COMPANY ASSESSMENT

REPORT SUMMARY

KPN provides ‘smart combinations’ of network, ICT and security services, with new services for SME (e.g., business TV) and large enterprises (e.g., central firewall for secure networking). It also launched three new 5G services for business customers.

WHAT’S NEW

• **COVID-19:** KPN offered free access to its subscription-based meeting service and has waived some costs of out-of-bundle traffic for business mobile users. It has added 4G backup free of charge to KPN EEN SME for both new and existing customers, after introducing its Extra Secure Internet module. KPN is also providing content and support on working from home, and free security and digitization advice towards healthcare.

• **July 2020:** KPN launched 5G with three initial business services delivering coverage on demand, guaranteed bandwidth, and application priority solutions.

• **June 2020:** KPN announced the launch of a business TV service (part of KPN EEN MKB) targeting SMEs, enabling companies to broadcast information and programs in their reception, canteen or restaurant facilities.

• **June 2020:** KPN launched the advanced security platform, Central Firewall, as part of Secure Networking, which will provide a secure central connection between the company network and the internet and will provide KPN customers with performance security and reliability.

• **May 2020:** KPN announced that it will be 100% shareholder in GiessenlandenNet, the fiber optic network provider that has presence in the rural area and the network will remain open and accessible to various telecom providers.
KPN provides ‘smart combinations’ of network, ICT and security services, with new services for SME (e.g. business TV) and large enterprises (e.g. central firewall for secure networking). It also launched three new 5G services for business customers.
**Strengths**

- **Customer Focus:** KPN has a sound reputation for customer focus, reflected both in its strong emphasis on getting things right for specific customer segments, and in its positive net promoter score (NPS) among business customers (Q2 2020: +2).

- **Network Platform:** 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.

- **Covering the Bases:** KPN hosts industry-standard platforms and technology such as Microsoft, Cisco, Broadsoft, and Mitel for UC as well as Genesys for contact center. 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 Cloud services offering. KPN also offers a Modern Workplace based on Microsoft 365.

- **Simplified Portfolio:** KPN is well on track in its goal of reducing the number of offers in its business portfolio by 50% by the end of 2021, and is now providing business customers simplified, modular and converged propositions that combine network, ICT (e.g., Cloud & Workspace) and security services.

**Limitations**

- **Small Base:** 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.

- **Consolidation Could Hurt:** 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/Deutsche Telekom are both strong competitors in the large enterprise space, and any further cooperation between the two could put a squeeze on KPN.

- **Elephant(s) in the Room:** The local presence of hyperscale cloud providers AWS, Google Cloud, and Microsoft Azure in the Netherlands creates opportunities for KPN, but also represents a threat as the US giants continue to innovate in a broad range of increasingly easy to consume digital business solutions.

**CATEGORY RATINGS AND JUSTIFICATION**

**Vision/Strategy**

Rating : Very Strong

- KPN’s vision is to be the number one business service provider in the Netherlands, delivering premium connectivity and undisputed quality in terms of service, experience and security, positioned as the Network of the Netherlands.

- Its Business Market strategy is based on three pillars: a converged, simplified product portfolio; transformation of the operating platform; and lean and digital operations. By connecting its existing network and platform engines to Microsoft and other third party platforms, it can position itself to sell more cloud and network-enabled services.
• KPN 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 accelerated the integration of its networking, cloud, IT, and security acquisitions made in recent years.

**Momentum & Stability**

Rating : Strong

• KPN’s adjusted group revenues declined 2.4% YoY in H1 2020 (excluding divestments), while adjusted business revenues declined 4.8% (excluding divestments). Lower revenues from communication services were partially offset by higher revenues in professional services and IT services, but the impact of COVID-19 has slowed momentum in newer service areas like IoT and security.

• Adjusted EBITDA after leases for KPN increased 1.6% (excluding divestments) in H1 2020. Lower revenues were offset by strong cost control resulting in margins increasing to 44.3%.

• KPN maintains strong positions in cash, debt, and cash flow despite higher CapEx in 2020, and remains well funded with ample liquidity to cover debt maturities for the coming years.

**Innovation**

Rating : Very Strong

• Following its 5G field labs with customers and partners focused on applications in urban areas (Amsterdam Zuid-Oost), agriculture (Drenthe), process industry (Rotterdam), mobility (Helmond), and manufacturing (Eindhoven), KPN has now launched public 5G connectivity with a focus on business services.

• Acknowledging that network security is a prime consideration to customers, KPN is investing in established network security vendors and advanced technologies. It also updated its KPN EEN MKB (KPN ONE SME) offering to protect small businesses from malware and introduced Secure Networking, one of the Smart Combinations for large and corporate enterprises, combining Internet, VPN, SD-LAN, SD-WAN, and security services. KPN has also recently added Central Firewall to its Secure Networking proposition.

• KPN has a dedicated business unit (KPN Open Innovation Hub) to explore new business opportunities, including IoT & APIs, and enhance innovation. An example is the KPN API Store, 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.

**Product Portfolio**

Rating : Strong

• KPN is well on track to reach its target of 50% portfolio rationalization by end 2021, and is now providing business customers simplified, modular, and converged propositions that combine network, ICT (e.g., Cloud & Workspace), and security services, with a new focus on about 100 customer segment-oriented offerings in bundles.
• In the UC space it is rationalizing its portfolio to a strong core of cloud solutions, including Cloud Communications based on Cisco Broadsoft, Microsoft Teams, and Mitel. Its Contact Center portfolio consists of Genesys. KPN’s SD-WAN offering is based on Cisco Meraki.

• 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, SD-WAN, and SD-LAN; and security services.

• KPN is targeting multiple verticals, with specific focus on three verticals that include solutions in healthcare, government (central and local government, education and public safety) and manufacturing, offering strong integration between the industry propositions and KPN’s horizontal portfolio. Growth areas for KPN include cloud, workspace, security, IoT, and next-gen networking.

Go-to-Market

Rating : Very Strong

• KPN’s go-to-market strategy is based customer segment-specific bundles: ‘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. Messaging is focused around business value and achieving key business outcomes of increased client interaction, organizational performance, and employee productivity.

• For large and corporate enterprises, KPN Smart Combinations provides a simplified, modular, and converged proposition that combines network, ICT, and security services. Key examples are Secure Networking and Cloud Communications.

• KPN also provides KPN Smart Integration, where KPN is taking care of the management of operational IT processes and the management of suppliers. KPN currently provides two levels of integration: fundamental and advanced.

• The sale of KPN’s international network to GTT will enable KPN to focus on its core market in the Netherlands. It will also continue to focus on customers that are operating internationally and have their HQ in the Netherlands. As a long-term strategy, KPN is also focused on developing its ecosystem with third party vendors like Microsoft to expand its sales.

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 also introduced KPN Smart Integration, a modular service proposition for large business and corporate customers with multiple IT stacks in place, enabling simplified integration of both KPN and third-party services.

• KPN’s Simplification program has eliminated many legacy business products and services, but it has also led to a high NPS, a strong indicator of improving customer satisfaction. KPN 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.
Segment Ratings

<table>
<thead>
<tr>
<th>Market</th>
<th>Perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Network and IT Services - Europe Region</td>
<td>Very Strong</td>
</tr>
<tr>
<td>Collaboration and Communications</td>
<td>Very Strong</td>
</tr>
<tr>
<td>Data Center and Cloud Services</td>
<td>Strong</td>
</tr>
<tr>
<td>Mobility</td>
<td>Strong</td>
</tr>
<tr>
<td>Network Access and VPNs</td>
<td>Very Strong</td>
</tr>
<tr>
<td>Security</td>
<td>Competitive</td>
</tr>
</tbody>
</table>

**THREATS AND BARRIERS**

- **GTM Adjustment:** With the comprehensive simplification of the business services portfolio significantly reducing the number of products, KPN’s salesforce must be retrained around the new core bundles. Even as customers respond to the new bundles, there is a fundamental difference in value as opposed to volume selling.

- **COVID Caution:** KPN faces many of the same issues during the COVID-19 pandemic as any telecom provider, and so far its financial impact has been only slightly negative. In the Business segment, the main impact is currently visible in lower revenues from roaming, network services (WiFi hotspots), and IT projects.

- **Domestic Rivalry:** KPN’s rightsizing has left 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. Both domestic competitors have launched initial 5G services, demonstrating where their impact on the business market may be heading.

- **International Challenge:** Having divested international assets, including the sale of KPN International to GTT Communications, KPN has increased focus on the Netherlands and Dutch-based SoHo, SME, and large and corporate enterprise customers. 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. There may be interesting tensions between having two partners for global reach, as both GTT and ngena offer SD-WAN solutions.
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, even via the public network.

- **Business Continuity:** As it proceeds with plans to build an integrated network security and cloud operations center, KPN should keep security at the forefront of its customer messaging. It should continue to emphasize its investment in security solutions across the portfolio, including secure networking and advanced cybersecurity, to promote KPN’s value to clients in support of business continuity and resiliency.

Competitors

- **Exploit Restructuring:** As KPN finishes rationalizing all the significant changes it has undertaken (selling KPN International, integrating several standalone acquisitions and subsidiaries, and reducing its product portfolio), competitors could exploit any 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 access to KPN’s network to target SME and SOHO customers via resellers.

- **Private Seller:** Competitors with and without spectrum can position private network (4G/5G) solutions for campus locations and Industry 4.0 use cases as a sound alternative to KPN’s shared 5G network strategy. While KPN’s approach, which takes advantage of local market characteristics, may prove successful, private networks with dedicated resources have momentum so far in mindshare, and can be positioned as especially secure, stable, and liable to very low latency.

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 two years, with Q2 2020 NPS of +2 (Q2 2019: +1).

COMPANY DETAILS

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Adjusted group revenue for FY 2019 was EUR 5.5 billion, down 2.7% YoY. Adjusted group revenue in H1 2020 was EUR2.6 billion, down 3.6% YoY (or 2.4% excluding divestments).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>10,224 (Q2 2020)</td>
</tr>
<tr>
<td>HQ</td>
<td>Rotterdam, Netherlands</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td><strong>Market strengths/solutions</strong></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, workspace services, managed/hosted services, security services; mobile voice, data and WAN; unified communications, collaboration; and FMC &amp; IoT/M2M.</td>
</tr>
</tbody>
</table>

## 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, VPLUS, FTTH, FTTO; next upgrades- Bonded VPLUS (copper), NG.PON (fiber).

- **CapEx spend:** EUR 1.1 billion planned for 2020

- **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; 5G launch in July 2020 covers five cities and half the population, with continued roll-outs promising national coverage by 2021.

- **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

<table>
<thead>
<tr>
<th>Date</th>
<th>Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 2020</td>
<td>KPN launched 5G in five cities, with plans to cover two thirds the population of the Netherlands by the end of the 2020 and nationwide coverage in 2021. Initial service offerings are business-focused, including coverage on demand, application priority and guaranteed bandwidth.</td>
</tr>
<tr>
<td>June 2020</td>
<td>KPN announced the launch of a business TV service targeting SMEs that will provide businesses with their own channel to display information about employees and visitors.</td>
</tr>
<tr>
<td>June 2020</td>
<td>KPN launched the advanced security platform, Central Firewall, as part of Secure Networking, which will provide a secure central connection between the company network and the internet and will provide KPN customers with performance security and reliability.</td>
</tr>
<tr>
<td>January 2020</td>
<td>KPN announced it will roll-out 1Gbps to all locations with a fiber-optic FTTH connection.</td>
</tr>
<tr>
<td>November 2019</td>
<td>KPN renewed its KPN EEN MKB proposition by expanding its internet subscriptions for SMEs with Extra Safe Internet (Extra Veilig Internet).</td>
</tr>
</tbody>
</table>

### KEY MERGERS, ACQUISITIONS AND DIVESTMENTS

<table>
<thead>
<tr>
<th>Date</th>
<th>Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 2020</td>
<td>KPN announced that it will be 100% shareholder in GiessenlandenNet, the fiber optic network provider that has presence in rural areas. The network will remain open and accessible to various telecom providers.</td>
</tr>
<tr>
<td>December 2019</td>
<td>KPN agreed to sell the KPN ICT Consulting business to Cegeka as part of its simplification strategy. The deal includes all KNP ICT Consulting and Call2 activities, covering ICT strategy, cloud services and data analytics.</td>
</tr>
<tr>
<td>November 2019</td>
<td>KPN announced its agreement to sell its web hosting subsidiary Argeweb to Total Webhosting Solutions.</td>
</tr>
</tbody>
</table>