T-Systems – Market Positioning & Revenue Mix Evolution

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Key Insights

▸ Growth trajectories highest for Security and Advisory units, although Digital & SAP and Cloud have been the top revenue generators historically

▸ T-Systems' public cloud offering, OTC, differentiates from hyperscalers on quality and guaranteeing service levels with very little downtimes and quick recovery rates. However, coopetition with all hyperscalers will be required going forward

▸ Although OTC is considered on par with hyperscalers around infrastructure, migration process to cloud is easier with hyperscalers and higher energy costs in Germany lead to more expensive data storage with OTC

▸ Advisory and Security segments offer strongest growth trajectory, with Security division consolidating and cleaning up in the last few years to better tackle market challenges with an end-to-end offering

▸ T-Systems' Security offering is strongest in Germany, Alps region and Iberia. German cybersecurity market is so large and untapped that T-Systems can grow two-digit percentage rates for the next five years

Specialist   Jens Rüster (JR), Former SVP, Global Business Assurance & Customer Experience at T-Systems International GmbH

Moderator   Saad Maqsood (SM), Third Bridge Sector Analyst

Agenda

▸ Revenue mix evolution and growth potential across key segments – digital and SAP (NYSE: SAP), cloud services, security and advisory

▸ T-Systems' (ETR: DTE) cybersecurity managed services capabilities

▸ T-Systems' market positioning in its top revenue-generating regions and competitive landscape, highlighting players such as Telefónica (MAD: TEF), Orange (PAR: ORA) and Swisscom (VTX: SCMN)

▸ Deutsche Telekom's (ETR: DTE) halted planned sale of T-Systems

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T-Systems – Market Positioning & Revenue Mix Evolution

Transcription begins at 00:00:02 of the recorded material

SM: Welcome everybody to Third Bridge Forum's Interview today entitled T-Systems – Market Positioning & Revenue Mix Evolution. I am Saad Maqsood and I will be facilitating today's Interview with Mr Jens Ruster, former SVP of Global Business Assurance and Customer Experience at T-Systems.

Jens, before we start today's Interview, could you please state I agree or I disagree to the following statement: You understand the definition of material non-public information and agree not to disclose any such information, or any other information which is confidential, during this Interview.

JR: I agree.

SM: Could you begin with a brief introduction to your background, please?

JR: I'm not only the third Senior Vice President for Global Business Assurance, Customer Experience and Production Support Systems, but I've been member of several management committees at T-Systems for more or less 12 years. Namely the management committee for systems integration, for production which is the infrastructure operations, for the European business, so for the delivery in EMEA, for partner management and end user services and main lead for global business assurance and customer experience. However, I started my career at T-Systems in one of the founding subsidiaries which was Debis and I started in '99. Very soon after I started at Debis, I think it was 2000 or 2001, Deutsche Telekom acquired Debis which was the IT arm of DaimlerChrysler. I became member of the post-merger integration team of Debis into the telecom units which was then named T-Systems. In fact, I'm a founding member of T-Systems and have accompanied T-Systems on their way until 2020. Once again, with more than 12 years in different management roles and management committees, as well as managing their international business, everything that was abroad Germany.

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Q: Could you identify 2-3 trends in the market T-Systems operates in?

JR: In fact, it's three. Those three markets are the evolving or meanwhile, quite established software-as-a-service or platform-as-a-service players that we do see, which are meanwhile dominating the market for CRM, ERP and workflow, as well as obviously, the growing cybersecurity demand. Hence also the growing cybersecurity market, which is also a market that T-Systems is operating in since a couple of years. Not as long as with regard to the other two markets, SaaS and PaaS, which I would like to focus on at first.

[00:03:48]

Q: Could you expand on the SaaS [software-as-a-service] and PaaS [platform-as-a-service] aspects of T-Systems and how well-positioned the company is to address these trends?

JR: Exactly so as you might know, the IT landscape for the Fortune Global 500 corporations, which is the segment that T-Systems aims at in terms of customers, or let's say mainly the European-based Fortune Global 500 corporations, has significantly changed in the past 20 years. From a large variety of applications for core processes in those corporations, for customer relationship management, enterprise resource planning and process workflow, all operated in a private cloud environment with a very strong SAP market or SAP stack in all of these corporations, to a market where we today see dominating players for CRM such as Salesforce, for ERP still being SAP and for process workflow, which today is ServiceNow, or where ServiceNow is more and more conquering of the space. Plus, data storage is meanwhile, more or less already migrated into public cloud so customers are not so sensitive with regards to where the data is hosted and where the applications are operated today as they were 20 years ago.

Now, 20 years ago, is where T-Systems' DNA was created so T-Systems was, from my perspective, a market leader when it comes to implementing SAP solutions to customers. I think at some point in time in the early 2000s, T-Systems was managing the world's largest number of SAP systems and, of course, has further evolved in becoming very good in managing that. They have developed, I think it was 2006 or '07 something that was called Dynamic SAP which was some kind of cloud. Later on, there was this nice marketing claim, cloud, which is nothing else than a standardised infrastructure, standardised combination of servers and storage and software running on those. T-Systems was really strong in that, and T-Systems was strong in hosting, either private clouds on customer's premises or also migrating private clouds into T-Systems' own premises but still keeping them private.

If you understand that, and if you understand the market trend where Salesforce, ServiceNow and, latest of those three, also SAP, have started offering their services out of the cloud, so having direct customer access, and also partially offering storage for the data that is generated via these platforms in their clouds, you can understand that there's a lot of churn that T-Systems was losing, or that was at risk for T-Systems. They had to reinvent themselves in a very fast-changing market and did so, from my perspective, quite well but, let's say, being a large giant organisation, of course, only as well as you could move such a tanker alongside the market trends. Today, they have, I would say, still a dominant know-how when it comes to running SAP systems and also helping customers to migrate their existing SAP landscapes from a still privately operated or hosted environment into the SAP cloud. I think there will still be a boost in sales when it comes to the SAP business for the next 2-3 years, unless the latest of the large customers were migrated into the SAP or Azure cloud. The same for Salesforce, so also here, T-Systems is instrumental for customers, helping them to migrate their existing CRM solution, no matter if it is Salesforce or not, into the Salesforce cloud. The outlook for ServiceNow, I do see a little bit of a blind spot here still but the other two are still dominating the activities.

Then, of course, that also determines that when you're not running private cloud environments any more for your customers, and if customers are more adaptive now to a public cloud offering, that also was picked up as a trend by T-Systems in the early 2011-12 and they established their then called, and still today called, Open Telekom offering because they saw that the resistance of their customer base to move from private into public cloud was lesser and lesser. However, those customers were rather price-sensitive than data-sensitive and moved with the hyperscalers or with the SaaS and PaaS corporations, rather than migrating their data into the public cloud offering hosted by T-Systems then.

[00:09:44]

Q: You think there is still room for growth for T-Systems on the SAP side over the next couple of years, and I understand the company classifies the division as digital SAP. After these 2-3 years, is it bound to eventually decline and SAP will manage all these services, or is there still space for T-Systems to be here to help migrate?

JR: That's a very good question. What is today called digital and SAP was formerly named systems integration. It was then split into two parts as T-Systems wanted to focus on the SAP operation and application management in a dedicated fashion, really as a sole portfolio unit. In the digital section, they were rather offering large-scale systems integration projects, such as the corona warning app or in former times, even the toll collect project and projects like that which were the digital division. Now having merged the two again, shows that they have shrunk again, and I think for the SAP business operation and managed services, this will see a boost in the coming 2-3 years, as long as customers are migrating into the SAP cloud. It will then, at least that is my expectation, it will then decline from what it was in earlier times because once again, T-Systems was the market dominating SAP partner 10 years ago in terms of operations and implementation, and that strong position will then still remain, but will potentially convert from operations to helping customers with their SAP environment and the future development.

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Q: How would you rank T-Systems' main divisions by revenue generation – digital and SAP, advisory, cloud services and security? Is digital and SAP still at the top given it used to be the leader?

JR: No. It never used to be the leader so leaders was always the cloud services and I'm pretty sure it's still today is the cloud services. However, if you're looking into cloud, then you have to differentiate between private cloud which is still there and public cloud. Of course, there also needs to be a shift internally from private to public cloud and that is for a couple of reasons. The private cloud business is a very competitive market or, let's say, the customers that are still today operating their data in private clouds might migrate to public clouds also in the coming years as once again, the entire market opens up to hosting data, even sensitive data, in public clouds. Even public authorities, even in Germany, are using public cloud services from the large hyperscalers in order to store their data there. That shows that there's a growing trend. T-Systems needs to maintain or should maintain their existing install base in terms of customers and help them migrate into their own cloud. If they're not successful in doing so, the cloud services unit will also shrink because those customers might migrate to other hyperscalers. There is still a certain portion of business for T-Systems in which is the migration business from the private environment into the public cloud environment but this has an end. The nice thing about cloud services is that it's managed services and it will continue.

I think the differentiation for T-Systems, when it comes to public cloud offering, compared to the hyperscalers is their quality, their offering to also provide managed services so guaranteeing service levels, and really having a good track record of being a high-quality provider of cloud services with very little downtimes and very soon recovery rates. Therefore, that might play into the cards of T-Systems. However, the question is always how much a customers willing to pay as a premium for that service. That is the cloud service. Once again, cloud service, never forget, internally there needs to be a shift from private environments towards public environments more and more and T-Systems needs to facilitate that shift rather internally, than letting those customers, that install base, go to other external cloud providers like the hyperscalers.

Then second, from a revenue perspective, is definitely the digital and SAP business. If you combine them both, providing the capability, like your SAP is the same story as the cloud service. Their customers are now migrating their privately hosted SAP environments towards SAP S/4HANA. T-Systems can generate the business out of that, which will help finally boost the revenue again, but also, that will come to an end and then T-Systems needs to reposition their SAP offering to more advisory and helping customers to further develop the usage of their SAP throughout the organisation.

T-Systems, with regard to their digital capabilities, are unique on the market because there are very few system integration or digital services providers that are able to manage large-scale public, also public

infrastructure-related projects. The corona warning app is just the last example that you could use. Would there have been other large corporations in the markets that would have been able to stand a project of that size in that time, but they did that together with SAP? Potentially not. Also here, I do see the digital business has a certain relevance. Nevertheless, it is a lot of one-of-a-kind projects that also bear the risk of complexity and bear the risk of publicity that you might not want, if projects are not reaching their milestones in time. Therefore, it's two sides of the coin. The very good thing is there are very few, if at all any other players, that have the capabilities of T-Systems in that space managing large-scale system integration projects, whereas on the other side, all one-of-a-kind, they're all risky and need to be very thoroughly calculated and managed through.

Then, next on the list is the security business, which is also the consolidation of a couple of activities that T-Systems had that were all security-associated and the same internal units that Deutsche Telekom had a couple of years ago, so they formed the security organisation. What was missing then, and I think that formation started 5-6 years ago, was it was really a bunch of a lot of different security solutions from many providers and first of all, what was the task was to establish some kind of a portfolio from everything that you had. There was no red thread throughout that security offering. T-Systems did everything and nothing for a while. Implemented more or less all possible solutions that were on the market. Didn't scale much and also when it comes to security know-how, was very fragmented across the organisation, with heavy pockets when it comes to implementing third-party solutions, strong pocket definitely also when it comes to the security operation centre, but in between, let's say, connecting the dots, tailoring customer individual solutions, that was potentially the missing bit. There was a lot of clean-up done in the past 2-3 years so that the security offering today is, from my perspective, better prepared in order to tackle the challenges of the market, providing an end-to-end offering which meanwhile, you could call seamless, when it comes to embracing holistically the challenges that customers these days have when thinking about security. A couple of years that would not have been the case. That would only have been island solutions but now T-Systems is able, in that part of the organisation, to offer an end-to-end solution.

Last but not least, is advisory. Last yes, from a revenue perspective, least definitely not, because they will become, after everything that I've now mentioned, instrumental when it comes to setting the direction for what T-Systems is aspiring to be, which definitely is helping their customers to digitalise their business, so into the world of digitalisation. That is more than what T-Systems was in earlier times, being an infrastructure provider, being able to provide a high-quality, very reliant and stable cloud offering, managing SAP for their customers in private environments and managing some security. Advisory really means to understanding the customer's business and helping them to understand the challenges that they are facing into what would be their best future IT landscape set-up, which is definitely dominated by some kind of cloud services, be it private, be it public, be it hybrid, also a mixture of different cloud services which is reality today, and managing their IT stack via the digital and SAP organisation. You could really consider it as a spearhead. Advisory first, then digital and SAP for the application management and then the cloud offering.

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Q: In terms of the growth trajectories of T-Systems' divisions, would advisory eventually take the lead in the revenue mix?

JR: I see the growth trajectories very simply for me. The strongest growth trajectory I see for security and advisory. Security, one thing because there still is a lot of untapped market potential. I think security, in many cases, still sadly only becomes a topic once there is an incident. As long as there is no incident, security is somewhere in the back of our minds. There are still a lot of organisations think like that but definitely, there's a growing trend for security and I see that with a strong growth trajectory and advisory as well. Advisory also because it's still a considerably small organisation so hence therefore, the growth rates

should be strongest for those two and I see them medium for the other two, for digital and SAP, as well as with cloud services. Not because the cloud business and the cloud market is not growing, but because where and how T-Systems is positioned as a high quality, high reliance with a highly secure cloud offering. We see that customers are, in many cases, at least in the past, were not willing to pay a premium for all of that, compared to what the hyperscalers were offering.

[00:23:29]

Q: I understand T-Systems has consolidated the security side over time and is much better prepared now to address the issues you outlined. We see a lot of MSSPs [managed security service providers] these days, even other similar telecom providers with cybersecurity units, such as Telefónica Tech and Orange Cyberdefense. How would you assess T-Systems' cybersecurity capabilities relative to those of these players or MSSPs in general?

JR: The difficulty would be to assess whether they have really better arguments than Telefónica, BT or any of the large telecommunications incumbent security organisations. Nevertheless, that's the same DNA that the security (audio cuts out 24.46) there is no advantage nor a disadvantage. Plus, and that is now where the IT background kicks in, I think that T-Systems' security is one of the largest accumulations of specialists, definitely in Germany, and I think also across EMEA. Having a background from, not only telecommunications, but also for one of the largest telcos in Europe, and combining that with the IT background, was for many, many years from T-Systems, I would say that they are and should be well-prepared to, maybe not to stand out in the market, but to be on par with the fastest-growing and most capable security organisations in EMEA.

SM: T-Systems' capabilities seem to be in line and the company has the appropriate things addressed, even on the security operations centre side or SIEM [security information and event management] side. Do you think this has been aptly addressed by T-Systems?

JR: Absolutely. That is something where I would say T-Systems, ever since has gone beyond the market standards when it comes to managing end-to-end, no matter if that is security or IT processes. Also when it comes to managing IT processes, the global standard is ITIL and T-Systems had their very own interpretation of ITIL which used ITIL as a foundation but which went far beyond what ITIL demanded. That was all wrapped in a package that was called Zero Outage which is the quality commitment that T-Systems is giving to their customers and the same was applied for the security business. I would also here say that T-Systems has gone beyond what the market would expect in terms of standards and also, in some cases, set the standards on how to efficiently manage end-to-end security, especially for SIEM. I would say they're really well-prepared and should be easily able to cope with the best providers in Europe.

[00:27:40]

Q: Is Germany where most of T-Systems' security revenues naturally stem from, or is the company quite popular across Europe? I don't know if it's uniform across all divisions.

JR: Highest popularity is definitely for Germany but the sensitivity around security is growing all over EMEA. I would say that also now you need to multiple that, the growing sensitivity with regard to security, you need to multiply with a brand awareness of the magenta T beyond Germany. Definitely strongest in Germany and definitely still strong in the Alps region, so Switzerland and Austria, strong in Benelux and in neighbour countries west of Germany. Then, the more you go west, the less shiny the magenta T is, even though there are markets like, for instance, Iberia where they are super strong, from my perspective, as well. Whereas the security services and capabilities are potentially not being perceived as strong as they are in Germany and in the German-speaking part of Europe.

[00:29:19]

Q: Would you say T-Systems' competitors on the security side vary greatly across regions, whether it's in Germany or the Alps region vs Iberia and so on?

JR: I think you made a clear point earlier when you said that, of course, the large telecommunications corporations that all have an IT arm operating in the local market as well, Telefónica in Spain, take Swisscom in Switzerland, for instance, those are very good examples, they definitely locally have a much stronger brand awareness than T-Systems. They have the trusted appearance of being the largest telecommunications corporation which is the same that Deutsche Telekom is using in Germany. Of course, those are always very strong competitors to T-Systems' offering when they go beyond Germany. Is T-Systems able to always compete with them on an eye-to-eye level locally? Potentially not. Content-wise and when it comes to delivery capabilities, I would say they could compete.

SM: Sometimes it may just come down to the local preference?

JR: Yes and market awareness and once again, as security is such a sensitive topic, the customers always lean to those corporations that have the highest security attributes in the local market and the telecommunications organisation, to some degree, offering that as a service to the local customers, usually have that appearance. Would you in Germany rather buy from a Telefónica, rather than from Deutsche Telekom? Potentially not or you are in a very specific niche, you are super price-sensitive and are getting much better rates, then it might be a discussion, but usually, you would go with the local incumbent mostly for those kinds of services still. Let's see how the market is developing.

SM: Hopefully, as you said, as people become more aware of security and sensitive to it, they take the quality and delivery into consideration more?

JR: Yes.

[00:31:58]

Q: Does T-Systems come across Orange Cyberdefense often in competitive bids on the security side, or is it usually a Telefónica or Swisscom?

JR: Yes, for sure, and depending on the market, of course, you always compete against the incumbent telecommunications corporation and their IT arm which usually are offering also services to the local market and, by definition or by nature, they have a strong brand in the local market because that is what they have invested in over so many decades. Telecommunication is also a lot about security so hence, they are using that lever to also open up the local customers. Like Deutsche Telekom is doing in Germany for T-Systems, no doubt about that. Still the German market, when it comes to cybersecurity, is so huge and so untapped that I would say when it comes to growth trajectory, there is so much room to grow for the security organisation of T-Systems, from the blue-chip organisations, from the DAX 40 to MDAX to SDAX and to the German Mittelstand, that if they would only focus on those market, I think you could grow for the next five years in very decent two-digit percent rates. You do not necessarily have to go beyond Germany in order to grow because that market is, from my perspective, so still underdeveloped from a perception point of view, through not a fault of Telekom or T-Systems. It's really customers' view on security and sensitivity on security, that if they only would focus on Germany, large enough.
[00:34:26]

Q: What are your expectations for OTC [Open Telekom Cloud], which is quite a big thing for T-Systems? How is it faring against customers who may want to switch to or use T-Systems to migrate them over to Microsoft, rather than OTC? Recent data suggests that Deutsche Telekom's share of Europe's entire cloud services market is just 2%. What is your view on this?

JR: I fully subscribe to 2%. I think the market share still today might not be higher than that and why is that so? First of all, you have to understand that the Open Telekom Cloud is a high-quality cloud offering operated out of T-Systems' largest and most secure data centres hosted in Germany, out of Germany, with German data protection law being applied, so super secure. From an infrastructure perspective, I would say absolutely on par when it comes to the offering with the large hyperscalers. That's the infrastructure side of the business.

However, there is the IT stack business. The Open Telekom Cloud is managed by the Open stack which means an open software architecture, which usually is an advantage. However, for customers that want to conveniently migrate their existing applications into the cloud, pre-configured container solutions, such as with AWS for instance, are much more easy to be used, also abroad the entire organisation. If you want a convenient migration experience, then you potentially would rather choose AWS directly. Nevertheless, still yet T-Systems is offering a migration service as part of their offering, helping customers to migrate their applications into the Open Telekom Cloud, which is also a way to generate business, so definitely not uninteresting and also for customers, something that they could purchase as a service from T-Systems. However, Amazon has that built in their cloud already. From a software perspective, I would say the Open Telekom Cloud is more open. However, more open also means, in some cases, more difficult to migrate towards compared to established hyperscaler offerings such as AWS.

Last but not least, then comes the location question. Even though T-Systems is running the data centre with focusing on energy consumption, for sure, energy in Germany is more expensive than in other parts of Europe or in other parts of the world, and energy in Germany might become even more expensive in the next few quarters to come. Also here, from a price perspective, it will be difficult for the Open Telekom Cloud to compete with large hyperscaler offerings. Even more so as we have seen that customers, they are not always, when I say not always, it is potentially over-exaggerated, and only in rare cases, let's put it that way, will pay a premium for cloud services explicitly hosted out of Germany, compared to cloud services hosted out of Europe at lower prices. Therefore, there is a higher price sensitivity from customers so far compared to having their data stored exclusively in Germany.

[00:39:12]

Q: You mentioned some factors that will sway the decision between a customer opting for OTC or a hyperscaler. It's interesting how T-Systems has a partnership with Microsoft, which offers the option to help a customer migrate onto Microsoft Cloud. When that happens, how do the economics or margins differ between migrating a customer from private to OTC and migrating it to Microsoft?

JR: I think the margins will not differentiate much. Definitely as T-Systems, they are, of course, interested to helping migrate existing customer's applications from a private environment onto the Open Telekom Cloud rather than on Microsoft Azure, because they want to have that repetitive business on their own infrastructure. Like with all the hyperscalers, the more business you have on your own infrastructure, the better the margins are, because you're having a higher utilisation of your assets that you already have invested. Hence, there is a high degree of interest for T-Systems to migrate customers rather, if they have the choice, onto the Open Telekom Cloud than on Microsoft Azure, hosted out of T-Systems' data centre.

SM: Obviously, having that repeat business or recurring income by having them migrate to OTC would be preferred. You believe it's best to give customers the option to help them migrate to one of the hyperscalers

vs just restricting themselves to OTC?

JR: That's interesting. The margins suffer if T-Systems was hosting the customer applications in their own data centres, in terms of a private cloud offering. Private cloud is the cash cow. However, in many cases, at the end of the lifetime and usually, in those situations, you earn the highest margin from those customers. Now, if you help those customers to migrating their applications towards one of the hyperscalers, then it is the last chance for you to generate some revenue with those customers and then they're gone. It's like with a star. It shines the brightest the moment before it implodes and that is potentially what happens with those customers. The preferred way for T-Systems should be to migrate customers that they were hosting previously in a private environment onto their Open Telekom Cloud which combines both, the migration effort where you could profit from and then the higher utilisation of your already existing cloud infrastructure which would give you additional margin. That's definitely much better.

[00:43:04]

Q: What is the margin difference between hosting a customer on the private cloud vs on OTC?

JR: That's a good question. That depends, of course, on the life cycle. Very early in the life cycle, hosting customer environments in a private cloud could be very expensive because you, first of all, have to optimise the customer environment to such a degree that it is running already on the highest degree of standard that you could run, so dynamic environment which is cloud-like. If you have done so already over the lifetime of the contract, then towards the tail of the contract, you're earning quite decent margins which are then, for sure, comparable by the margins that you could earn from managing the same environment on a public cloud space. If you are early in the life cycle of a private cloud environment, and you still have to do the restructuring, then definitely migrating those customers rather sooner than later towards Open Telekom Cloud would help you safeguarding and protecting that part of your margin because that is, for sure, more profitable.

SM: Depending on the life cycle, it can very quickly…

JR: Exactly, of the private cloud agreement that you're having. If you're at the end of the life cycle, you're earning decent margins, no matter where you are. If you're at the beginning of the life cycle, definitely the Open Telekom Cloud is the less risky and higher margin scenario.

[00:44:56]

Q: For customers who are towards the end of their life cycle on the private cloud, is there not as much incentive for T-Systems to convince them to switch to OTC?

JR: Absolutely, because there's also, first of all, running a public cloud environment so this is the cat vs cattle principle, so private cloud environment is a cat that you protect and that you take care of. The cattle, if you have server or storage that are going down, you just replace them by another virtual server or storage without any interruption. Therefore, yes, there is an advantage of migrating as much of customers as early as possible onto the Open Telekom Cloud and it also does make sense because you could generate additional business from helping with the migration of the legacy applications onto the Open Telekom Cloud. However, triggering that discussion will also mean customers might think about directly migrating into a hyperscaler or onto a hyperscaler, or going with one of the software-as-a-service or platform-as-a-service corporations. Therefore, you want to protect the revenue, you want to migrate towards Open Cloud. However, there's also the risk that those customers might select other providers if you open up that box.

SM: It's obviously a risky move in some ways, when it's towards the end of the life cycle, you have to really decide.

JR: Exactly. It requires a lot of customer intimacy and it requires a really solid offering when it comes to the cloud service.

SM: As you mentioned, on the infrastructure side at least, it does seem to be on par with hyperscalers. It's just the price sensitivity that comes into play afterwards?

JR: Exactly. Price sensitivity and ease of migration. Once again, ease of migration with regards to AWS, for instance, is built in. It's built in by Amazon already as part of their container solutions and in the case of the Open Telekom Cloud, this has to be bought as an additional service. That does not come as easy out of the box as it is, for instance, with going with AWS. They have, of course, hundreds of thousands more customers on the platform as well as the experience that you have when migrating those customers onto the platform than with regard to the Open Telekom Cloud, so this will become a MMO routine offering for T-Systems as well. Is it a routine yet? Not always.

SM: Only time will tell then?

JR: Exactly.

[00:47:58]

Q: In terms of customers who are switching from private to public cloud, but then picking between OTC and the hyperscalers, how would you split that? Whose are they favouring more?

JR: It's a 50/50 question so I think would be difficult to answer or impossible to answer even.

[00:48:44]

Q: Did you see a lot of uptake of OTC when switching a customer from private to public cloud?
Hi
JR: Absolutely. That's for sure but I think that is true for most migrations, not every, but for most migrations, from a private environment into a public environment. Customers see the advantages. However, they, first of all, have to cross the Mount Everest in order to get there in some cases because applications are so old that they might not be running in public environments. However, they are required so it's really the devil is in the details here when it comes to the experience after migration. What you require is a trusted partner and T-Systems is well-positioned in order to being that. In some cases, it might be a price question.

[00:49:53]

Q: I understand why T-Systems is priced higher than hyperscalers, but how significant is the range?

JR: The difference between the hyperscalers and T-Systems is not that large, so you can also easily also look that up because the Open Telekom Cloud, you can also access as a private person in order to use that so the differences are negligible from my perspective. The question is, if you're comparing the likes for likes, let's say the euros and cents per virtual machine and for storage. The question is, what is included already with the other hyperscalers, and I'm always using the Amazon example because that's the one I'm most familiar with, what's included already with the others, compared to what do you need to add as services in order to get to the Open Telekom Cloud. Here, I would say, the ease of use, the customer experience of adopting a

public cloud is much easier with the established providers, Google, Amazon, Microsoft, than with T-Systems. Therefore, if the price is equal, would you then go for the risky or for the less risky cloud version. Everyone can answer for themselves but the price at T-Systems is not better than with the hyperscalers and there are a certain number of additional services that you might require to purchase on top so therefore price-wise, I think it's slightly more expensive. However, if you're going with T-Systems, you can also opt for managed cloud service, which is definitely on par also once again, when it comes to the global hyperscalers.

[00:52:08]

Q: What might be the Gaia-X initiative's positive impact on OTC? Could the project improve it?

JR: It should have definitely already had a positive, in fact, effect on the Open Telekom Cloud as well because that is what Gaia-X is all about, is trying to protect data from the European corporations or European citizens and data storage should only be in Europe or in the EU. A lot of aspects really are perfect for the Open Telekom Cloud to be positioned as one key ingredient, just like many other local cloud providers that we do have in other countries. Nevertheless, I think the Gaia-X initiative has slowed down to such an extent that there's barely any movement and so all of the providers have been trying to benefit and profit from it. In Germany, we have the saying, too many cooks are spoiling the dish and it seems as if a similar destiny will happen with Gaia-X as well. There are so many parties involved and I do see, from an outside perspective, not only on the Open Telekom Cloud but also in Gaia-X, I see so little movement and so fragmented movement, that I would say the positive effect will not be immediately. Should have been a couple of years ago but once that whole initiative picks up speed, still the Open Telekom Cloud is a perfect offering tailored to fit the needs of Gaia-X and European-based corporations.

SM: It did have a positive impact to start with but we may have to be careful going forward as there are too many parties involved at this point.

JR: Exactly. The same was with the rise of GDPR or DSGVO we say here in Germany. It was a positive momentum that also could not be turned into significant new business for data hosted in Germany, out of Germany. Once again, like we said at the beginning, customers were not, and the question is when they will be, willing to pay a premium for data really hosted explicitly in Germany, compared to data hosted in other parts of the EU or even outside.

[00:55:15]

Q: Are the regions in which T-Systems as a whole best operates quite similar to what we discussed on the security side? How would you rank the top three regions for the company?

JR: The top three regions and with regions, I assume you mean countries because in fact globally, there are only three regions. There is APAC, EMEA and the Americas. These are top three. T-Systems has narrowed down the local presence in some countries. Very strategically, they opted out from or they divested their operations in South Africa. They are still present in Asia-Pacific and definitely, their core footprint is in Europe and then, in the Americas still very strong in Brazil and also North America. However, if you're asking me who the top three countries are, then I would select three regions. It's regions again, you're right, in EMEA. One is Iberia, Portugal and Spain. Definitely the strongest one, even so also considering the global context, all of the countries, all of the regions, Iberia is the strongest and largest. Whereas they're competing also here, even though being quite large and big and just moved into a new headquarters in Barcelona, as far as I understood, they are competing with some global corporations that definitely are very present in Iberia as well in a market that is still also growing at a decent rate. Of course, there are also local corporations that they are competing with.

Then, second on the list of the large regions in Europe would be Alps, so the combination of Switzerland and Austria. Also here, I would say that consolidation has taken place, I think three years ago or so, to merge T-Systems Austria, T-Systems Switzerland into T-Systems Alps. Definitely also here still competing to the incumbents so for Switzerland, I would say still Swisscom IT Services is the dominating player that T-Systems is competing against. It's Kapsch for Austria from my perspective, but then also as T-Systems is currently, like we stated at the beginning, in the process of transformation. Also the competition landscape has changed from not any more so strongly dominated by infrastructure players providing all kinds of private cloud offerings to the public cloud providers, as well as to organisations that are providing consultancy and systems integration.

Then last but not least in Europe, I would say Benelux is another strong region because also here you have to a certain degree, and therefore Alps and Benelux are good examples for that, you still have the magenta T, not only from T-Systems, but also from Deutsche Telekom, being a relevant symbol standing for liability standing for liability, standing for security, so being a strong partner for local corporations and therefore definitely right to play also for T-Systems in those neighbour countries.

[00:59:24]

Q: Amid the digital transformation, you said the players T-Systems is competing with are perhaps switching from typical global systems integrators to those more on the consultancy and advisory side. Who are the company's main or closest competitors in Iberia and the Alps region?

JR: Iberia, Alps and Benelux were my three regions for EMEA. Iberia, once again, it's Iecisa so the IT organisation of El Corte Inglés, which always was a strong competitor. Not sure that they are the strongest any more. As in Iberia, you also have the French organisations quite strong. I would assume that Capgemini would be strong still, Atos, DXC is a player that you should never underestimate for their sheer capabilities and I still and now again see Accenture more and more as a competitor. Before 3-4 years ago, Accenture was rather complementary with their offering to T-Systems because T-Systems was rather focusing on the infrastructure side and Accenture rather on the consulting and systems integrations side. Now, as T-Systems is strengthening their advisory arm, strengthening their security arm and so on, and coming more and more into this consultative play, and I would say that Accenture again is slightly, step by step becoming a competitor again. From complementary to competitor. Whereas in a so much connected IT world, I think you also have to think into the dimensions of coopetition, so sometimes you compete, sometimes you collaborate, always to the best for the customers.

[01:01:47]

Q: Are there any areas that T-Systems should target where there is room for improvement? Is there one key area across the company's divisions that you would highlight as not necessarily a weakness, but something it could strengthen?

JR: I think T-Systems in many dimensions, and that is potentially a German speciality, is a very strong player, has a lot of engineering power, but it's not outspoken about it. Yes, they are and yes, they could bring that power to the table. However, is that always perceived as a differentiating factor from the customers or from the competitors? Potentially not, so I think they could and they do that now more and more, they should strengthen that part of their DNA, from my perspective. The quality aspect, T-Systems is also a bit shy of communicating but that is also, quality is the same thing as with security. T-Systems has invested a lot of money over the past decades into being the best quality provider. I think, for sure they are, when it comes to running private environment, when it also comes to running public cloud environments, when it comes to managed services for applications.

However, customers, like with security, are not paying a premium for good quality because quality only becomes a topic once there is no quality in case of an incident. Same with security, so also here they are really that strong, they could play a bit more. Other than that, I think given the challenges that lie ahead for T-Systems now, the set-up that one could see now is the right set-up. However, I see the cloud offering in competition with the hyperscalers is tough to position and also here, coopetition with the hyperscalers is really required and T-Systems needs to open up in this regard. They do so with AWS. I've just seen that very lately but I think they need to do that in all dimensions now.

[01:04:33]

Q: You may have seen the recent news around Deutsche Telekom halting plans to sell its T-Systems unit. What do you think might have stopped the company, or what might it be waiting for instead?

JR: I think also here, I've seen that those plans have come to a stop. The question is, and I can also sympathise with that, as I have a lot of sympathy for the organisation as such but there's definitely one reason. Deutsche Telekom definitely needs T-Systems in order to have relevant access to the C-level for the Global Fortune 500. I think T-Systems with their customer base, and with their relevance for all of these customers, is a good entry into strategic discussions on C-level also for Tim Höttges and the management board of Deutsche Telekom. I think they're using that as well.

Secondly, I also think that, or I also fear that, in the moment when investments are required in order to help T-Systems to grow inorganically and once again, the security market in Germany is completely fragmented, so that there will be some consolidation going on, and it's just a question of time until the private equity community will aggregate some of the small and mid-sized corporations to the same size than Telekom Security. If you want to grow, you need to invest. If you need to invest, you have to decide where to put the money. Is it rather T-Mobile US which is a very profitable, very fast-growing organisation or is it T-Systems? If you answer that question too often with rather T-Mobile US than T-Systems, that will not help T-Systems in their positioning and it will not help them in growing at the pace the market demands and requires. For me, it's also the question is Deutsche Telekom really willing not to only not sell T-Systems but to also invest in the business in order to re-pick the growth that is there. Once again, I have no answer for that. Deutsche Telekom has to answer that. The market needs to have a close look at that and then to decide but for the time being, I can sympathise and agree with the decision.

[01:07:38]

Q: You said Deutsche Telekom can use T-Systems as a good entry point into strategic partnerships. Is it still in Deutsche Telekom's best interest to sell off T-Systems in that case?

JR: That's a good question. Will you only keep an organisation that is or that was losing money in the past, I'm not sure what the current contribution is, but that was losing money in the past, you only keep it for the sake of having an inroad into the C-suite of your customers? I don't know. I think you need a bit more strategic contribution from any of the assets that you're hosting in your organisation than that.

[01:08:40]

SM: Jens, I think that would be a great note to wrap up on so let me close by saying thank you so much for your input today. It was genuinely a very insightful conversation and it was a pleasure speaking with you as well.

JR: Was my pleasure as well. Thank you.

SM: Alright, Jens, hope you have a good one and do stay in touch.

Transcription ends at 01:09:02 of the recorded material

If you'd like to speak to Jens Rüster in a private call or meeting, please let your relationship manager know.