EEN MKB or KPN Small Business), which results in a higher NPS and lower cost to serve.

Momentum & Stability

Rating: Strong

- KPN’s top-line business sales have been declining - 4.9% YoY in Q1 2019- but the rate had slowed recently to 1.6% in the full year of 2018. Erosion in mature product lines like mobile and wholesale has been offset by growth in new services such as IoT as well as IT and professional services. KPN accepts that its ‘value over volume’ approach will result in additional revenue decline.

- Adjusted EBITDA for KPN increased by 3.5% YoY after flat performance in the previous two quarters. Lower revenues were offset by lower costs achieved through accelerating simplification and digitalization of the business.

- KPN maintains strong positions in cash, debt and cash flow. In June 2019, it completed the sale of its remaining stake in Telefonica Deutschland, increasing operational and financial flexibility. In addition, by accelerating simplification and digitalization, KPN expects to realize EUR 350 million in net-new OpEx savings from 2019-2021.
Innovation

Rating : Very Strong

• KPN has a dedicated business unit to explore new business opportunities, including IoT & APIs, and enhance innovation. An example is the KPN API Store, officially launched in 2019. Its venture capital investment arm, KPN Ventures, invests in promising start-ups and scale-ups to accelerate the development of ideas, products and applications.

• KPN pioneered Jasper’s M2M connectivity management platform in Europe, and completed its national LoRa network in 2016. It has also rolled out LTE Cat M1 nationwide to supplement LoRa and expand its IoT ecosystem, and is leading with smart applications for utilities, automotive, transport and logistics, industry 4.0, agriculture, healthcare and smart cities.

• To accelerate the digitalization of its customers and create new business value, KPN has launched various 5G field labs together with customers and partners. These field labs currently focus on applications in urban areas (Amsterdam Zuid-Oost), agriculture (Drenthe), industry 4.0/transport and logistics (Rotterdam), and automotive (Helmond).

• Acknowledging that network security is a prime consideration to customers, especially for IoT applications, KPN is investing in established network security vendors and advanced technologies such as quantum key distribution and automated threat analysis.

Product Portfolio

Rating : Strong

• KPN’s Data Services Hub is a platform-as-a-service that enables real-time information exchange within various ecosystems such as the Talking Traffic vehicular traffic ecosystem. This represents new platform-oriented thinking about a telco’s role in the so-called ‘gig economy’ and could be adapted to many other communities and use cases.

• For both cloud and on-premises, KPN offers application and communications suites from Microsoft, Cisco, Genesys and Mitel; VoIP and SIP trunking; network services such as VPN, IP/MPLS, Ethernet and SD-WAN; and security services.

• KPN is targeting multiple verticals, with specific focus for solutions in healthcare, government (education, local government, public safety) and manufacturing, offering strong integration between the vertical apps and KPN’s horizontal apps portfolio, such as Genesys for contact centre solutions. Growth areas for KPN include IoT/data services, security, cloud and next-gen networking.
Go-to-Market

Rating : Very Strong

- KPN’s go-to-market strategy is based on ‘smart combinations’ of network, ICT and security, including: KPN Small Business for SoHo, KPN EEN MKB for SME, and KPN Smart Combinations and KPN Smart Integration for large and corporate enterprises.

- For large and corporate enterprises, KPN Smart Combinations provides a simplified, modular and converged proposition that combines network, ICT and security services. The offerings will be introduced in phases, with cloud communications, secure networking and connected workplace to be introduced in 2019.

- KPN ICT Consulting’s 900 staff provide both advice and professional services that span the full customer journey (i.e., orientation, strategy, assess & define, design & plan, implementation and optimization).

Service & Support

Rating : Very Strong

- KPN’s customer service provides a single interface to business customers; its customer service model includes a 24x7 service desk, a self-service portal, a management portal and a dedicated service manager. It is also working on developing KPN Smart Integration, a modular service proposition for corporate customers with multiple IT stacks in place, enabling simplified services integration of KPN and third-party services.

- KPN’s Simplification program has eliminated many legacy business products and services, but it has also led to record NPS, a strong indicator of improving customer satisfaction. KPN raised its business customer NPS into positive territory (+3) in Q1 2019, and it claims to have a market-leading NPS score in the Netherlands, leveraging work put in via customer experience labs and co-creation programs.

- Reducing, simplifying and bundling the product set, increasing customer self-service and integrating resellers more intimately in the sales process has allowed KPN to deploy more people into customer-facing roles.

- KPN has invested in its multi-country website and customer portal, which provides visibility into network performance and transactions. Larger customers have direct access to a pricing and quoting tool and online ordering.

Segment Ratings

Market and Perspective

Business Network and IT Services- Europe Region: Very Strong
Collaboration and Communications: Strong
Data Center and Cloud Services: Strong
Mobility: Strong
Network Access and VPNS: Very Strong
Security: Competitive
**THREATS AND BARRIERS**

**Domestic Rivalry:** KPN's rightsizing will leave it more fit to compete domestically, but it still needs to overcome its declining sales in mature markets. While the joint venture between Vodafone and Liberty Global’s Ziggo is a serious threat to its consumer business, KPN can’t afford to ignore its potential to attract enterprise and international business customers. Also, Tele2’s aggressive courting of mobile and IoT users and its recent merger with T-Mobile Netherlands will increase the pressure.

**International Challenge:** Having divested international assets, including most recently its agreement to sell KPN International to GTT Communications, KPN has chosen to focus on the Netherlands and Dutch-based MNCs. KPN is part of the ngena alliance for global SD-WAN connectivity and maintains bilateral peering and wholesale agreements, but it could find itself less competitive in some large customer bids with international requirements compared to its position in previous years.

**New Ways of Working:** Just as KPN’s legacy revenues are threatened by OTT players’ disruptive business models, it is also challenged to adapt its processes and culture in order to better compete in the digital future. Both customer and employee experience must reflect new ways of working and communicating in order to attract qualified staff and retain customers.

**Cash-Flow Straightjacket:** KPN has been able to manage its debt with positive cash flow, but shrinking revenue from business customers due to asset sales, competitors and technology change could cramp its freedom to act.

**RECOMMENDED ACTIONS**

**Vendor**

- **Edge Opportunity:** KPN should partner with cloud infrastructure and platform providers to leverage its unique position in the Netherlands to deliver highly distributed edge computing in support of 5G-enabled IoT applications.
- **Manage the Top Line:** As KPN shifts its revenue mix in favour of higher-value services and away from legacy services and equipment resale, it needs to manage the transition financially in order to avoid a bigger internal disruption than planned. Having done restructuring in advance while investing in new ways of working should position it well.

**Competitors**

- **Exploit Restructuring:** As KPN rationalizes all the various significant changes it is undertaking (selling KPN International, integrating several standalone acquisitions and subsidiaries, and reducing its product portfolio), competitors have an opportunity to exploit missteps in its execution across both sales and delivery.
- **Attack Weakness:** International carriers should continue to target KPN’s MNC and enterprise customers with packaged deals and leverage regulator-facilitated access to KPN’s network to target SME and SOHO customers via resellers.
Buyers

- **Full-House Offer:** KPN offers the industry’s broadest range of ICT services to enable the digital transformation of Dutch businesses, and its Smart Combinations of modular and converged propositions that combine network, ICT and security services should make it easy and efficient to consume.

- **At Your Service:** KPN has not always had the best brand for customer service and experience, but Dutch businesses should pay attention to the telco’s achievements in NPS within its business division. The trend has been positive for a year or more, with an all-time high of +3 reached in Q1 2019.

**COMPANY DETAILS**

**Company Snapshot**

<table>
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<tr>
<th>Revenue</th>
<th>Adjusted group revenue for FY 2018 was EUR 5,639 million, down 1.9%. Adjusted group revenue in Q1 2019 was EUR 1,362 million, down 2.9% from the same period in 2018.</th>
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<tbody>
<tr>
<td>Employees</td>
<td>12,431 (2018)</td>
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<tr>
<td>HQ</td>
<td>Rotterdam, Netherlands</td>
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<tr>
<td>Market strengths/ solutions</td>
<td>Fixed and mobile access; voice and data products; international access to Central/Eastern Europe and Latin America via Telekom Austria and America Movil, and via BT elsewhere. ADSL, ADSL2+, VDSL, FTTH, Ethernet, IP/MPLS, SD-WAN, data centre and cloud services, managed/hosted services, security services; mobile voice, data and WAN; unified communications, collaboration; and FMC &amp; IoT/M2M.</td>
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**NETWORK DESCRIPTION**

**Fixed/Wireline Network**

**Number of PoPs:** 2 (domestic). KPN’s 50 international PoPs will be transferred to GTT Communications as part of the pending sale of KPN International.

**Countries served:**

- **Directly:** Austria, Belgium, Denmark, France, Germany, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden, Switzerland, the UK, the US
- **Indirectly:** 180 countries via SingTel, Sprint, Telefonica and 70 other bilateral deals

**Core backbone and core capacity:**

- **National:** 10/40/100 Gbps
- **International:** 10 Gbps

**Architectures/technologies in network:** IP VPN offers native Ethernet LAN/WAN connectivity, SDH, IPLC, IP transit and wavelengths.

**Access technologies:** VDSL2, VDSL2 pair bonding, vectoring, bonded vectoring, FTTH; next upgrades- Bonded VPLUS (copper), NG.PON (fibre).

**CapEx spend:** EUR 1.1 billion (2018)

**Vendors deployed:** Nokia (SDH, IMS); Huawei (optical core); Juniper (L2/L3 core); Cisco (L3 CPE); Adva (L2 CPE); Ipanema (WAN optimization)
| **Mobile/Wireless Network** | **Wireless technology:** GSM/GPRS/LTE/LTE-A/LTE-M/LoRaWAN (Netherlands only) coverage by 3G/4G networks  
| **Countries:** Netherlands  
| **Metros:** N/A  
| **Spectrum holdings (Netherlands):** 174.6 MHz (800MHz ñ 2x10MHz; 900MHz ñ 2x10MHz; 1800MHz ñ 2x20MHz; 1900 MHz ñ 5MHz; 2100MHz ñ 2x14.8 MHz, 2x5MHz; 2600MHz ñ 30MHz; 2600MHz ñ 2x10MHz)  
| **Recent cell tower additions/disposals:** N/A  
| **Vendors deployed:** Huawei, Nokia  
| **Data Centers** | Amsterdam, Rotterdam, Arnhem, Haarlem, Zwolle and Apeldoorn |

### KEY RECENT ANNOUNCEMENTS AND DISCLOSED STRATEGIC PLANS

<p>| <strong>July 2019</strong> | KPN introduced KPN Smart Combinations for large and corporate enterprises, a simplified, modular and converged proposition that combines network, ICT and security services. |
| <strong>June 2019</strong> | KPN entered a new agreement with AT&amp;T, Orange and Swisscom for LTE-M roaming across their respective IoT networks. This enables IoT low-power devices to operate efficiently on multiple networks across North America and Europe. |
| <strong>April 2019</strong> | KPN is integrating all of its security organizations into the unified KPN Security business unit. |
| <strong>October 2018</strong> | KPN invested in AI technology developer Cujo, which is focused on solutions for network operators. |
| <strong>July 2018</strong> | KPN invested in cybersecurity start-up ZecOps, which specializes in automated threat analysis. |</p>
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<tr>
<th>Date</th>
<th>Description</th>
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<tr>
<td>July 2019</td>
<td>KPN agreed to sell its international network to GTT Communications, Inc. for approximately EUR 50 million in cash. After closing of the transaction, KPN will continue delivering international services to Dutch business customers as part of its ICT services offering. As part of the transaction, KPN will enter into a master services agreement with GTT to ensure continuity of international network services to its customers.</td>
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<td>May 2019</td>
<td>KPN agreed to sell data centre subsidiary NLDC to a fund managed by DWS, a global infrastructure investment manager, for an undisclosed consideration. The move aligns with KPN’s strategy to simplify its model and focus on core ICT services in the B2B market. KPN will continue to deliver its core ICT services (such as security, workspace, cloud telephony, hybrid-cloud solutions) out of its remaining and NLDC data centres in the Netherlands and through public clouds such as AWS and Azure. NLDC will continue to deliver data centre services to KPN as a preferred supplier.</td>
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<td>February 2019</td>
<td>KPN completed the sale of iBasis, its international wholesale voice business, to Tofane. Financial details of the transaction were not disclosed.</td>
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<td>March 2018</td>
<td>KPN acquired the remaining interest in StartReady, after it had acquired a minority stake in 2014. The company provides managed voice, video and chat services to KPN business customers based on Microsoft’s Skype for Business software.</td>
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