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Event Transcript

Q2 2026 Financial Results & Strategy Update

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Q2 2026 Financial Results

Yohai Benita, Bezeq Group CFO: Welcome everyone and thank you for joining us on Bezeq's second quarter earnings call. I am Yohai Benita, CFO of the Bezeq Group. Joining me today are Mr. Tomer Raved, Bezeq's Executive Chairman, Mr. Nir David, CEO of Bezeq Fixed-Line, and Mr. Ilan Sigal, CEO of Pelephone and yes. Before we begin, please review the Safe Harbor statement on Slide 2 of our presentation, which applies to any statement made during today's call. Following our prepared remarks, we will open the call for Q&A. With that said, let me now turn the call over to Tomer, for his opening remarks. After his introduction, I will continue the presentation of our group's financial highlights, followed by Nir, who will discuss Bezeq Fixed Line results, and Ilan who will cover the results from Pelephone and yes. I will conclude the presentation with Bezeq International results.

Tomer Raved, Bezeq Executive Chairman: Thank you, Yohai. I am glad to see all of you joining us today. The strong results achieved in the second quarter demonstrate the commercial and operational momentum across the Group, which reflects consistent growth across all financial metrics, as well as the expansion of our customer base across all business segments - from subscribers joining Bezeq's fiber network, to the growth in Pelephone's 5G subscribers, and a higher number of subscribers and profitability at yes. The critical importance of a digital infrastructure during this period has reinforced all our core engines. We anticipate a continued expansion, both through acquisitions, and growth-supportive investments in the international infrastructure and cable sector. The recent quarters further underscore the success of our strategic compass, led by the management teams in all segments, and the continued unprecedented growth in the Group's profitability metrics. Looking ahead, in addition to organic growth, we are actively exploring investments, including merger and acquisition opportunities, to support the Group's strategy, that will allow us to create technological synergies and strengthen our competitive advantage in the market. Similarly, we are working vigorously to establish Israel's position as a global digital hub by building the submarine cable project. This national project will ensure redundancy and communications security; it will connect us to the global data routes and serve as a strategic growth engine in years to come. We continue to work intensively with MOC teams in order to remove structural separation and fully merge our TV business into our broadband services and infrastructure division.

Let's now move to Slide 3 where we show Q2 highlights. Core revenues grew 4% to over 2 billion shekels and Comp Net Profit grew 38%, driven by higher revenues and lower financing and operating expenses, after adjusting for the change in yes' valuation in Q2-2025. The board of directors recommended a dividend distribution of 415 million shekels, representing 80% of 2026 first half profits. In addition, the company will launch a new buyback plan of 100 million shekels, which is part of our multi-year program of 800 million shekels, and follows the completion of our previous buyback plan of 150 million shekels. Fiber subscribers were up 17% and take-up reached 35% with over 3 million homes passed. 5G continued to drive cellular market performance and subscriber plans were up 12% YoY. ARPU increased across broadband and TV. Pelephone signed an MOU to acquire Wecom. We continue to develop and grow our digital infrastructure activities, with an emphasis on the international submarine cable project. We hope to have more on these opportunities later this year. Turning to Slide 4, we see the technology and business roadmap on track to deliver our 2029 KPIs, from increased fiber deployment and take-up, expansion of 5G, and growth in the TV + fiber bundle. We are building for durable growth, superior customer experience, and operating efficiency. On Slide 5, we summarize our key Q2 financial achievements, including a 6.2% increase in Comp EBITDA to 978 million shekels. Slide 6 highlights our key KPIs for each of our businesses. Broadband retail ARPU continued to grow year-over-year to 142 shekels. We recorded an increase in yes ARPU, due to fiber growth and revenues from the Partner transaction. Pelephone grew 5G subscriber plans to 1.49 million, and 5G MAX subscribers grew to 217 thousand today. We are on track to reach our target of 300 thousand 5G MAX subscribers by year end. I will now hand it back to Yohai, who will review our financials in more detail.

Yohai Benita, Bezeq Group CFO: Thank you, Tomer. Let’s turn to Slide 7 for the Group’s Q2 highlights. Core revenues, Comp EBITDA, Comp Net Profit showed strong growth this quarter. The quarter results show positive growth across all group segments. Core revenues showed 4% growth and Comp Net Profit grew 38% due to higher revenues and lower financing and operating expenses, after adjusting for the change in yes' valuation in Q2-2025. Moving to Slide 8, we show our results for the first half of 2026. Comp Net Profit grew 19%, mainly due to lower financing expenses and Free Cash Flow grew 24% due to tax payments and refunds along with changes in working capital. Turning to Slide 9, we show our Q2 operating expenses. Operating and depreciation expenses were impacted by changes in yes' valuation in the second quarter of 2025. After excluding the impact of the changes in valuation, operating expenses decreased approximately NIS 35 million shekels and depreciation expenses increased approximately NIS 15 million shekels. Slide 10 shows our quarterly operational metrics. We recorded growth in Pelephone subscribers and wholesale broadband subscribers and achieved higher ARPUs for retail broadband and yes. Bezeq Group retail broadband subscribers increased by 1% with growth in yes fiber bundle subscribers offsetting a decline in fixed-line retail broadband subscribers in Q2. On a group level, fiber subscribers grew by approximately 1%. Slide 11 highlights our balanced capital structure. Net debt increased slightly by 303 million shekels to 5.2 billion shekels, with a net debt to Comp EBITDA ratio at 1.6 times. Turning to shareholder remuneration on Slide 12. As Tomer mentioned earlier, the board of directors recommended a cash dividend distribution of 415 million shekels and we will launch a new buyback plan of 100 million shekels, which is part of our multi-year program of 800 million shekels. On Slides 13 through 15, we show our 2026 Outlook and 2029 targets which are unchanged. We will continue to focus on maintaining our AA level rating and strive to increase shareholder remuneration. I will now hand the call to Nir for Fixed-Line results.

Nir David, Bezeq CEO: Thank you, Yohai. Our strong second quarter results demonstrate our strength and ability to continue recording consistent growth across all core metrics, driven by the company's strategic plan. We will continue to implement our strategy, invest in advanced infrastructure and future growth engines, lead in innovation, and provide our customers with the most advanced and highest-quality solutions. Turning to Slide 16, Fixed-Line core revenues increased 1.9% to 998 million shekels, driven by higher revenues from transmission and data communications, cloud & digital service and infrastructure projects. Fiber deployment continued as we reached over 3 million homes passed with a take-up rate of 35%. On the following slide (17), we show Q2 financial highlights. Comp EBITDA rose 6.1% and Comp Net Profit grew 20%, driven by higher revenues and lower operating and financing expenses. CapEx was down by 10%, and free cash flow in the first half of 2026 was 624 million shekels compared to 450 million shekels in the corresponding period. Turning to the next slide (18), we show continued fiber deployment reaching approximately 3.04 million homes passed, with almost 1.1 million active subscribers on our fiber network today. They represent 73% of total broadband subscribers and a take-up rate of 35%. Retail broadband ARPU continued to grow and rose 4.4% year-over-year to 142 shekels. Moving to Slide 19, we show the take-up trend. Retail fiber take-up reached 655 thousand and wholesale fiber take-up reached 406 thousand. Turning to the next slide (20), broadband revenues were down 1.2%, due to the Ministry of Communications decrease in wholesale tariffs. Transmission and data revenues grew 2.6% to 317 million shekels due to higher revenues from metro transmission services, and Cloud & Digital revenues increased 3.3% driven by higher revenues from virtual exchanges and cloud services. Other revenues rose 19% due to higher revenues from infrastructure projects. Moving to Slide 21, we show our operating expenses. As fiber deployment and penetration have grown, we are seeing the results in lower operating expenses which decreased by 18% due to lower expenses for fiber installation and materials.
With that, I'll now turn the call over to Ilan to discuss Pelephone and yes.

Ilan Sigal, CEO of Pelephone and yes: Thank you, Nir. The quarterly results reflect the successful implementation of our strategic initiatives in recent years at Pelephone and yes. The companies demonstrate continued growth, improved profitability, and the strengthening of their competitive positioning, while consistently investing in infrastructure, innovation, and customer experience. On Slide 22, we show Revenues, Comp EBITDA and Comp Net Profit, all of which increased despite the impact of the war with Iran on roaming revenues. We delivered strong subscriber momentum this quarter. Postpaid subscribers increased by 21 thousand, 5G postpaid subscribers grew by 48 thousand, reaching approximately 1.5 million, or 63% of postpaid subscribers today. In parallel, 5G MAX subscriber plans continued to expand, reaching 217 thousand today, reflecting customers' increasing demand for premium connectivity. We signed an MoU to acquire Wecom and are currently working to finalize the agreement soon. As expected, given the war-related roaming impact, ARPU declined modestly year-over-year to 45 shekels, a decrease of 2.2%, or approximately 1 shekel. Turning to Slide 23, you can see the detailed financial performance this quarter, which reflects these dynamics. Comp EBITDA grew 2.2% and Comp Net Profit grew 6.3%, despite the impact of the war on roaming revenues. Free cash flow was impacted by changes in working capital, mainly from payments to employees due to the signing of a new collective and the timing of end-user equipment procurement. On Slide 24, we highlight continued growth in 5G adoption. With 63% of postpaid customers now on 5G plans, we remain well positioned to capture future data and service revenue upside. On Slide 25, we show revenues from services and ARPU. Revenues from services were up almost 1% despite the impact of the war with Iran on roaming revenues. Moving to yes. On Slide 26, we see yes delivered a strong quarter, with revenues growing 8.7% to 348 million shekels, for the highest quarterly revenues since Q4-2018. ARPU reached a record 204 shekel, driven by continued growth in the TV plus fiber bundle and revenues from the Partner transaction. Slide 27 highlights our key financial metrics in Q2. We recorded the highest Comp EBITDA and Comp Net Profit since Q2-2023, driven by higher revenues and lower expenses. This is the second consecutive quarter of Comp Net Profit and the first full quarter to reflect the full impact of the migration from satellite broadcasting. Moving to Slide 28. Fiber subscribers increased to 149 thousand today, while migration to IP continues, with 90% of yes customers now on IP platforms. With that, I'll hand the call back to Yohai for Bezeq International's results.

Yohai Benita, Bezeq Group CFO: Thank you, Ilan. Finally, turning to Bezeq International on Slide 29. Bezeq International delivered a solid performance in the second quarter, with revenues from business customers increasing 9% year-over-year to 252 million shekels, driven primarily by higher equipment sales and continued growth in cloud activities. Comp EBITDA grew 5.4%, and Comp Net Profit totaled NIS 11 million, compared to NIS 3 million in the corresponding quarter last year, mainly due to higher revenues. Bezeq International is well positioned, as demand for cloud, data, and enterprise connectivity solutions continues to grow. With that, I will open the Q&A session. If you would like to ask a question, please raise your hand virtually. As you hear your name, please be sure to unmute your microphone, and ask your question. For the benefit of the people in the room, please introduce yourself and share the name of the company you represent. We will address questions as we see the hands raised. I will now pause to poll for questions. First question from David Kaplan from Psagot.

David Kaplan (Psagot): I guess I don't have to say my name. You did that for me. I have a couple of questions, and I will try to keep it as short as possible. The first question I have is on KPIs around the fixed line. When you look at the group fiber overall, when I combine the fiber subscribers and the television business, we see some nice growth, 18% year over year and a little bit over 3% in the quarter. How do you think about that? First of all, I think it speaks to why it's clear that the removal of structural separation would be a massive boon for Bezeq. If you can give us an update where we are on the regulatory front on those things, that would be appreciated. But secondly, how do you think about that strategically when it comes to what appears to be some form of cannibalization of the fixed line business and their fiber subscribers from, yes, from the TV subsidiary? On the one hand, we see ARPU in both of those companies growing where fiber is involved. I imagine the pricing is not exactly the same. So that's the first question.

Tomer Raved: So I'll just take that. First, your analysis is correct. Overall, we look at the group total fiber subs, retail subs. When you look at Bezeq fixed line and yes, combined, you see growth consecutively. The economics are the same or even better when you think about TV bundling because the wholesale rates that yes is paying to Bezeq is a wash from a group perspective. So there's no cannibalization de facto. You get from both subs' fiber revenue. And you have incremental TV revenue when you look at yes. So, yes, removal of structure of separation makes a lot of sense and also brings value to the company and to the consumer who pays less for the bundle, and obviously incremental revenue and incremental subs for the group. So that's exactly how we think about it. And that's why you see first the take up growing, fiber is up growing, and also total broadband subs when you add fiber and copper remain stable, even when you see the retail subs at Bezeq fixed line alone going down.

David Kaplan (Psagot): Anything to say on the regulatory front?

Tomer Raved: On the regulatory front, we are in professional dialogue with the Minister of Communications and the teams that are working with them from the Minister of Finance and Antitrust Authority. The process is close to completion, and we hope they will announce in the coming weeks. We obviously cannot ignore the impact on timing from the geopolitical and political backdrop, but we believe there will be a resolution in the coming weeks.

David Kaplan (Psagot): One quick question on the KPI’s in the mobile business. ARPU doesn't seem to be tracking upwards as you are very successfully migrating 4G subs to 5G. So I'm curious, does that have to do with subsidies or is there something else going on in there? And why don't we see the impact of the migration on ARPU?

Tomer Raved: Yeah, the ARPU is pretty stable. Obviously, you have some impact from roaming and a lot of transition in the kind of one-off in the business sector, especially government customers that have been migrating this year with the large tender that came out. Besides that, there are no other trends or elements. Obviously, there's competition in the market, but the upgrade from 4G to 5G continues to drive ARPU upwards and we stand behind our 2029 target of 50 shekels.

Ilan Sigal: I'll add that every year, for the past three years, we see ARPU growing around one shekel a year. But this year, because of the impact of the war on roaming, it went down slightly by one shekel only this quarter. Now we see that the roaming is coming back because Israelis are flying and travelling and we believe that the roaming revenues will go back to the same place they were two quarters ago.

David Kaplan (Psagot): Okay, great. And my last one, really quick, just on the balance sheet. Net debt seems to have picked up this quarter. I'm sure it has something to do with the dividend that is being paid and with the buybacks. How do you view that going forward? Because I think you did have goals to continue on a deleveraging track.

Tomer Raved: We do not have goals on the deleveraging track. That's very important. We like where we are from a leverage perspective. And I think we discussed this in our strategy presentation in March, with the pyramid that discussed how we think about capital allocation. So, first, maintenance CapEx is important. Second, we maintain our current leverage level. We don't have any intention to delever further. We like where we are at the 1.5/1.6 net debt to EBITDA, AA rating. We have a lot of financial flexibility. And as a result, we are looking at: A) additional M&A and investment opportunities including subsea cables and Wecom Mobile, and B) increasing returns to shareholders via dividends and incremental buybacks.

David Kaplan (Psagot): Okay, great. Thanks very much. I apologize to my colleagues, and I'll let them get on the line now.

Yohai Benita: Thank you. Next question we have is from Rohit from Citi.

Rohit Modi (Citi): Thank you for taking my questions. I have three, please. Firstly, on the guidance and looking at the Comp EBITDA guidance of 3.7 to 3.8 billion, I mean, and I look into performance in 1H, you're already doing 3.7% Comp EBITDA growth in 1H. Now, that leaves a lot of headroom in 2H. I mean, even with the decline in Comp EBITDA in 2H, you still achieve top end of your guidance. I'm just trying to understand why you're so cautious about 2H. Are you seeing any kind of pressure in the second half? Second question is on the fixed line operating expenses, 18% decline there. Is that the kind of run rate do you expect now in terms of operating expenses going forward in fixed line? Or is this just the phasing and probably you see a bit more increase there? And last question is basically the follow up on the roaming charges. Can you give us any kind of color in terms of what your mobile-driven service revenue growth would have been if you assume your roaming revenue was flat in this quarter? Thank you.

Tomer Raved: I'll start. You guys can continue. The first question was around the guidance. Yeah. So, look, we do not expect any softness in H2. You're right that we have a lot of headroom, and we feel very strong with our guidance. We will update the market if, as per our disclaimer, we see deviation of more than 10% from the mid-range and we feel very comfortable with the range. And if there are any updates upward, we definitely will update the market. We feel very confident with the trends and the tailwind in Q2 and also going into Q3, especially if the geopolitical situation stays stable with the roaming question. We feel very comfortable with the guidance that we gave and also with the long term one. On Opex?

Yohai Benita: On Opex, on Bezeq Fixed-Line and I can say that part of the reasons for the decrease in the expenses relates to the lower cost related to the fiber activity. We see less expenses in this area. On the other hand, I need to say that we also have the interconnection fees that we used to have in the past. Now, we don't have. So, it's something that ended last year. Also, part of the reason for the decrease quarter over quarter and also part of it is a decrease in Bezeq store activity, which we managed to compensate for in other revenues that we managed to stream this quarter. So, you don't see a decrease in revenue. Of course, we see strong growth in Bezeq Fixed-Line revenue and still the expenses went down. So, part of it will continue for sure. The third question was regarding the ARPU and roaming.

Ilan Sigal: Okay. About the roaming, we see that in July, the Israeli passengers are already coming back and it seems like July 2026 looks like July 2023, something very similar. So, if the war will not continue and it will be stable, I believe that roaming revenues will come back and be better and maybe like 2023 before the war. So, probably, it will impact the ARPU.

Yohai Benita: Ok, Thank you. Next question is from UBS. Ondrej, can you hear me?

Ondrej Cabejsek (UBS): Hi, everyone. Yes, I can. Can you hear me?

Yohai Benita: Yeah. Now, I can hear you.

Ondrej Cabejsek (UBS): Good. Thank you. Thanks for the presentation. So, I've got two follow-ups effectively on one question. So, I guess the first one, apologies, I didn't quite hear, but in terms of the structural separation, there are elections planned, of course. And so, I was wondering more, is there a risk that this gets kind of put on hold, it becomes less of a priority or if there's a different outcome in terms of who governs Israel going forward, is there a risk that this or one of the three scenarios that the regulator has kind of studied would be the priority as opposed to the kind of just plain removal. So, that would be number one. Number two, a follow-up on the fixed line Opex, if you could maybe explain a bit more like the disassociation of the trend of the Opex base compared to the fact that you are still rolling out fiber quite heavily. So, there was a big drop in the subcontractor and kind of hardware as well as marketing expenses, which seems to be running well ahead of what the actual number of homes connected is doing. So, why is there kind of a break between those two currently? And the third question would please be just your view on the, I guess, missed opportunity to consolidate the mobile market where HOT was sold to strategic buyers. So, is there any kind of implications of that on the mobile market from your perspective? Thank you.

Tomer Raved: So, on structural separation, the process is not related to elections and it's not a government decision or a parliament Knesset decision. It sits within an inter-ministerial team between the Ministry of Finance, Ministry of Communications and Anti-Trust Authority and they are close to completing their work. Obviously, the environment creates delays. Elections should not impact, not the decision-making process and not the essence nor the resolution itself. So, the answer is we do not expect that to impact, potentially timing a little bit, but not the actual decision. That's the number one. On Opex, you want to touch or just.

Yohai Benita: I would just add to that. I think you mentioned that in the question. It's true. There are more homes in Israel which are now connected to the fiber network and when we come to connect new customers, we need to invest less in order to connect the same customer than we had to invest in the past. So, this is one of the reasons why we see a decrease in basic fixed line operational expenses. I hope that answers your question. And the third question was regarding the…

Tomer Raved: Mobile market, just generally and guys, feel free to add, but we are all for consolidation, same as you see and cover. The European companies you cover, we think the same trend is justified in Israel. Hot Mobile is not really consolidation, but I think more rational ownership obviously supports the market. Our acquisition of Wecom Mobile will also support consolidation and further investment in the network and we expect and vouch for additional consolidation in the Israeli mobile market.

Yohai Benita: Okay. Thank you. Next question is from Sabina from Leader. Hi, Sabina.

Sabina Podval (Leader): Hi, guys. Good afternoon. I have a few questions. We saw really nice revenue growth in yes. So, I understand that part of it comes from the fiber optic subscribers, but I was wondering if you can elaborate on the contribution of the Partner - yes collaboration or agreement. Are we starting to see it in the results, how significant is it and what should I assume going forward? And the second question, we saw nice growth both in Bezeq International and in the fixed line segment business customers. So, if you can give us more color regarding the trends there and maybe some updates regarding the submarine cable.

Yohai Benita: I'll start with the Partner deal. First, we're very happy with the Partner deal. It started in Q4-2025 and there's two consecutive quarters that the collaboration is working and it's almost a nine-year deal and it's a very good deal for yes. The revenues that you see are from fiber, as you said, and the collaborations with Partner and also with the international streaming companies like Netflix, Disney and now HBO Max. They are now on yes billing.

Tomer Raved: I think on Bezeq International and the business sector, Nir is really spearheading that. We see trends between the needs for additional bandwidth, broadband connectivity, the needs for AI and of course cyber needs all come together and that's the value-added services that Bezeq Fixed Line and Bezeq International bring to the business customers and I think this trend will continue with further cloud needs and hosting needs and our operation within data center activity mostly on co-location. Definitely something we will see a further boost given the obvious trend that you see in all the business industry. On Subsea Cable, which really complements what I just talked about, it doesn't only speak to the needs in Israel and to the trends around tech and AI and data centers, it also speaks to the need in the region because today we already connect east to west, meaning the Gulf and India all the way through Israel on the terrestrial route and then through our Subsea Cable to Europe. We see the demand there is growing exponentially and that's why we discussed three new cable systems on the way. We provided details on one and we are progressing very rapidly also on the second one, for which we published an RFQ. You will see a lot of activity and pretty interesting returns in our view on this investment in the coming months.

Sabina Podval (Leader): But is it something that's included in your 2029 goals or it could be potential upside?

Tomer Raved: Nothing related to Subsea Cable forecasts nor structural separation nor M&As are included in the 2029 forecast as of today.

Sabina Podval (Leader): Okay, thank you. And maybe one more question for Ilan. So you've mentioned the rebound in roaming from July. But I was wondering, so on one hand, we see the improvement in roaming, but on the other hand, should we see some impact of the latest tender of the Israeli accountant general on Pelephone's results?

Ilan Sigal: We still don't see it. We will probably will see it in the next few quarters. Not now.

Sabina Podval (Leader): So I'm just trying to understand. So what are the trends for the third and the fourth quarter from the ARPU perspective and subscriber growth for Pelephone?

Ilan Sigal: The tender will not significantly impact the ARPU. The ARPU is affected by 5G subscribers moving from 4G to 5G. And of course, from all our customers that we are gaining every quarter and the roaming. So if you're talking about the tender, we also have 60% of the government customers and it will have an impact but mostly will not impact ARPU that badly in the next quarters.

Sabina Podval (Leader): Thank you.

Yohai Benita: Okay, thank you, Sabina. If there are no further questions at this time, I would like to thank you all for taking the time to join us today. Should you have any follow-up questions please feel free to contact our investor relations department. We look forward to speaking to you on the third quarter 2026 earnings call. Thank you.