



Bezeq

Investor Presentation

Q2 2020

August 17, 2020



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COVID-19 - Opportunities

- ✓ Increase in retail Internet lines and traffic
- ✓ Increase in fixed-line telephony usage
- ✓ TV – growing demand for content services
- ✓ Business sector – growth in demand for remote connection
- ✓ Growth in demand for projects in the public service sector
- ✓ Decrease in operating expenses in Bezeq Fixed-Line and subsidiary companies - salaries, fuel, electricity and municipal taxes
- ✓ Reached understanding with labor unions in subsidiary companies



As of the end of Q2 2020,
the total impact of the
COVID-19 pandemic on
the financial condition of
the Group companies

was immaterial

COVID-19 – Challenges

- ✘ Decrease in Telephone roaming revenues due to cancellation of air travel
- ✘ Cancellation/freezing of business lines in sectors hurt by the pandemic
- ✘ Real estate sales may be postponed based on market conditions
- ✘ Potential rise in doubtful debts and collection issues

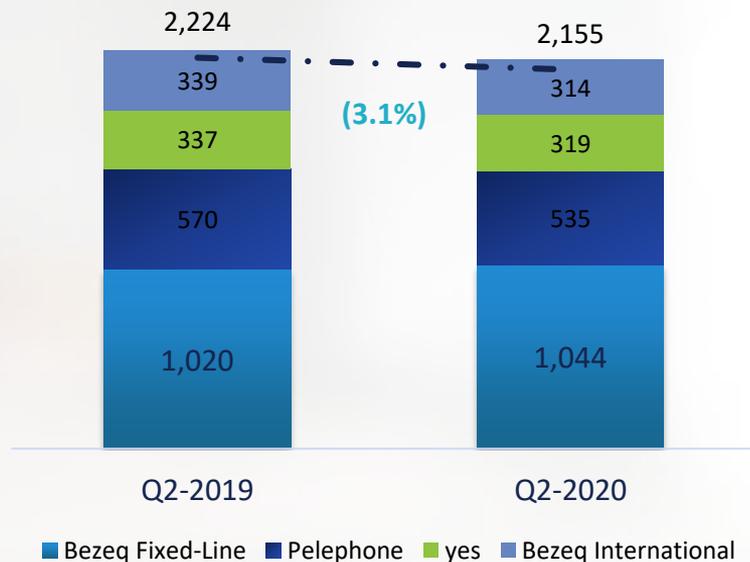


A photograph of three business professionals standing together. On the left, a woman in a grey blazer and white top holds a folder. In the center, a man in a dark suit and light shirt holds a tablet. On the right, a woman in a grey dress holds a tablet. A dark blue semi-transparent rectangle is overlaid in the center, containing the title and logo.

Bezeq Group Financial Results



Bezeq Group - Revenues | NIS Million



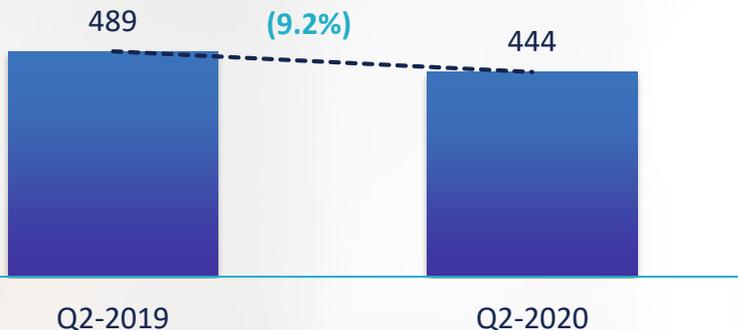
y-o-y decrease 3.1%

Mainly due to a decrease in roaming revenues partially offset by an increase in Bezeq Fixed-Line revenues

The decrease in revenues of the subsidiary companies was partially offset by a 2.0% increase in Bezeq Fixed-Line revenues

Bezeq Group - Salary and Operating Expenses | NIS Million

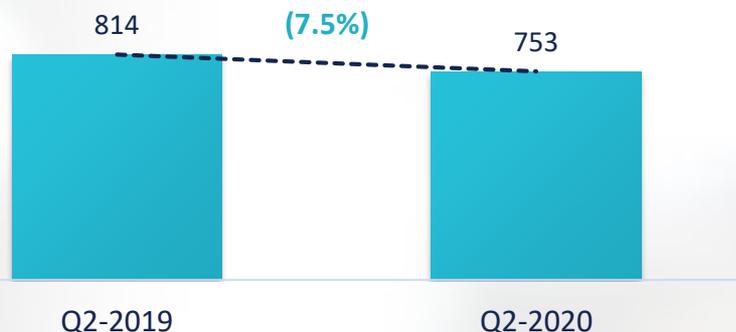
Salary Expenses, Net



► 9.2% y-o-y decrease

Decrease in head count in all key Group segments on top of the comprehensive streamlining plan which we continue to execute over the last few quarters

Operating Expenses



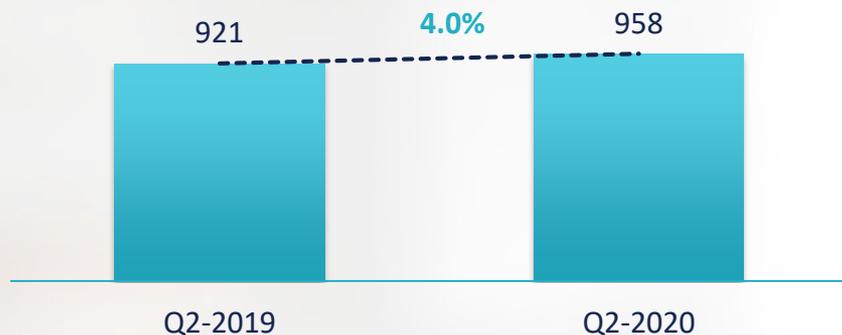
► 7.5% y-o-y decrease

Bezeq International - lower equipment and procurement expenses for businesses as well as international call expenses, in line with reduction in revenues

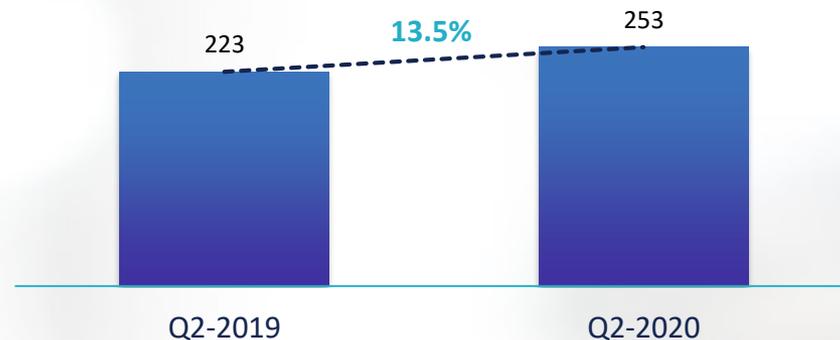
yes - continued streamlining in all expense items

Bezeq Group - Adjusted EBITDA and Adjusted Net Profit * | NIS Million

Adjusted EBITDA



Adjusted Net Profit



4.0% increase in Adjusted EBITDA driven by Bezeq Fixed-Line and yes**

*After adjusting for other operating expenses/income, net and one-time losses from impairment of assets

**Based on yes reported numbers (not pro forma)

Bezeq Group - Gross CAPEX and Free Cash Flow | NIS million

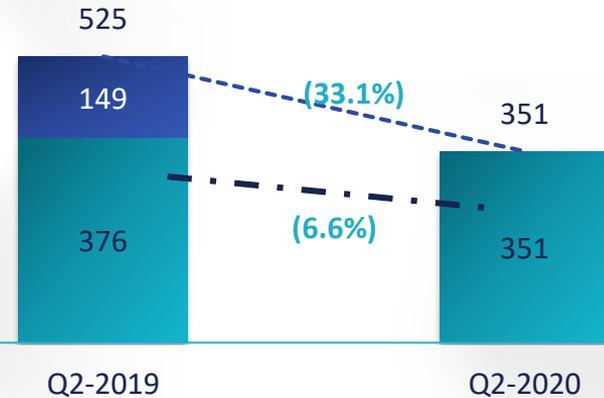
Free Cash Flow



■ Free Cash Flow ■ "Sakia" impact

- ▶ **18.2% y-o-y decrease after adjusting for "Sakia" impact**
Decrease due to changes in working capital

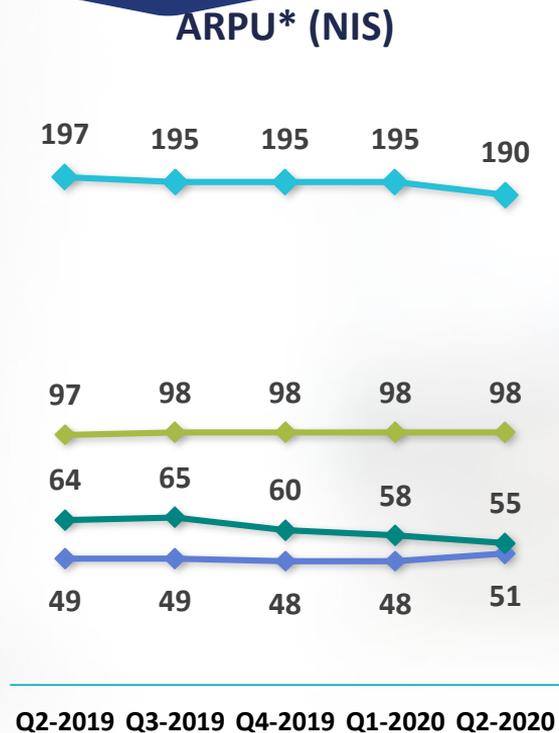
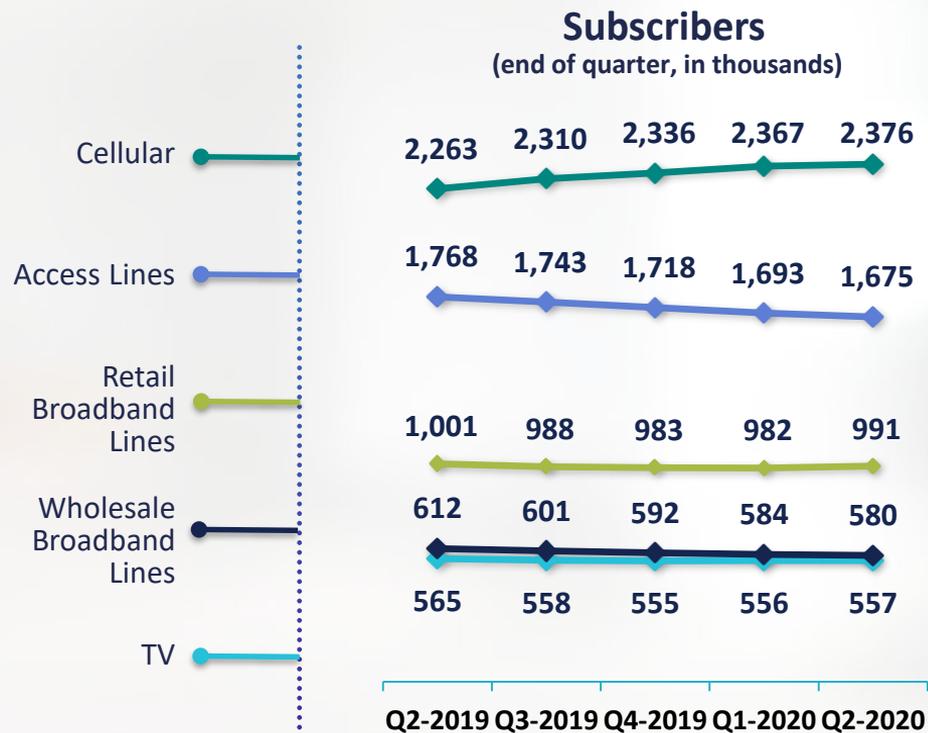
Gross Capex



■ Capex ■ "Sakia" impact

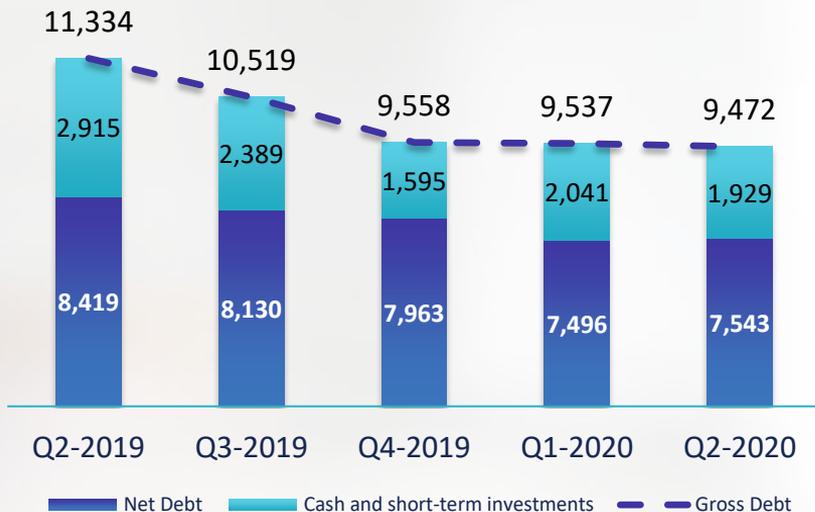
- ▶ **6.6% y-o-y decrease after adjusting for "Sakia" impact**
Decrease in yes investments due to migration to IP broadcasting

Bezeq Group - KPIs



* In Q1 2020, yes updated its ARPU definition so that ARPU does not include revenue from content sales to external broadcasters. As a result, ARPU data for the previous periods was adjusted retroactively.

Bezeq Group - Financial Debt | NIS million



- ▶ Significant reduction in principal **debt service** for next 12 months - NIS 900 million (down from NIS 1.5 billion a year ago)
- ▶ **Net debt/EBITDA ratio** decreased to 2.3 from 2.5 in Q2 19
- ▶ Continued **repayment of short-term debt** in Q2 20 with early repayment of NIS 500 million loan
- ▶ **Capital raise** – NIS 724 million in Q2 20 through expansion of debenture Series 11 and 12
- ▶ **Debt ratings:**
 - ▶ S&P Global Maalot: **iIAA-, Stable**
 - ▶ Midroog: **Aa3.il, Stable**



Bezeq Fixed Line

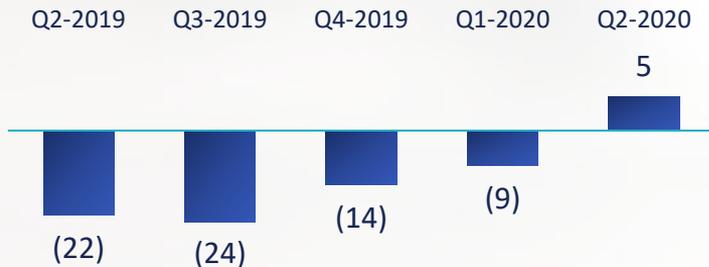


Bezeq Fixed-Line - Internet Services

Bezeq Retail Broadband Lines
(yearly change, in thousands)



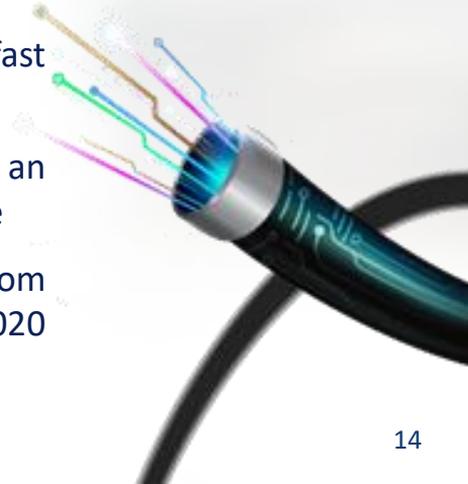
Total Bezeq Broadband Lines
(quarterly change, in thousands)



- ▶ **Growth in broadband retail lines for the first time in 5 years** - 8K increase in 1H 20
- ▶ Increase in total **Bezeq broadband lines**
- ▶ Continued accelerated **sales of equipment** (BE router, Bspot, Be Mesh)

Bezeq Fixed-Line – Progress in Regulatory Issues

- ▶ MOC approval for the use of **35B technology**, which enables broadband speed of up to 200 Mbps
- ▶ Permanent automatic **extension of "reverse bundle"** offering
- ▶ **Uniform price** – Wholesale operators on Bezeq's network may not offer different prices based on infrastructure
- ▶ **Significant progress in fiber deployment regulation:**
 - › Bezeq will select the areas in which it will deploy and operate an ultra-fast broadband network for all households
 - › A fund will be established to provide financial incentives for the deployment of an ultra-fast broadband network to all households in areas that Bezeq did not choose
 - › The fund will be financed through annual payments (0.5% of revenues) from licensees including Bezeq - the first payment will be made in 2021 (based on 2020 revenues)

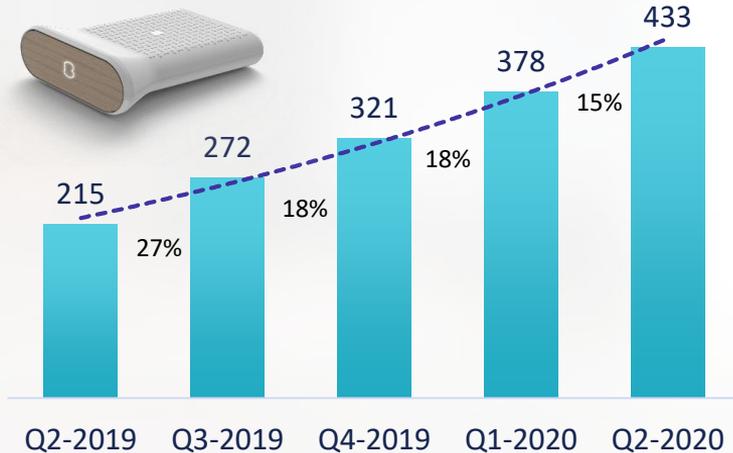


Bezeq Fixed-Line - Full WiFi Differentiation

with High Quality Broadband Internet at Home

Improved broadband experience and customer retention through BE router and Bspot/Be Mesh services

Customers with BE router
(in thousands)



Customers with BSPOT and MESH
(in thousands)



~44% of the Company's retail customers choose to connect via the BE router

Bezeq Fixed-Line – Launch of “Smart Home” Service

Enables a wide variety of capabilities based on Bezeq's broadband network

**Free
installation!**

Camera

Keep an eye on things at home live from your mobile



Motion Detector

Receive a mobile alert and video about suspicious movement at home

Be Home Safe

Only NIS 54.9/month

Air-Conditioner

Turn on the air conditioner remotely, before getting home



Fixed-fee – NIS 14.90/month
5 detectors – NIS 40 x 36 months



Door / window detector



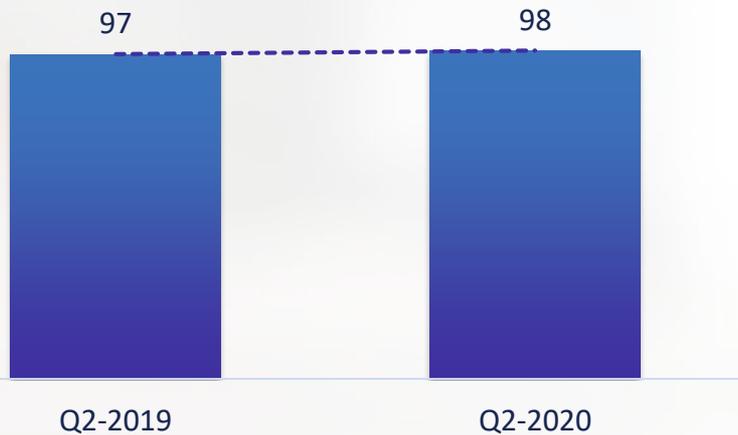
Flood detectors

Receive flood alert

Bezeq Fixed-Line - Average Revenue Per User (ARPU), NIS

ARPU increase due to further penetration into customer premises as well as value-added services

Retail ARPU



Bezeq Fixed-Line - Telephony Services

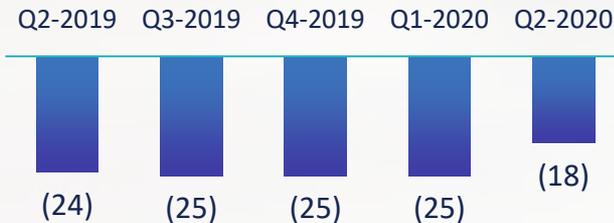
Telephony Revenues

(NIS millions)



Access Lines

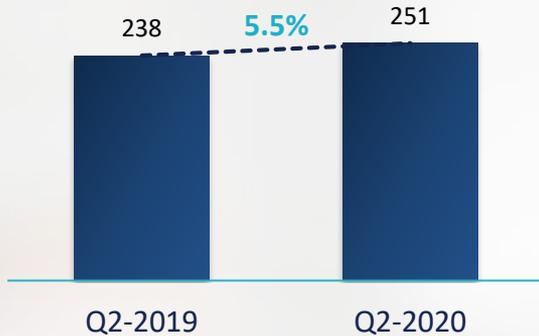
(Thousands)



- ▶ **Significant increase in traffic** influenced by COVID-19
 - › Outgoing minutes increased y-o-y 25%
 - › Incoming minutes increased y-o-y 22%
- ▶ **Sequential increase of NIS 10 million in revenues**
- ▶ **ARPL in Q2 20 grew** to NIS 51 (from NIS 48 in Q2 19)
- ▶ **Slowdown in access line churn** - 18,000 (compared to 24,000 in Q2 19)

Bezeq Fixed-Line - Revenues from Transmission and Data Communications, Cloud & Digital Services and Other | NIS million

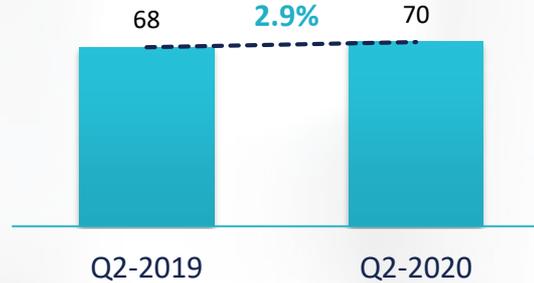
Transmission & Data



► 5.5% y-o-y increase

Increase in transmission revenues from business customers, Bezeq's Biznet broadband service for businesses as well as transmission services for ISPs

Cloud & Digital Services



► 2.9% y-o-y increase

Increase in revenues from virtual exchanges and cloud services for businesses

Other Revenues



► 16.7% y-o-y increase

Increase in sales of cellular equipment

COVID – 19 Offerings for the Business Sector

Remote Access and IT Solutions



Secure Video Conferencing for Businesses

Bezeq Business 

Secure video conferencing from CISCO WEBEX
3 Months Free with Free Installation

-  Virtual and secure work environment for meetings with multiple participants
-  Record and document meetings in cloud
-  Schedule meetings directly from Microsoft Outlook
-  Share presentations and documents
-  Conference calls from computer or mobile phones
-  Manage participant authorization in video conference

Installation, support and guidance from Bezeq Business experts



Remote Access Solutions

At Bezeq Business we are thinking about our customers and offering solutions in remote access in order to manage your business during this crisis period

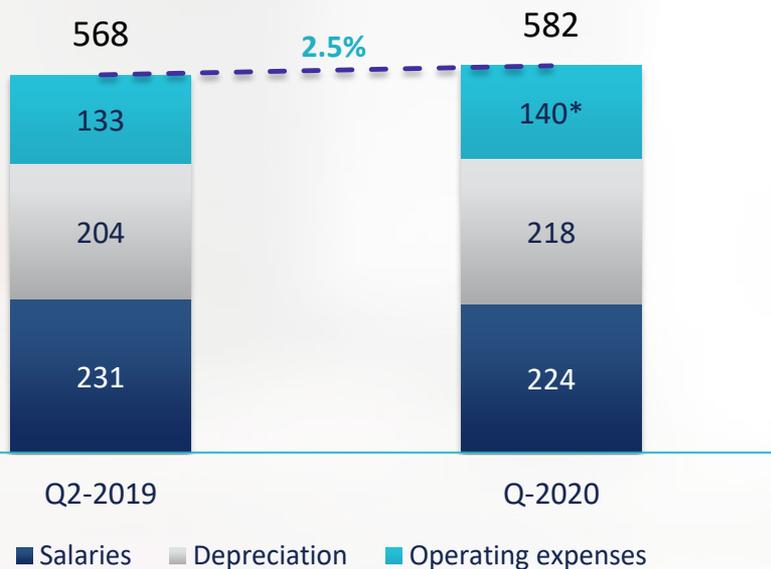
Connecting to your business or office from anywhere and at any time

- **Video Conferencing Rooms**
Digital cloud platform for video conferencing and remote learning with access from any computer or cellphone; file sharing, voice or video calls
Three Months Free
- **Remote Access Solutions**
Encrypted access from any location to computers and applications at your business or office, including remote extension for incoming and outgoing calls with switchboard ID
At Special Rates

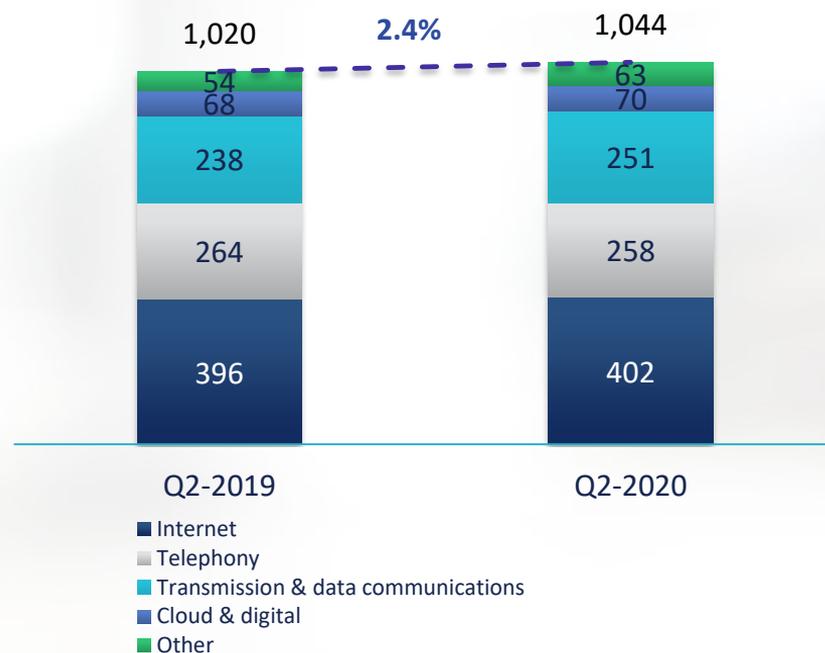
- ▶ Launch of IPC Remote office service
- ▶ Benefits offered for SMS solutions
- ▶ Virtual exchanges for PRI customers
- ▶ Launch of virtual conference rooms

Bezeq Fixed-Line – Key Financial Metrics | NIS million

Expenses



Revenues



*Operating expenses in Q2 20 were impacted by an increase in interconnect fees to cellular operators

Bezeq Fixed-Line - Adjusted EBITDA and Adjusted Net Profit * |

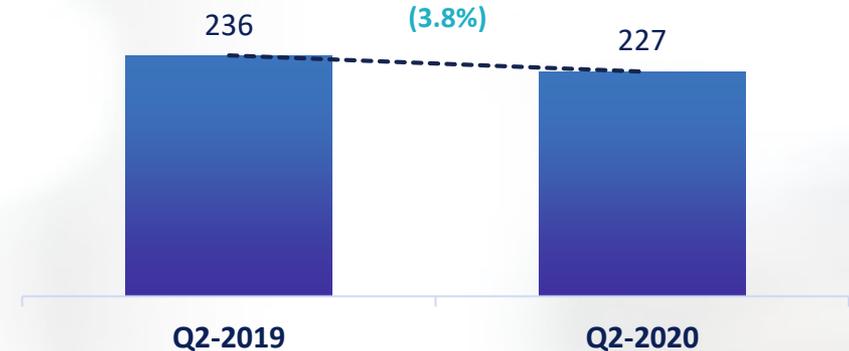
NIS Million

Adjusted EBITDA



Adjusted EBITDA – 3.7% y-o-y increase

Adjusted Net Profit

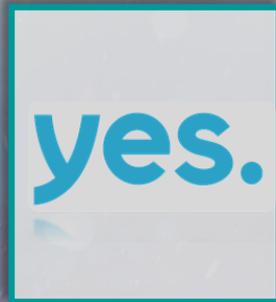


Adjusted Net Profit** - moderate 3.8% y-o-y decrease due to an increase in financing expenses resulting from the early repayment of debt

**After adjusting for the early repayment, adjusted net profit rose 12.7%

*After adjusting for other operating expenses/income, net

Subsidiary Companies ("Project Alpha")



ISP



TV



Mobile



Bezeq
International

yes.

Project Alpha – A Year and a Half in the Synergy Process



- ▶ At the end of 2018, three leading telecommunication companies in their fields were dealing with a market in crisis and declining revenues and profitability
- ▶ From there, Project Alpha set out in early 2019 to realize synergies and operational efficiencies between the companies
- ▶ Phase A relates to the years from 2019 to 2021
- ▶ Phase B is in the planning stages and will begin in 2022



Telephone



Bezeq
International

yes.

Project Alpha – Goals



- ▶ Promote a variety of packages and customer solutions, while reducing expenses
- ▶ Improve profitability as well as financial and operating metrics
- ▶ Streamline operations through shared services
- ▶ Increase customer benefit
- ▶ Create operating, technological and corporate headquarter synergies



Telephone



Bezeq
International

yes.

Project Alpha – Key Organizational Processes

- ▶ Appointed one unified management team to streamline the decision-making process and save tens of millions of shekels per year
- ▶ Reduced senior management positions by 40% (including those reporting to senior management)
- ▶ Lowered operating expenses through joint procurement
- ▶ Signed synergy and streamlining agreements with the three companies:
 - ▶ In the last year and a half, we reduced employee headcount by 1,000. The company believes it can streamline hundreds of additional employees by the end of 2021 through additional retirement and non-recruitment
 - ▶ The plan is in accordance with labor union agreements in force until the end of 2021

Significant initiatives taken in the short term to enable companies to meet synergy goals



Telephone



Bezeq
International

yes. Key Areas for Future Savings

+ Savings in real estate expenses due to reduction in space and moving corporate headquarters

+ Savings in transition from purchase of expensive set-top boxes to cheaper streamers

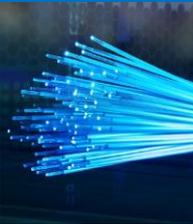
+ Savings of millions of shekels through joint procurement

+ Savings in investments and costs of support through switching to one CRM system

**5G
Mobile**



**Internet
over Fiber
Optics**



**IP
Broadcasting**



New Generations of Technologies in all Subsidiary Company Operations



IP Migration – Enhanced Customer Experience **Plus** Cost Savings



- ▶ Advanced streaming service with the most robust content library in Israel
- ▶ **yes+LIVE** Launch of a groundbreaking technology for watching broadcasts truly live and without delay
- ▶ **yes+.** Available on **Android** as well as Apple TV
- ▶ Easy and convenient access to international apps alongside collaboration with Netflix, Google, Amazon and IMDB whose ratings are integrated into the interface

Continued Progress in IP Migration

- ▶ IP subscribers – 15% of customers as of today
- ▶ Savings in transition from purchase of expensive set-top boxes to cheaper streamers (cost is one-fifth of satellite box)
- ▶ Savings of satellite network cost by the end of 2026

Turnaround – Increase in Subscribers and Improved Financial Metrics

Subscribers



- ▶ Improved financial and operating metrics in 1H 20:
 - ▶ Reported net profit of NIS 32 million
 - ▶ Free cash flow grew y-o-y by NIS 66 million
- ▶ Increase in total subscribers for the second consecutive quarter due to increase in STING subs and launch of yes+

*Q4 2018 includes a retroactive adjustment of 7,000 subscribers due to a change in the definition of a business subscriber



Ongoing Subscriber Growth



Postpaid Subscribers (thousands)



Growth in subscribers for five consecutive years led to slowdown in revenue decrease



*After adjusting for disconnection of CDMA subscribers in Q2 2017

✓ Record Speed

✓ Diverse Handsets and Plans

✓ Wide coverage, outside and inside the house

✓ Data communications and private **broadband** networks for businesses and organizations

Deployment of 5G sites in Israel



LET'S GO



○ Pelephone is the only company that has won frequencies that are for its exclusive use, which will give a competitive advantage to the Pelephone network.

*Depending on the updated coverage areas of the 5G network, and only on supporting devices and subject to the terms of service. Much faster compared to Pelephone 3 and 4G



Launch of Services for Home & Business

- ▶ Launch of new router (WiFi +)
 - ▶ New and advanced router that provides a powerful broadband experience
 - ▶ Supports high broadband speed
 - ▶ Enables simultaneous connection of up to 30 devices
- ▶ Launch of Mesh support system
- ▶ First customers in new data center in Rosh Ha'ayin
- ▶ Launch of remote connection services

WiFi+
נתב לאינטרנט חזק יותר



Leader in Business Solutions and Increase in Demand



- ▶ COVID-19 pandemic led to a significant increase in corporate demand for larger bandwidth based on Bezeq International's Internet infrastructure
- ▶ Increase in demand for data and voice by international telecommunication companies

Wide Range of Business Solutions

- ▶ Bezeq International has a wide range of data centers in Israel
- ▶ Significant growth in expansion of Microsoft cloud licensing packages
- ▶ Sharp rise in demand for advanced telephony solutions including remote connections to the workplace
- ▶ Winning significant tenders in government, industry and high-tech sectors



8 בוק ביזנאסי
BUSINESS

גם בימים אלו, בוק ביזנאסי אחכם. נשקפת המציב, נשמה להעביר לכם **חודש ראשון חינם**. בהזדמנות לאחד ממגוון השירותים לטוב, על מנת ששאלו לאמשיך לחלו את העסק נרחוק, עם היעדרות הנכרשים המוגנים ביותר

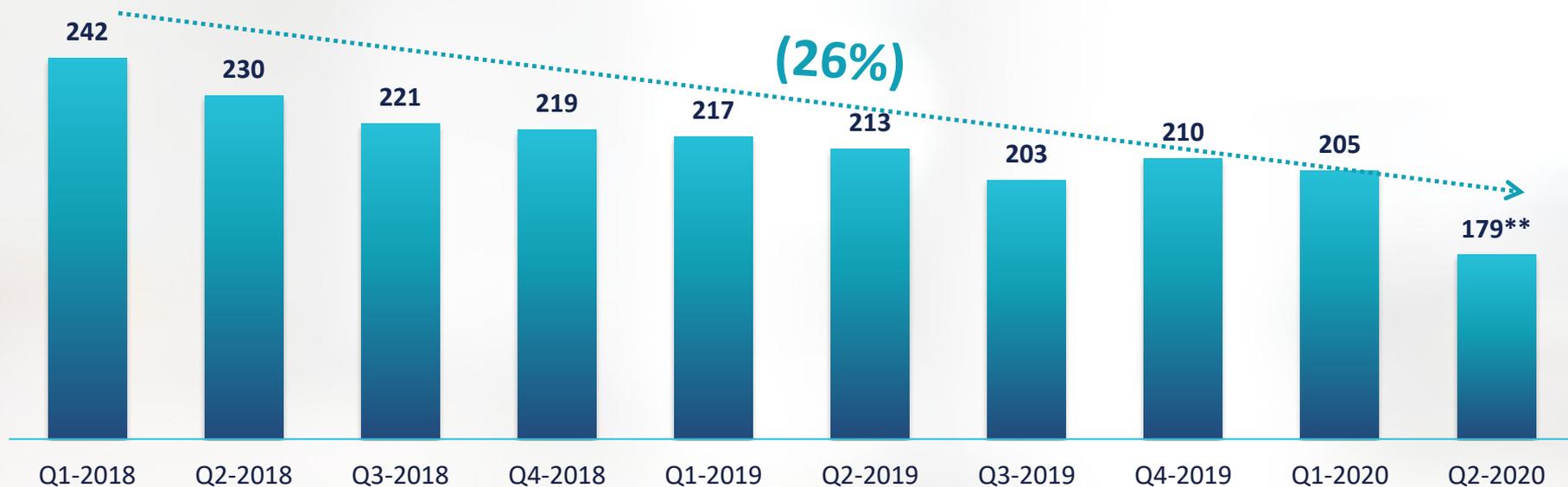
לפרטים התקשרו +9914
או השליחו פרטים

OFFICE 365 התמיכה הכוללת 365 ימים התמיכה לטוב שלכם מחודש ראשון חינם לפרטים והצטרפות	מסלולי אינטרנט לטקסים בוק לבוק מודע מסלולי האינטרנט המתאימים לטוב שלכם ויערו מחודש ראשון חינם לפרטים והצטרפות
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מאחלים בריאות וחזרה מהירה לשגרה

Bezeq International is a significant player in a growing market

Subsidiary Companies* - Decrease in Salary Expenses | NIS million



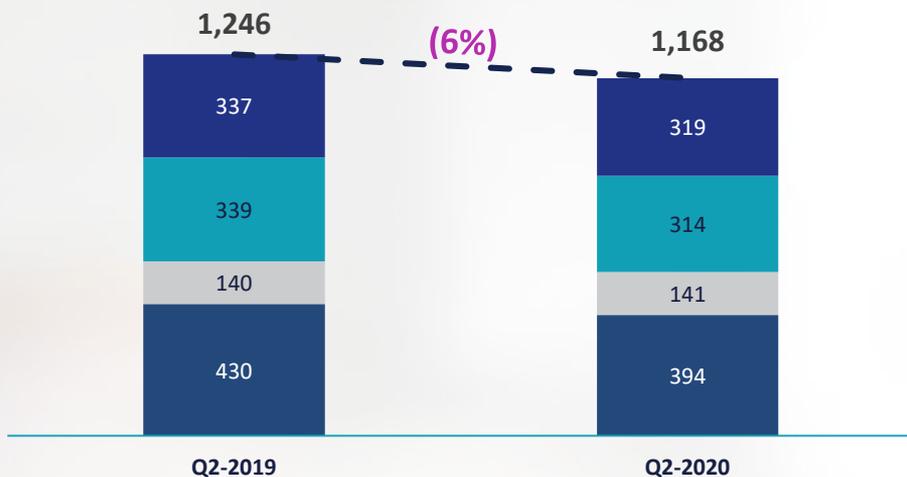
26% decrease in salary expenses since Q1 2018

*yes – includes pro forma numbers

**Q2 20 salary expenses include decrease of NIS 20 million due to impact of COVID-19

Subsidiary Companies* – Financial Highlights | NIS million

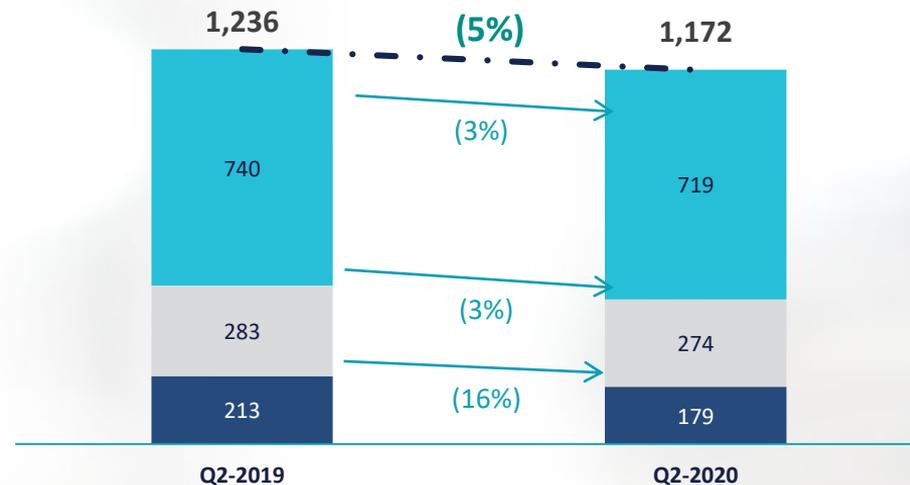
Revenues



■ Telephone - Services ■ Telephone - Equipment ■ Bezeq International ■ yes

- ▶ **Revenues** – Moderate decrease due to reduction in air travel

Expenses**



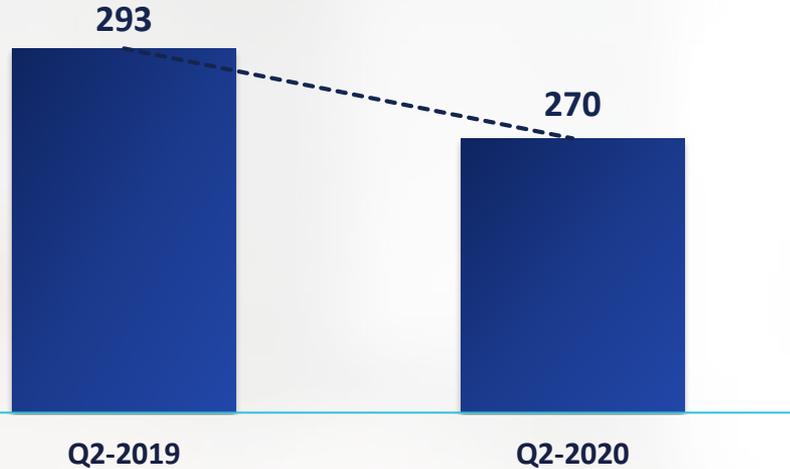
■ Salaries ■ Depreciation ■ Operating Expenses

- ▶ **Expenses** – Continued streamlining in operating and salary expenses

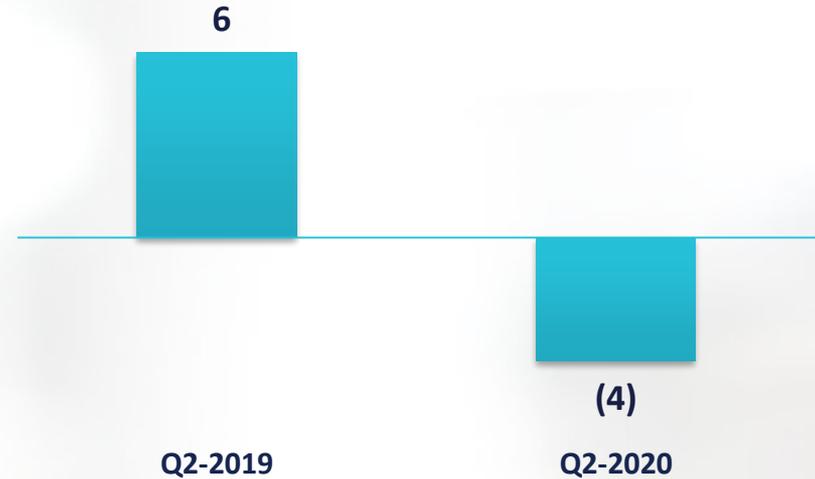
*yes – includes pro forma numbers **Excluding other operating expenses/income, net

Subsidiary Companies* – Financial Highlights | NIS million

Adjusted EBITDA



Adjusted Net Profit



- ▶ **Adjusted EBITDA and Adjusted Net Profit** – y-o-y decrease due to COVID-19 impact on roaming revenues partially offset by measures to adjust expenses as well as increased demand for other products of the companies

Bezeq Group - 2020 Outlook

The financial reports for the year 2019 and first quarter of 2020 did not include the Group's outlook for the year 2020, due to the COVID-19 pandemic, the restrictions imposed in connection with it and the resulting uncertainty in the economy. Although the uncertainty in the economy remains high, the Company decided to publish its outlook for 2020 based on current information and after a review of the Group's performance during the pandemic

Based on the information known to the Bezeq Group today, the Group's Outlook for 2020 is as follows:

▶ <u>Adjusted net profit* attributable to shareholders</u>	NIS 950 million
▶ <u>Adjusted EBITDA*</u>	NIS 3.5 billion
▶ CAPEX**	NIS 1.5 billion

The Company shall report, as required, deviations of more/less than 10% of the amounts stated in the outlook.

* Adjusted net profit and Adjusted EBITDA – after adjusting for other operating expenses/income, net and one-time losses/gains from impairment/increase in value of assets. Adjusted EBITDA and Adjusted Net Profit in 2019 were NIS 3.73 billion and NIS 950 million, respectively.

**CAPEX - gross payments for investments in fixed and intangible assets. CAPEX in 2019 amounted to NIS 1.55 billion

2020 Outlook - Bezeq Group (Cont'd)

The Company's forecasts in this section are forward-looking information, as defined in the Securities Law. The forecasts are based on the Company's estimates, assumptions and expectations and do not include the effects, if any, of the cancellation of the Group's structural separation and the merger with the subsidiary companies and everything involved therein in 2020.

The Group's forecasts are based, *inter alia*, on its estimates regarding the structure of competition in the telecommunications market and regulation in this sector, the economic situation and accordingly, the Group's ability to implement its plans in 2020. Actual results may differ from these estimates taking note of changes that may occur in the foregoing, in business conditions, and the effects of regulatory decisions, technology changes and developments in the structure of the telecommunications market, and so forth, or the realization of one or more of the risk factors listed in the Periodic Report of 2019. In addition, there is no certainty that the outlook will be fully or partially fulfilled, among other things, due to the COVID-19 pandemic and the resulting uncertainty.



Thank you



For more information please visit

ir.bezeq.co.il