

# XL – Smartfren Merger: Creating a Digital Champion in Indonesia

## Analyst & Investor Conference Call

December 11, 2024

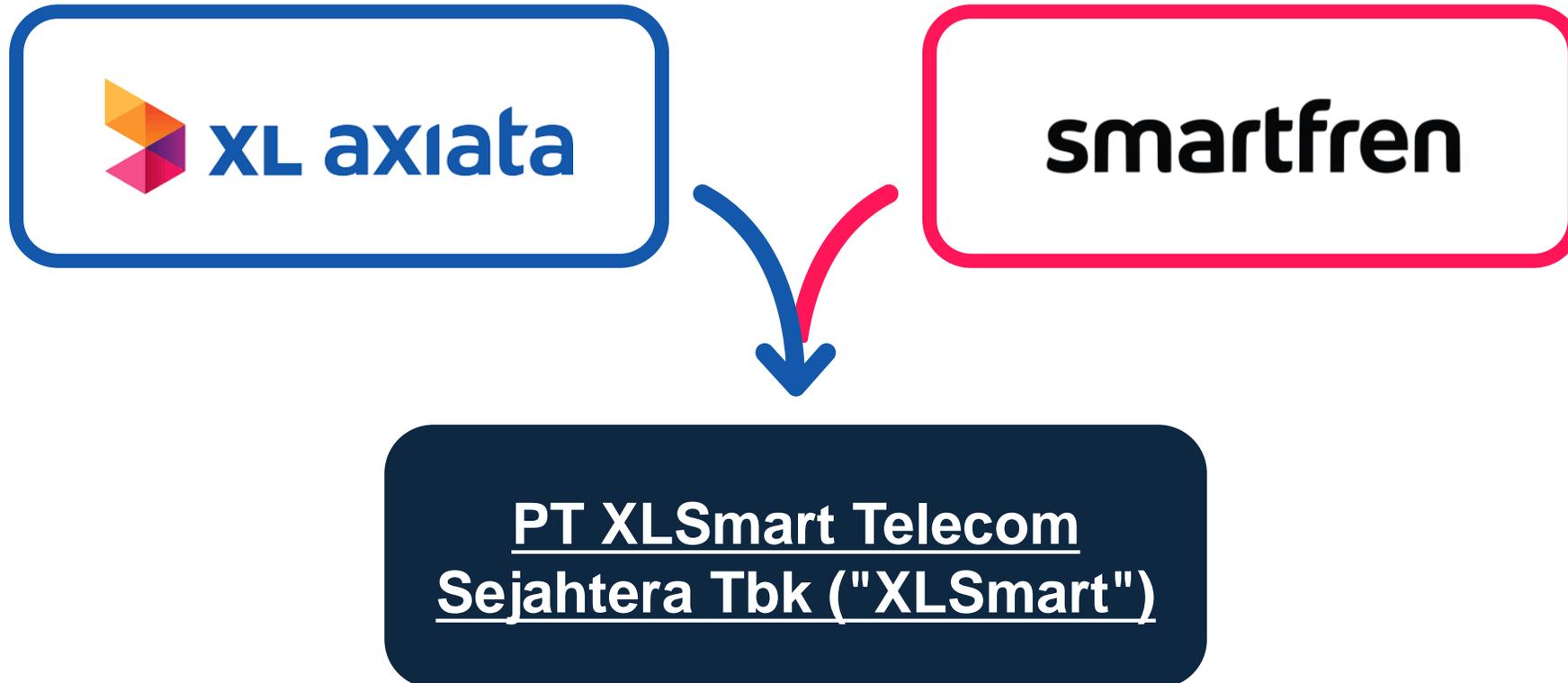
Vivek Sood / Nik Rizal Kamil

GCEO & Managing Director / GCFO



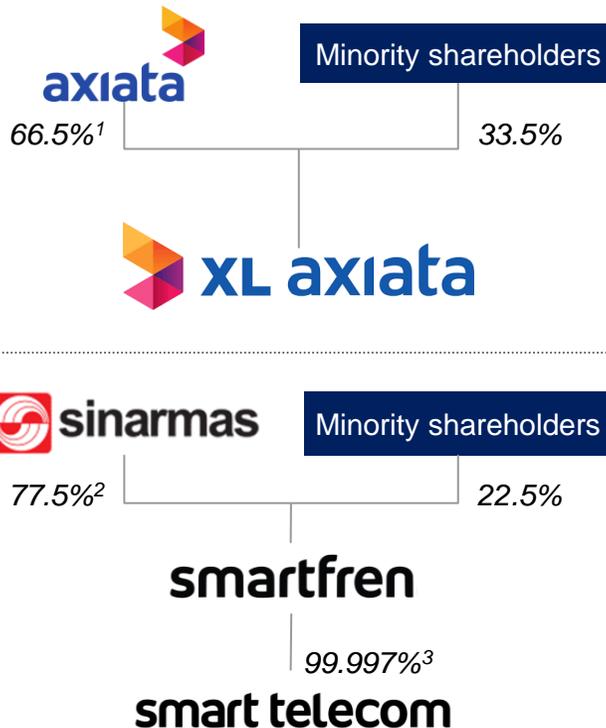


Today, we announce our intention to create a leading Indonesian telco with regional telco experience and local expertise

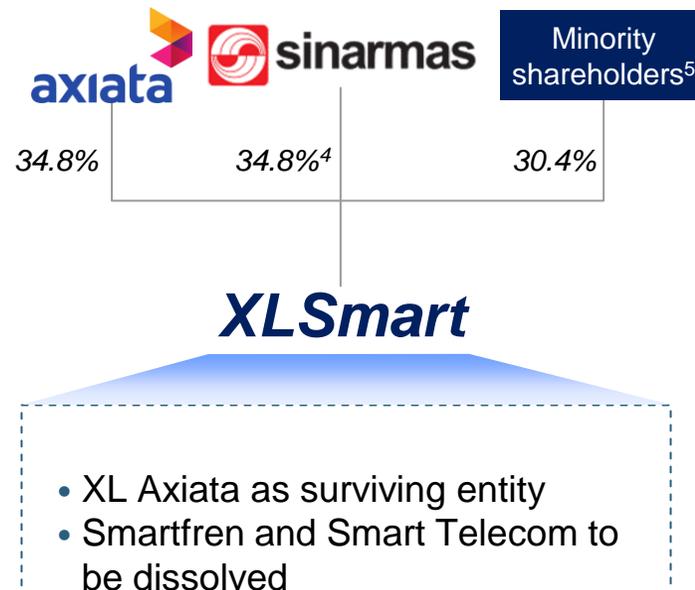


# Transaction overview: Merger of XL Axiata with Smartfren & Smart Telecom, with XL Axiata as the surviving entity

## Current shareholding structure



## Post-merger shareholding structure

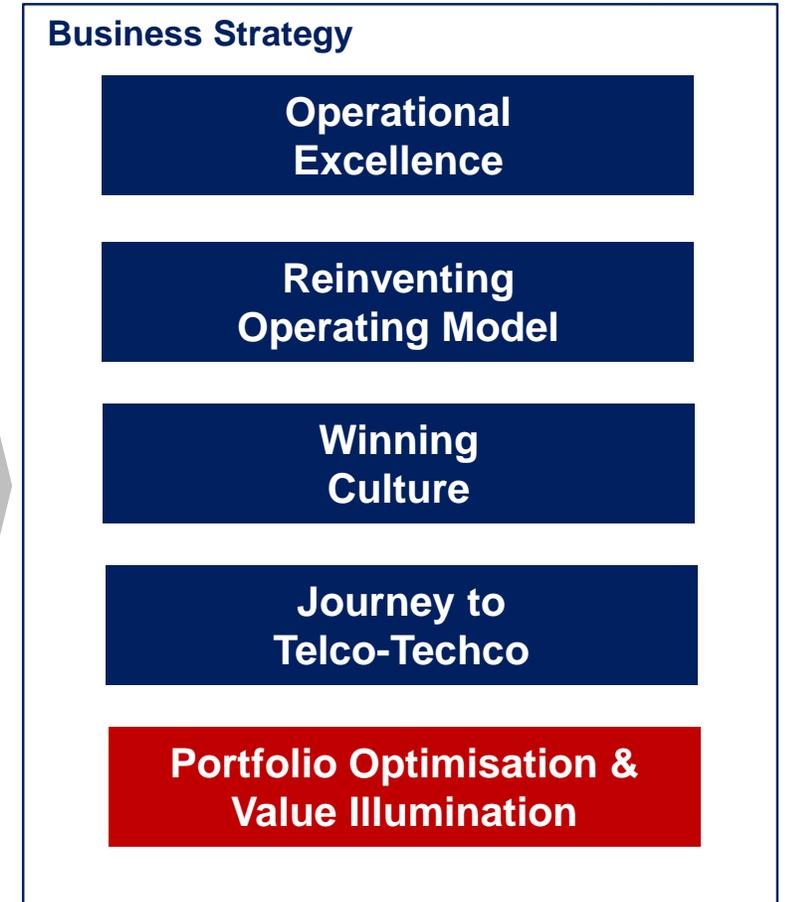
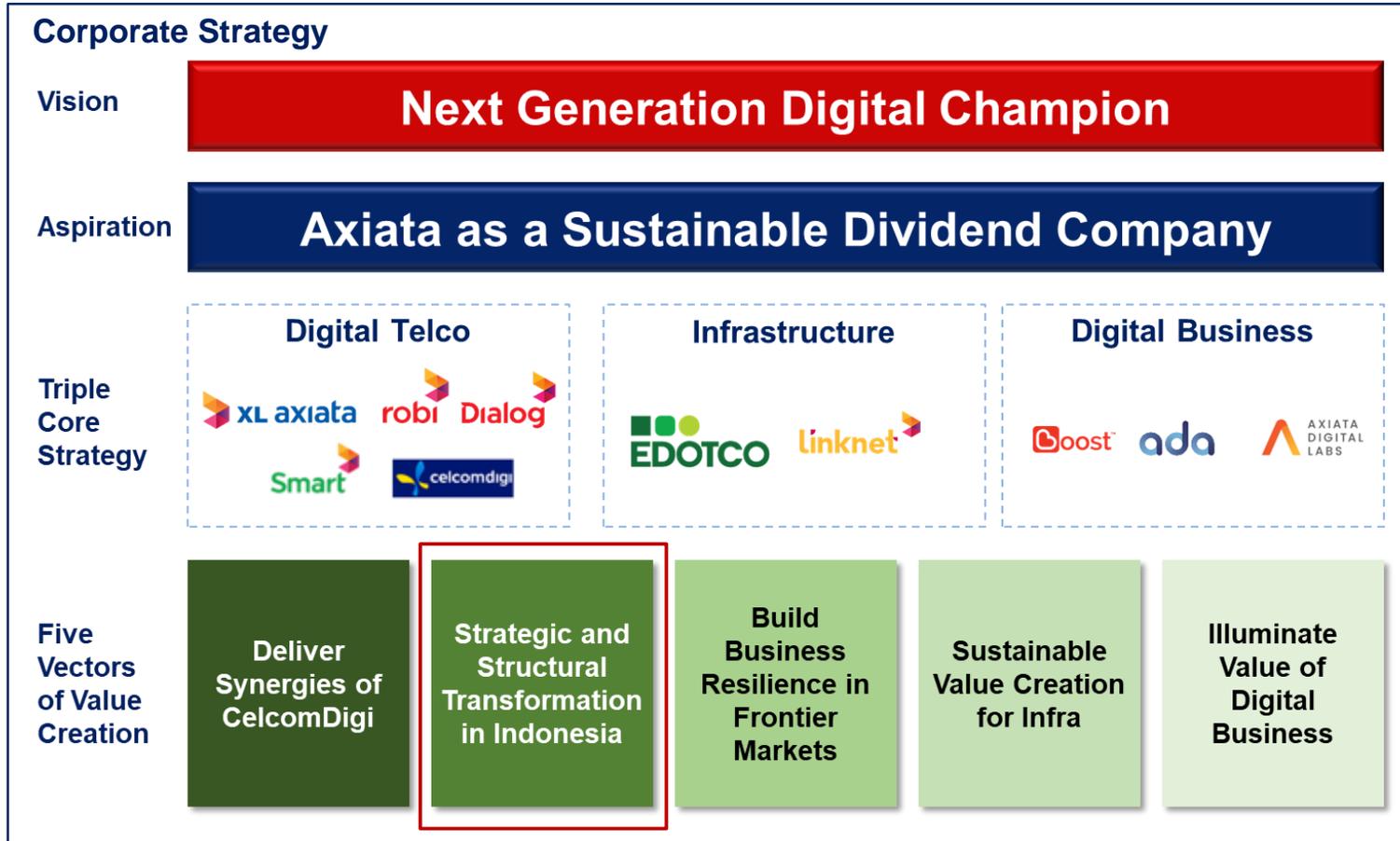


- Merger ratio of 72:28 equity value split between XL Axiata and Smartfren respectively
- XL Axiata will be the surviving entity and remain listed in IDX while issuing new shares to Smartfren shareholders as per merger ratio
- As part of merger, Sinar Mas will receive 21.7% stake in XL Smart while Axiata stake will be 47.9%
- Concurrent to merger, Sinar Mas would acquire an additional 13.1% stake in XL Smart from Axiata at a cash consideration of:
  - USD 400m at completion of the Proposed Merger
  - USD 75m on the first anniversary of the Proposed Merger subject to satisfaction of certain conditions
- Axiata and Sinar Mas will each own 34.8% stake in XL Smart and will remain joint controlling shareholders with equal influence over XL Smart's strategic direction

1. Axiata Group Berhad owns a 100% stake in Axiata Investments (Labuan) Limited which in turn owns a 100% stake in Axiata Investments (Indonesia) Sdn Bhd; 2. Sinar Mas's 77.5% stake is held through four corporate entities, namely PT Bali Media Telekomunikasi (41.2%), PT Global Nusa Data (16.7%), PT Wahana Inti Nusantara (10.2%), PT Gerbangmas Tunggal Sejahtera (9.4%); 3. PT Industri Telekomunikasi Indonesia (Persero) ("PTT INTI") holds a minority stake of 0.003% in Smart Telecom; 4. Post merger, Sinar Mas's 35% stake in the XL Smart will be held through four corporate entities, namely PT Bali Media Telekomunikasi (24.6%), PT Global Nusa Data (4.7%), PT Wahana Inti Nusantara (2.8%), PT Gerbangmas Tunggal Sejahtera (2.6%); 5. Includes stake held by PT INTI; Note: Numbers excludes treasury shares; Shareholding may not sum to 100% due to rounding



# XL-Smartfren merger marks a significant progress in executing Axiata Strategy





# Structural transformation in Indonesia expected to drive long-term value creation for Axiata



## Organic Initiatives

- ARPU increase ✓
- Direct distribution ✓

## Link Net Delayering

- Carve-out ServeCo to XL ✓
- Transform Link Net into FibreCo ✓
- Build-to-suit FTTH deployment by Link Net for XL ✓

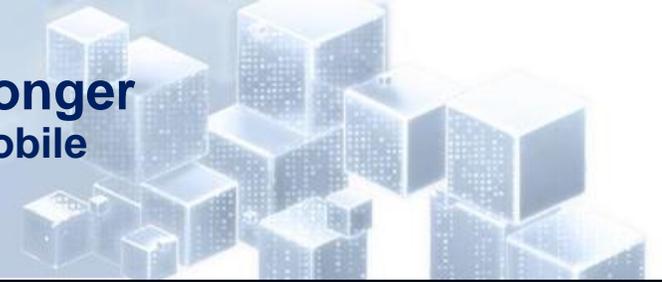
## XL – Smartfren Merger





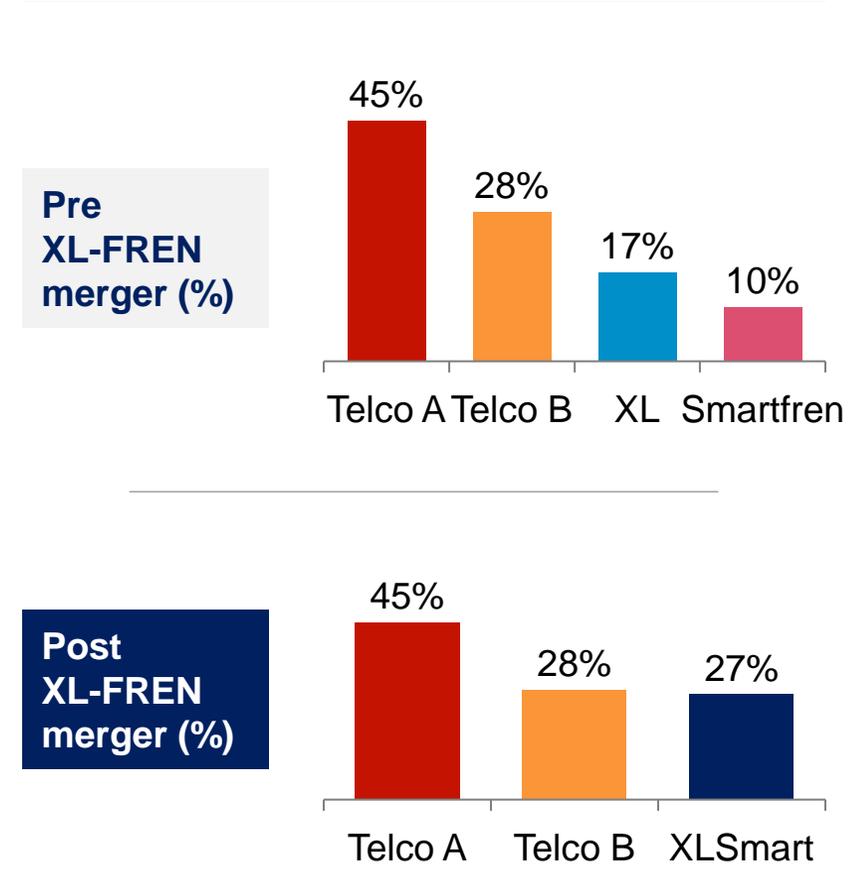
# Rationale i) XLSmart has greater scale and is commercially stronger

## Merger results in a stronger Mobile operator and transforms the Indonesian Mobile sector into a 3-player market



	Standalone (LTM Q3 '24)		Pro-forma (LTM Q3 '24)
	<b>XL axiata</b>	<b>smartfren</b>	<b>XLSmart</b>
Mobile subscribers	~58.6m	+ ~35.9m	~94.5m
Revenue (IDR tr)	33.8	+ 11.6	45.4 <i>(USD 2.8b)</i>
EBITDA (IDR tr)	17.4	+ 5.0	22.4 <i>(USD 1.4b)</i>
Margin (%)	51.5%	43.1%	49.4%

### Customer Market share (LTM Q3 '24)



Note: Numbers may not add up to 100% due to rounding. All financials as of LTM September 2024; Assumed FX (USD / IDR) of 16,000; Financials presented are pre-synergies; EBITDA values denote revenue less operating expenses plus depreciation / amortization  
 Source: Omdia; Company disclosure; Company quarterly report; Team analysis

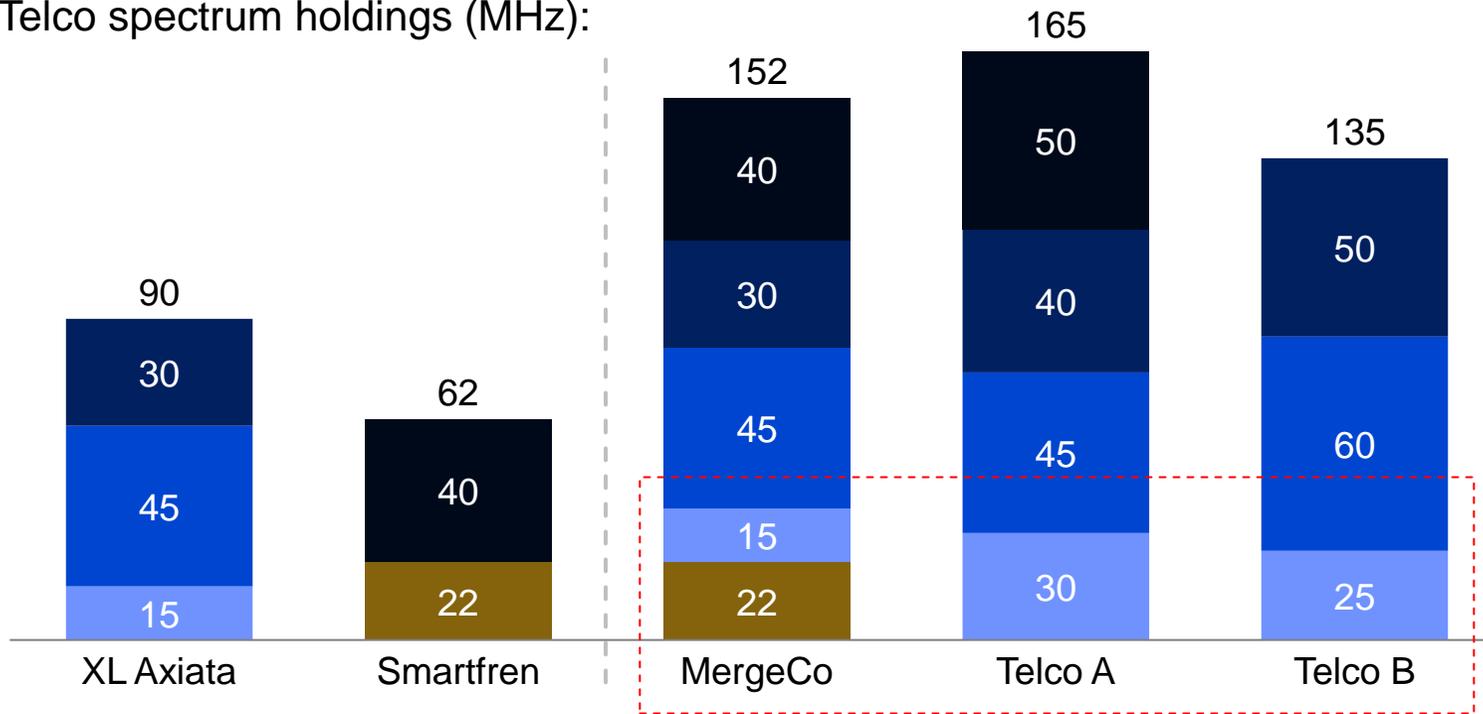


# Rationale i) XLSmart has greater scale and is commercially stronger

## XLSmart has comparable spectrum holding to compete



Telco spectrum holdings (MHz):



MergeCo has #2 overall spectrum, but #1 in low band

850MHz 900MHz 1800MHz 2100MHz 2300MHz

### Opportunities for XLSmart:

- XLSmart gains sufficient scale in Spectrum to compete against other Telcos in Indonesia
- Larger spectrum holdings provides greater capacity for XLSmart to improve network experience for enlarged customer base





## Rationale ii) Synergistic value and operational efficiencies

XLSmart to realize annual run-rate pre-tax synergies of US\$300 – 400M post completion of integration



Function	Key initiatives
 Network and IT	<b>Network footprint optimization</b> : decommission 20-30% of sites from overlapped footprint ● ● ●
	<b>Targeted network expansion</b> : selectively invest in targeted cities with a focus on profitability ● ● ●
 Procurement	<b>Vendor negotiation</b> : leverage volume and price book matching to attain best prices ● ● ●
 Commercial	<b>Channel optimization</b> : optimize acquisition spends by going direct to retailers and optimizing incentive structure ●
	<b>Digital channel acceleration</b> : deliver superior digital experience to increase spending/cross-selling and optimize commission ●

● Opex ● Capex ● Lease



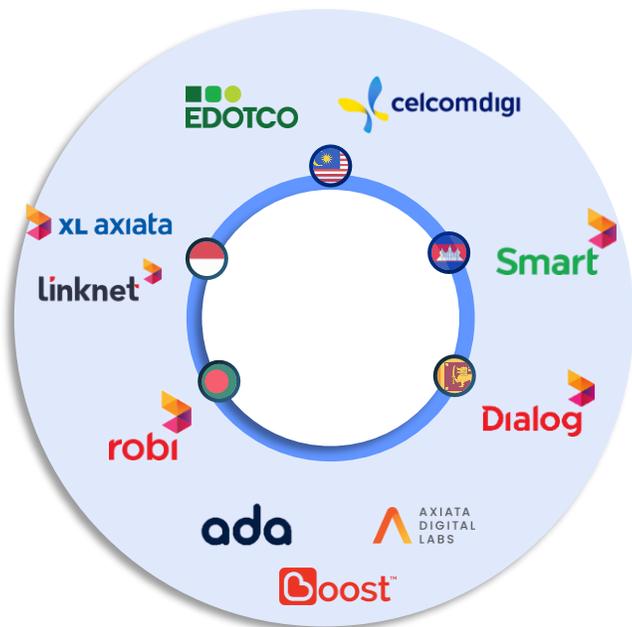
# Rationale iii) Local partnership and strong ecosystem support from shareholders

Axiata and Sinar Mas provide in-depth Regional telco experience and Local market expertise to XLSmart



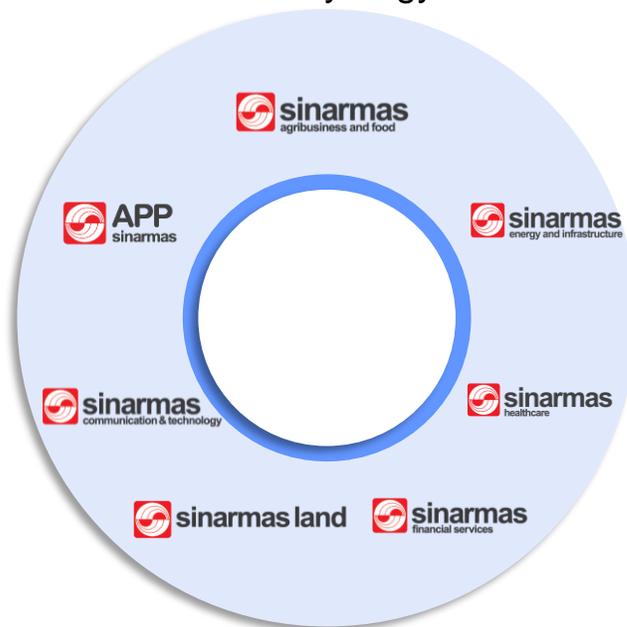
## Leading telecommunication and digital group

with presence over 9 countries across Asia, bringing in operational expertise



## Top Indonesian diversified group

with businesses across key sectors, bringing in deep market knowledge and local synergy



Further synergy with wider ecosystem of companies of joint-controlling shareholders:

-   **Linknet + Moratel:** Drive convergence across mobile base leveraging combined homepass footprint
-  **ADA:** Boost **A2P and analytics services** by tapping ID fast-growing ecommerce sector (~IDR 2 tr GMV by '27)
-  **SM+ Data Center:** Leverage upcoming DC capabilities to provide end-to-end enterprise solutions and position **XLSmart as the preferred Indonesian Enterprise service provider**
-  **DANA Digital Wallet:** Drive adoption across **combined sub-base of >90m** and cross-sell telco and financial offerings



Axiata ecosystem



Sinar Mas ecosystem

Source: Press Search; Twimbit; Team analysis

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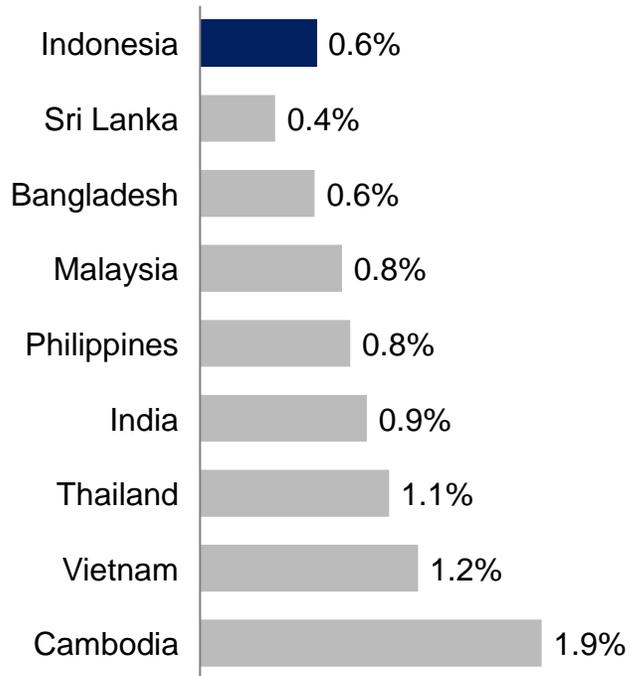
# Rationale iv) Financial resilience and improved returns

## Indonesia ARPU is below regional peers, merger expected to lift ARPU as experienced in past consolidations



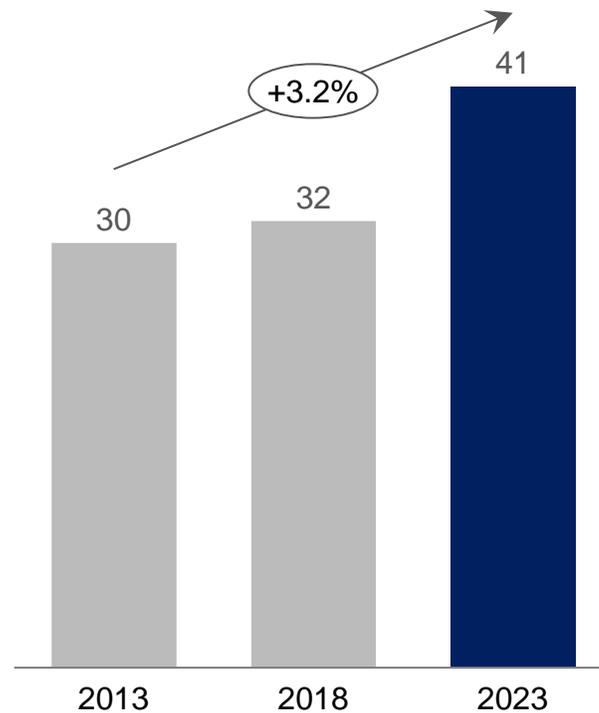
Indonesia ARPU as a % of GDP/capita remains behind regional peers

ARPU<sup>1</sup> as % of GDP per capita, 2023 (%):



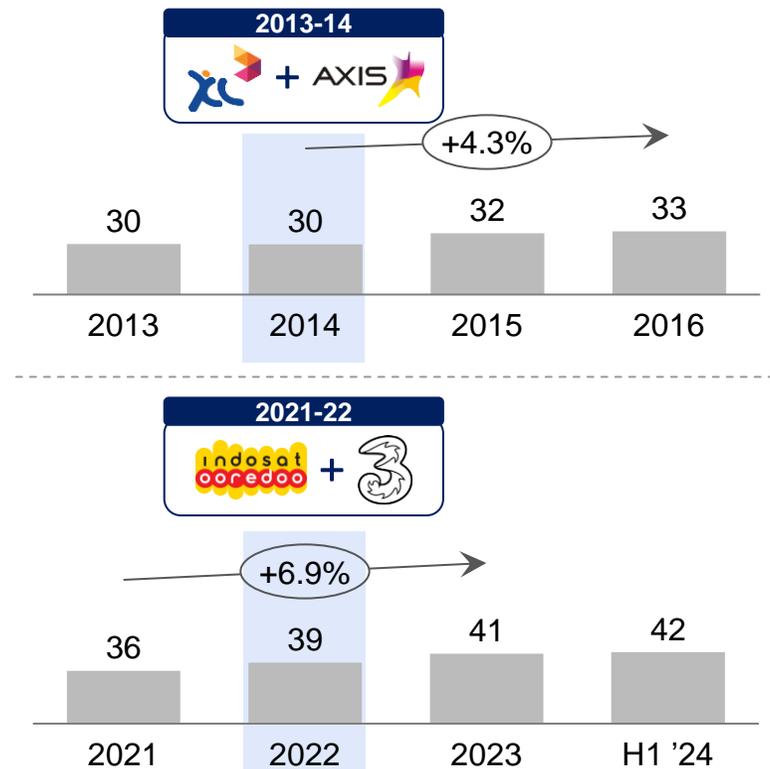
Overall, Indonesia ARPU trend increasing...

Market blended ARPU (IDR k):



... supported by local market consolidation

Market blended ARPU (IDR k):



1. Blended ARPU across all telcos in the market;  
Source: Omdia; Worldbank; Team analysis



# Rationale iv) Financial resilience and improved returns

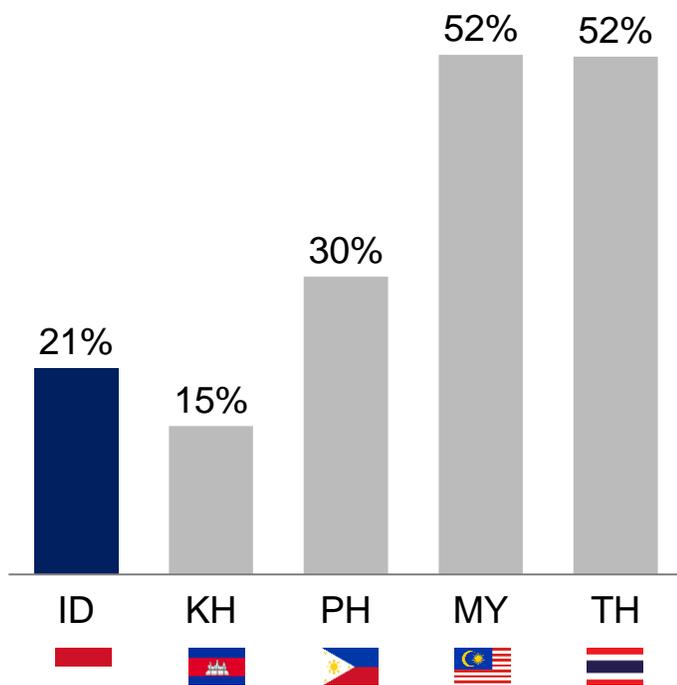
## XLSmart will be more competitive to capture growth opportunities in Home and Enterprise



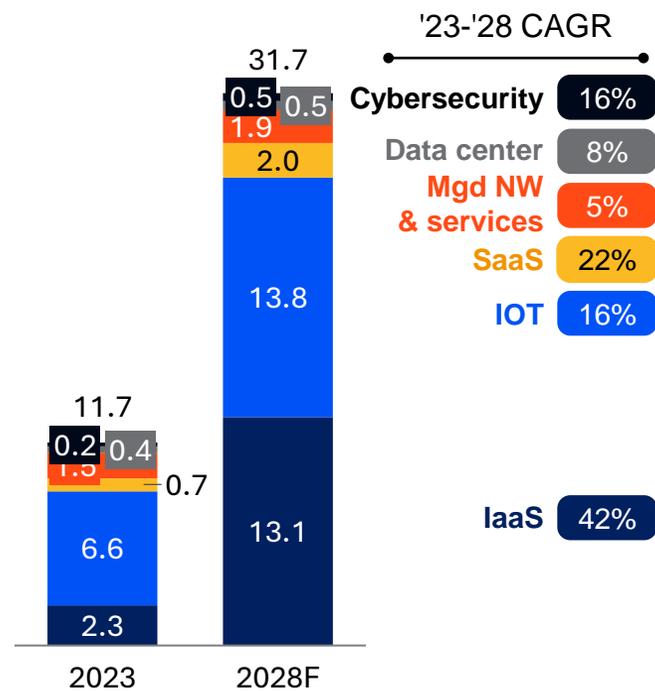
**Home:** Opportunity to grow household broadband penetration to meet peers

**Enterprise ICT:** Digital transformation acceleration across enterprises in Indonesia driving opportunities for enterprise solutions

Fixed broadband household penetration (%):



Telco-addressable Enterprise ICT revenue projection (IDR Tr):



### Key trends in the Indonesia ICT market:

- **Large-scale digitalization:** Accelerated transformation of Indonesia's MSMEs (11% to 36% digitalized from 2020-23)
- **Accelerating IoT Adoption:** Growth in smart manufacturing boosting IOT adoption
- **Increase in SaaS Workloads:** shift to SaaS for cost efficiency, scalability, and ease of access
- **Shift to Public Cloud:** Leveraging advanced analytics and platform capabilities for flexibility and cost-efficiency
- **Growing demand for DC Capacity:** driven by traditional and AI investments
- **Shift to localization/data sovereignty:** esp. public sector and financial sector data

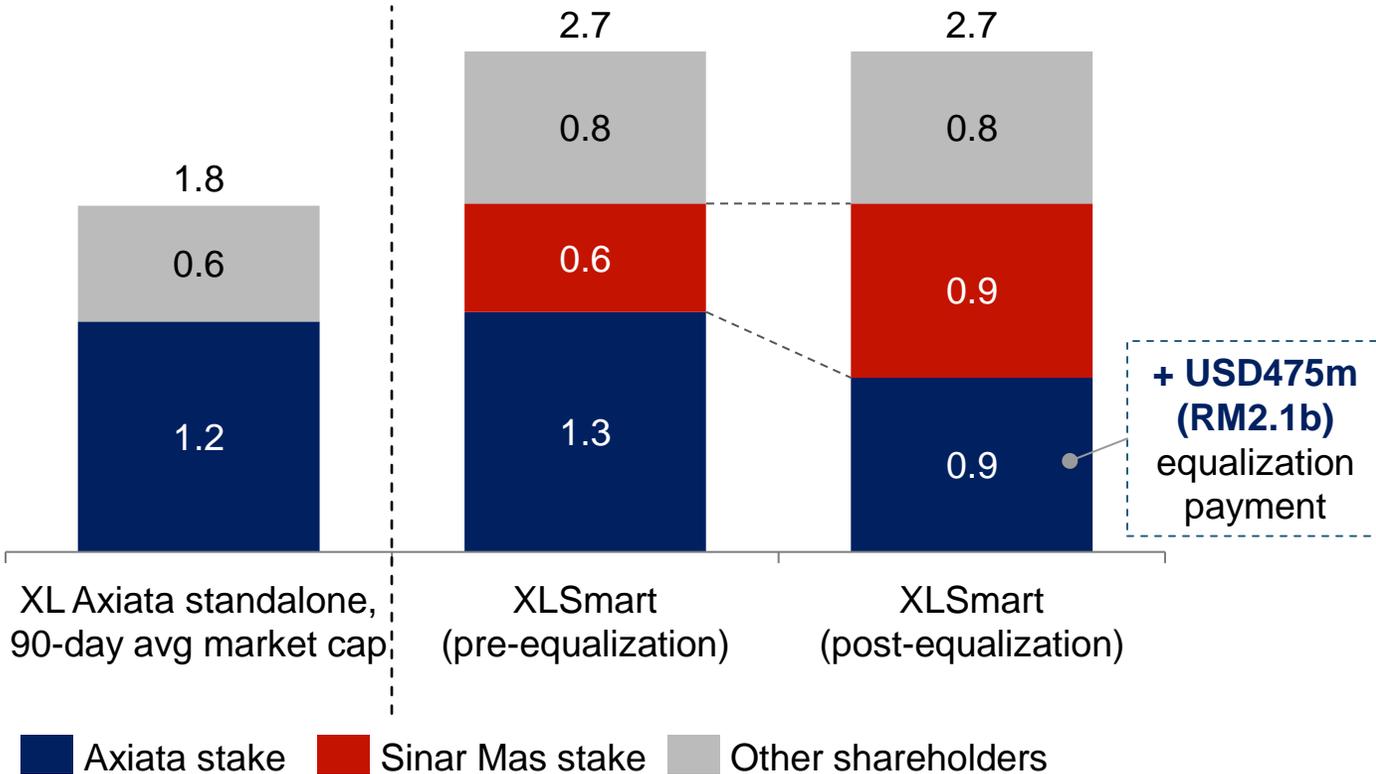
Source: ITU; World Bank; Omdia; MOCD; Gartner; Twimbit; Team analysis

# Effects of Proposed Merger on Axiata



# Transaction leads to value accretion of ~USD0.2b (~RM0.8b) to Axiata, with future upside once synergies are realized

Valuation (USD b):



- Value of Axiata stake in XL pre-merger: **USD1.2b**
- Post-merger & equalization:
  - Value of Axiata stake in XLSmart: **USD0.9b**
  - Equalization payment:
    - **USD 400m** at completion of the Proposed Merger
    - **USD 75m** on the first anniversary of the Proposed Merger subject to consideration conditions
  - Total value to Axiata: **USD1.4b**
- **~USD0.2b (~RM0.8b)** value accretion for Axiata from the transaction

Note: Totals may not add up due to rounding; 3-month volume-weighted moving average price (VWMAP) as of 9<sup>th</sup> December 2024 used to determine XL Axiata standalone market capitalization; Exchange rate at 16000 IDR:USD1 and USD1:RM4.42; XL shares: 13.1b; Smartfren shares: 476.7b; Axiata s/h in XL: 66.5%; Sinar Mas s/h in Smartfren: 77.5%; Source: Bloomberg

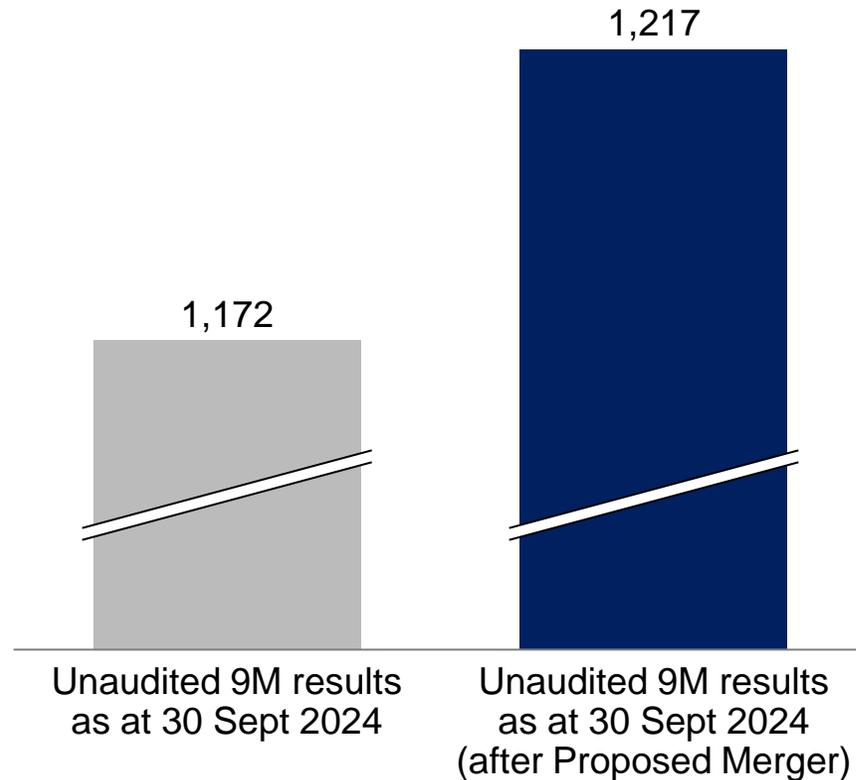


# Impact to Axiata unaudited 9M results as at 30 Sept 2024: PATAMI, Gearing and ND/E

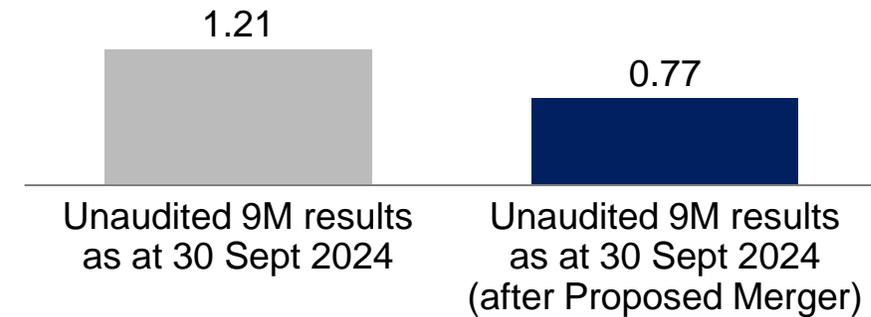
Illustrative impact of deconsolidation of XL and Axiata receiving cash consideration of USD 475m from Sinar Mas



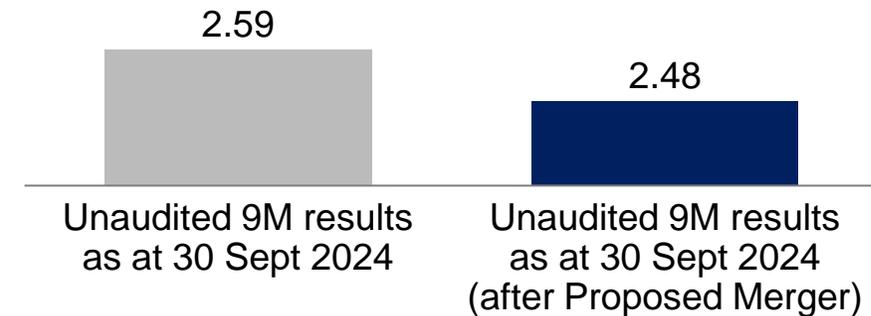
PATAMI (RM m):



Gearing (x):



Net Debt / EBITDA (x):



**Q3 2024 information is based on unaudited financials and is presented for illustrative purposes only, to highlight the impact of the proposed merger**

# Governance





# XL Smart to be jointly controlled by Axiata and Sinar Mas, with equal representation in BOC and BOD



Committee



# members



Nomination rights

Board of Commissioners

9

Axiata: 3 Non-Independent + 1 Independent Commissioner

Sinar Mas: 3 Non-Independent + 1 Independent Commissioner

Joint: 1 Independent Commissioner

Board of Directors

10

Axiata: four (4) directors (incl. CEO)

Sinar Mas: four (4) directors (incl. CFO)

Joint: two (2) directors



# Additional BOC sub-committees created to support XLSmart operations



## Committee



## Objective



Board Audit Committee (BAC)

Oversees audit processes, financial reporting, and compliance with regulations



Board Nomination and Remuneration Committee (BNRC)

Oversees nomination and remuneration policies for key roles

Board Risk & Compliance Committee (BRCC)

Advises on risk management, compliance, and governance-related matters

Merger Integration Committee (MIC)

Provides advisory recommendations for the integration of merger activities

Board Investment Committee (BIC)

Oversees financial decisions on investments below certain thresholds

Technology Advisory Committee (TAC)

Advises on technology strategies and innovations for XLSmart

Procurement Committee (PrC)

Oversees procurement processes and ensures vendor selection aligns with financial thresholds and policies



Statutory committees

# Summary and Timeline



# Summary of benefits from XL - Smartfren merger to Axiata



Proceeds of USD 475m (RM 2.1b) from shareholding equalization from Sinar Mas to pare down debt

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Retain joint-control of a larger Mobile Operator. Share of upside from synergies

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Drive market consolidation to enable better ability to compete

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Increased scale to drive innovation and future growth (e.g., improve network experience, 5G, Home, Enterprise)

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Gain a strong local partner in Indonesia



# Transaction expected to close by first half of 2025



*~3 months*

OJK approval process

MOCD approval process

*~ 1.5 – 2 months*

Shareholder approval process

**10 Dec 2024** **11 Dec 2024**

Definitive agreement Signing

OJK & MOCD submission

MOCD approval

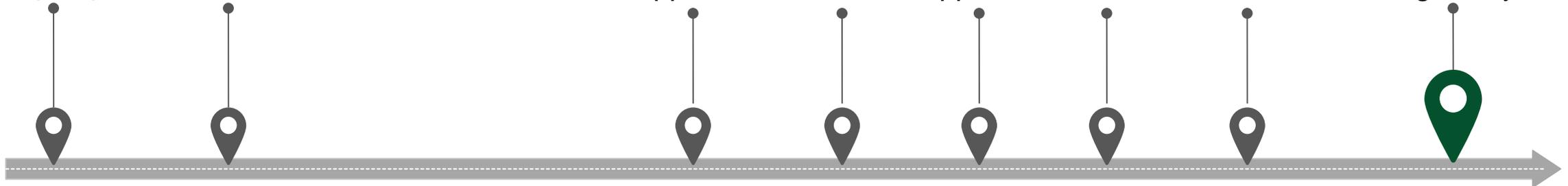
OJK approval & Bursa submission

Bursa approval

Axiata EGM

XL Axiata & Smartfren EGMs

**By 1H 2025**  
Merger Day 1



# Thank You

