**"Bezeq" The Israel Telecommunication Corp., Ltd.**

**Event Transcript**

**Q4 & FY 2023 Financial Results**

Wednesday, March 13th, 2024, 16:00 Israel Time

## Q4 & FY 2023 Financial Results

**Tobi Fischbein (Bezeq Group CFO):** Welcome everyone and thank you for joining us on Bezeq's 2023 fourth-quarter and full year earnings call. I am Tobi Fischbein, Chief Financial Officer of the Bezeq Group. Joining us from the senior management team, we have Mr. Tomer Raved, Bezeq's Chairman, Mr. Ran Guron, Bezeq's Outgoing CEO, and Mr. Ilan Sigal, CEO of Pelephone and yes. Before we start, I would like to direct your attention to the Safe Harbor statement on Slide 2 of our 2023 investor presentation, which also applies to any statement made during today's call. We would like to inform you that this event is being recorded. After presenting our quarterly results, we will have a Q&A session.

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 financial highlights, followed by Ran, who will discuss Bezeq Fixed Line results, and Ilan who will cover the results from Pelephone and yes.

**Tomer Raved (Bezeq Group Executive Chairman)**: Welcome everyone - I am proud to present Bezeq's reports for the first time as Chairman of the group. I am sure that the group will continue to grow and strengthen its position as the leader of the telecommunications market in Israel while maintaining the value and strategic compass that has guided the group's employees and its management.

Before we start, I want to thank Ran Guron, Bezeq Fixed Line CEO, for his 18 years of service at the Bezeq Group, eight of which as CEO of our various companies. We wish him the best on his journey forward. I would also like to wish Bezeq's incoming CEO, Nir David, great success in his position, and I look forward to working together with him and the other CEOs in the Group, to advance the Group strategy, to reinforce the Group as an innovative leader in its field, and as the leading incumbent in Israel's telecom market.

Now, let's discuss our strategy update and fourth quarter and full year results. Beginning on Slide 4, we return to our six key strategic pillars, showcasing how we are executing on our strategy and moving ahead dramatically with fiber, using yes as a "triple-play" growth engine, as well as continuing our transition to 5G throughout Pelephone's subscriber base. We remain focused on the growing areas of the ICT market and maintaining a balanced capital structure, while increasing our dividend distribution policy from 0% in 2021 to 70% in 2024. We are now diversifying our portfolio by adding electricity supply to consumers and SMEs to our sources of growth, which we will address in more detail later.

On the following slide, we show our transformation since 2020. We began with the launch of our fiber network, the 5G spectrum auction, and the early days of yes' migration from satellite to IP, as well as significant cost savings at our key subsidiaries. In the mid-term, we expect to reach 40% fiber take-up, cellular ARPU of 45 to 50 shekels, yes ARPU from 155 to 160 shekels as well as operational efficiency improvements to be reflected in both OpEx and CapEx. We are also acting to remove the structural separation through discussions with the regulator.

The next slide highlights an improvement in our mid-term ambitions to 1.5% to 2% annual growth in Adjusted EBITDA with Adjusted EBITDA margins in the range of 42% to 44%. Adjusted EBITDA minus CapEx is expected to grow by 400 to 500 million shekels, up from a 100 million shekels increase from 2021 to 2023. Free cash flow is now expected to grow annually 7% to 9% in the mid-term and we aim to increase our dividend distributions, subject to maintaining our credit rating within the AA group.

On slide 7, we show our technology and business roadmap across fiber, 5G and IP-based TV. Today we have approx. 2.2 million homes passed, and 619 thousand fiber subscribers in retail and wholesale with ~29% take-up rate. In the mid-term we expect retail Internet ARPU to reach over 140 shekels, up from 130 shekels in our previous ambitions from November 2021. 5G subscriber plans reached 1.1 million today, representing 41% of total subscribers, and we have 408 thousand IP-based TV subscribers, or 71% of yes' total subscribers.

Turning to the next slide, beyond proceeding with infrastructure development we are also entering multi-year operating efficiency projects at all key subsidiaries, aiming to streamline OpEx and CapEx as we reach the latter phase of our investment cycle

The following slide highlights our continued ESG focus and efforts, including Bezeq recently signing UN Women's Empowerment Principles to advance gender equality. We have also transitioned more than 50% of our fleet to hybrid vehicles, reduced electricity and water consumption, and doubled our scope of electronic waste recycling in two years to 95 tons. We are very proud of our immense efforts and progress across the different ESG verticals and will continue to be a market leader in this field.

Slide 10 summarizes our consistent execution in 2023, notably our increase in fiber take-up, achieving the highest Fixed-Line revenues in the last decade, the highest Pelephone service revenues, excluding interconnect fees, since 2017, and the highest yes revenues since 2019. Additionally, Adjusted Net Profit grew by 11%.

On the following slide, I want to highlight our top-line and bottom line growth as well as our strong Free Cash Flow generation at 1.3 billion shekels, which has allowed us to continue to reduce our net debt, which decreased by 427 million shekels in 2023.

The next slide shows key indicators by business. Bezeq Fixed-Line had 300 thousand net fiber adds in 2023 and today we have 619 thousand retail and wholesale fiber subscribers. Pelephone's net postpaid subscriber adds were 53 thousand and 5G subscriber plans reached 1.1 million subscribers as of today, or 41% of total subscribers. yes revenues grew 2.5% despite a mild decline in TV subscribers to 574 thousand, of which 71% are already IP subscribers.

Now I would like to turn the call over to Tobi, to discuss the financial results in more detail.

**Tobi Fischbein:** Thank you, Tomer, and welcome onboard. Slide 13 shows revenue growth for the full year driven by a 2.5% increase in Bezeq Fixed-Line and yes revenues, despite the second tranche of the MOC telephony reform in July 2023 and the decrease in Pelephone interconnect revenues in June 2023. Adjusted EBITDA and Adjusted Net Profit both increased in 2023 due to improved business results in most of the group's activities.

As seen in the next slide, revenues remained stable in Q4 despite the war, and Adjusted Net Profit grew 18% in the quarter primarily due to a decrease in depreciation and financing expenses.

Moving to the next slide, we show a 16% increase in Retail Internet ARPU since 2021 as well as expansion in Pelephone ARPU due to an increase in roaming and continued transition to 5G plans. Pelephone subscribers grew in 2023 with stabilizing wholesale Internet subscribers.

On slide 16, we show stable Internet subscribers for the quarter along with a decrease in TV and Cellular ARPU, due to impacts from the war.

The next slide shows a 41% decrease of 3.7 billion shekels in net debt since 2018. Our net debt to EBITDA ratio has decreased from 2.5 times to 1.6 times in the same period. Both Israeli credit rating agencies maintained their "positive" outlook.

On slide 18, we address our upgraded dividend policy, moving to 70% payout ratio in 2024 from 60% in 2023. In addition, the Board recommended a distribution of 374 million, or 13.5 agorot per share, which reflects a dividend yield of approximately 6% on an annual basis.

Turning to the next slide, our 2023 results successfully met our guidance for the year. For 2024, we expect roughly similar targets with a one-time increase in capex due to two projects: building a new data center for the group and upgrading core infrastructure networks.

The next slide reflects our improved mid-term ambitions, now targeting a 1.5% to 2% annual growth in Adjusted EBITDA, a capex/sales ratio of 16% to 18%, a 7% to 9% annual growth in Free Cash Flow, and a 400 to 500 million shekels increase in Adjusted EBITDA minus CapEx.

I will now turn the call over to Ran, who will share more detailed results from our Fixed-Line operations.

**Ran Guron (Bezeq CEO):** Thank you, Tobi. As seen on slide 21, In 2023, we saw growth in all activities except for telephony due to an MOC reduction in tariffs, but we still managed to record the highest revenues of the past decade. Adjusted Net Profit grew 8.3% to 1.02 billion shekels, the highest since 2020. Free Cash Flow increased 14.1% to 1.1 billion shekels for the year.

On the following slide, we show an increase in Adjusted EBITDA and Adjusted Net Profit for the year, primarily due to higher revenues and lower net financing expenses. We also saw an increase in Free Cash Flow for the year due to improved business results and timing differences in working capital.

The next slide shows 3.1% growth in Adjusted EBITDA for the fourth quarter and 21% growth in Adjusted Net Profit despite the decrease in fixed-line telephony tariffs.

Turning to slide 24, in 2023 we saw again significant growth in Broadband Internet revenues driven by an increase in fiber customer take-up which also resulted in continued growth in retail ARPU.

On the following slide, we see growth across the same areas for the fourth quarter including fiber customer take-up, broadband revenues and retail ARPU.

Moving to the next slide, we show the take-up trend. Q4 saw lower retail net adds, resulting from a slowdown in subcontractor activity due to the war and a temporary dispute with the labor union.

Slide 27 highlights continued fiber deployment with an increased focus on take-up. As you can see, we have added a graph showing 74% of Bezeq's total Internet retail customers as of Q4 2023 with unified Internet service.

The next slide shows continued growth in 2023 in Transmission & Data revenues, offset by a decrease in traffic revenues from ISP companies. We also saw growth in Cloud & Digital revenues driven by higher virtual exchange services. The increase in Other revenues was mainly driven by infrastructure projects.

Similarly, the next slide shows the same continued growth in Transmission & Data, Cloud & Digital and other revenues for the fourth quarter.

The operating expenses slide shows an increase in salaries due to salary updates, recruitment for the fiber project and the impact of the public sector wage agreement on tenured employees. Other expenses in 2023 increased due to a special grant to be paid to employees pursuant to an amendment of the labor agreement.

Slide 31 shows operating expenses for the fourth quarter, with a decrease in operating expenses due to lower interconnect payments to telecom operators as tariffs decreased as of June 2023, as well as lower payments to the fund for incentivizing deployment of fiber optics pursuant to an MOC decision.

As for the next slide, we recently announced our entry into the field of electricity supply through the establishment of a joint venture with PowerGen, an expert in electricity production. With this joint venture, for the first time, Bezeq is taking advantage of a major regulatory reform in the power sector to expand into an adjacent utility area with the goal of becoming a leading electricity supplier and adding new sources of growth. The Israel Electric Corporation is not permitted to offer discounts until it loses 40% market share in the low-voltage, consumer market. According to BDO Consulting, an estimated 10 billion shekels of the market share of the Israel Electric Corporation will pass to competitors by 2030. We are excited to take advantage of this unique business opportunity.

Continuing to the next slide, our rationale for this investment considers increased customer stickiness, no telecom regulatory exposure, no significant CapEx, and various exposures which can create a natural hedge for the group. Our expertise lies in retail, marketing and services to mass markets. Our partner will provide the energy, along with the CapEx needed for this venture. Overall, we are well positioned to handle mass market services and there is a lot of room for growth.

In summary, Fixed-Line operations saw growth across all key financial metrics in 2023.

After 18 years in the group and 8 years as CEO of the various group companies, I am leaving Bezeq at the end of the month with great satisfaction and appreciation of the results we have presented, and I leave Bezeq in an excellent position as a healthy and growing company. I would like to thank Tomer and the Board of Directors for years of cooperation and wish Nir great success. With that, I'll now turn the call to Ilan to discuss Pelephone and yes.

**Ilan Sigal (CEO Pelephone & yes):** Thank you, Ran. Let me begin by stating that all of my references to Pelephone revenues and ARPU will be excluding interconnect fees. Moving to slide 35, Pelephone posted a 1.5% increase in service revenues, to almost 1.4 billion shekels, the highest since 2017, driven by an increase in ARPU, an increase in 5G subscriber plans as well as an increase in postpaid subscribers, all despite the impacts of the war.

The next slide shows a strong turnaround in service revenues. 5G subscribers as of today totaled almost 1.1 million. Subscribers on 5G plans amounted to 41% of total subscribers and 49% of postpaid subscribers.

Moving to the next slide, Adjusted EBITDA in 2023 decreased by only 11 million despite the impact of the war. Free Cash Flow in 2023 was impacted by timing differences in working capital related to the deferral of customer debt collections due to employee sanctions as well as improved credit terms with acquiring companies, both of which benefited the corresponding period.

The next slide shows the Q4 financial highlights which has similar trends, again reflecting the impact of the war .

On slide 39, we show how prepaid subscribers and ARPU were impacted in Q4 by the war, with the decrease in roaming revenues affecting the quarterly ARPU figure.

Turning to yes on the next slide, in 2023 we recorded the highest revenues since 2019, reflecting 2.5% year-on-year growth to 1.3 billion shekels, driven by the launch of a TV and Bezeq fiber bundle as well as agreements with leading international providers. For the first time in the history of the company, we also transitioned – on a proforma basis – to a positive Adjusted Net Profit of 3 million shekels. Lastly, Free Cash Flow improved significantly to 11 million shekels compared to a negative 17 million shekels in 2022.

The next slide shows revenue growth turnaround from 2018 to 2023, with the second consecutive year of revenue growth in 2023.

Slide 42 shows how that revenue growth was translated into improved profitability and free cash flow metrics.

The Q4 financial slide highlights the impact of the war and lower content sales on revenues compared to Q4-2022. Adjusted EBITDA was impacted by lower revenues and an increase in the US dollar/shekel exchange rate in the period. Adjusted Net Profit was affected by higher financing expenses. Lastly, Free Cash Flow was impacted by timing differences in working capital.

I will wrap up with yes' Q4 key operational metrics. yes saw continued growth in IP-based TV subscribers, with 71% of yes subscribers watching through IP as of the fourth quarter. We also saw continued growth in fiber subscribers, up 28% sequentially.

With that, let me now turn the call back to Tobi.

**Tobi Fischbein:** Thanks, Ilan. Moving on to Bezeq International, we saw a general trend of increased ICT activity, offsetting most of the decrease in consumer ISP revenues. Adjusted EBITDA and Adjusted Net Profit showed significant increases in 2023, with 11.9% and 24.4% growth, respectively.

On the next slide, we see that revenues decreased slightly, mostly as the decrease in consumer ISP revenues in the year was offset by higher business services due to activity growth and our CloudEdge acquisition. We recorded significant cost savings in 2023 due to a reduction in the consumer ISP activity.

The following slide shows a decrease in Free Cash Flow which was impacted by an increase in CapEx as well as changes in working capital.

Turning to the last slide, I want to reiterate that we had a strong year, and we remain focused on executing our strategy with our key growth drivers – robust fiber take-up, and consistent growth in 5G subscriber plans in Pelephone. Our strategy's execution continues to be successful, evidenced by achieving milestone marks in revenue and profitability growth.

Finally, I would also like to mention that we will be attending two conferences over the next few weeks to further engage with international investors. The first is the Jefferies Pan-European Mid-Cap Conference in London on March 19th and the Mizuho Israel Growth Conference in New York on March 25th. We look forward to meeting you there.

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. If you later change your mind about raising your hand, you can lower it by clicking “Lower Hand." I will now pause to poll for questions. We have our first question from David Kaplan, Psagot. Hi, David.

**David Kaplan (Psagot):** Hi. You did the introduction for me, so I guess I don't have to. Quick question. You guys reported that you had an agreement with the employees as it regards to structural separation. You didn't mention that at all in the conversation just now. So, could you talk a little bit about that.

**Tomer Raved:** Yes. Thank you, David. I'll address this shortly. It's been five years since we actively engaged with the regulator regarding the topic. And we recently reengaged with the regulator discussing the topic. It's early days to discuss chances or timelines, but as you know and as we state, almost every year, that we don't see a reason to keep the current structural separation. And we think that in a competitive market, with an efficient wholesale market, and all the terms that the regulator set for Bezeq more than a decade ago have been met and are less relevant for the existing scenario. There isn't any other country in the world where you have such a separation. We find that the regulator is listening to our comments and arguments, but it's still early days. Regarding the labor union, they also understand why it's the right thing to do, specifically the unions of Bezeq and yes, and we work hand in hand in our discussions with the different regulators, specifically with the MoC.

**David Kaplan (Psagot)**: And just a follow-on to that. Is any form of structural separation modeled into the midterm guidance that you guys provided today?

**Tomer Raved:** No. We don't have any uncertain regulatory reform, or anything like this, included in our projections.

**David Kaplan (Psagot):** Okay, thanks.

**Tobi Fischbein:** We have a question from Chris from Barclay's. Hi, Chris, please go ahead.

**Chris Reimer (Barclays):** Hi, yeah, thanks. Chris from Barclay's. Two questions about the outlook, if I could. When you talk about the one-and-a-half to two percent CAGR for the adjusted EBIDTA, is that post the completion of the fiber rollout and the yes transition, and the efficiency programs that you mentioned earlier on? And two, the increased CapEx for the year – will that require increased headcount? Or are the current levels reasonable?

**Tobi Fischbein:** Thank you, Chris, for the questions. So, regarding the first question about the 1.5 to 2% adjusted EBIDTA CAGR in the midterm, it reflects our ambitions for, let's say, 2026 to 2028. It relates to our plans going forward, it's the end of the five-year project, and I believe it will also reduce our work force to a certain extent within the group. And, of course, the operational efficiency project that we are embarking on right now. As for the second question, the answer is no. We won't need any additional significant workforce increases to accomplish those CapEx projects.

**Chris Reimer (Barclays):** Great, thanks. That's it for me.

**Tobi Fischbein:** Thank you. Next question from Sabina Levy from Leader. Sabina, can you hear us?

**Sabina Levy (Leader):** Yes. Hi. I have several questions regarding the infrastructure market. Maybe you can provide us some color regarding the market growth, and how do you see it in the next coming years? And you have also provided data regarding your market share, both within the retail segment and the total segment of the infrastructure, which is stable despite the severe competition. So I was wondering, how should I analyze it going forward. Do you assume that you'll be able to keep the same market share, or maybe increase, with the deployment of the fiber optic infrastructure?
**Ran Guron**: I'll start. When you say infrastructure market, you mean retail and wholesale, right?

**Sabina Levy (Leader):** Yes.

**Ran Guron:** Yeah, okay. So, we see significant growth in all aspects of Bezeq's fiber optic business. It means take-up, wholesale, retail, deployment, and we're leading in all five parameters of this market. As for deployment, we are almost at 2.2 million, right now. And the total number that we will achieve is around 2.7, so we are not far from that. It will take 2024 and 2025, around that. Partner is not deploying anymore, there is our network and other networks as well. And IBC is at 1.5, they said they will reach 2 million or 2.2 million. It should take them several years, so we see full deployment in the Israeli market from all players within two to three years. As for the total number of retail customers, you should look at the group level. Because from our point of view, if you take copper and fiber for Bezeq, the number is relatively stable, but yes is growing rapidly in wholesale internet. So, if you take yes wholesale – and we release this number, it's public – and Bezeq retail, both copper and fiber, you'll see a very nice trend. And this kind of trend should be accelerating in the next few years.

**Sabina Levy (Leader):** Okay, thank you. What about from the perspective of the total market, like the total end- users of the infrastructure, both copper and fiber optics. And the other question that I have in this regard, is, you don't provide the exact number, but according to my calculations, you have approximately 400 million shekels in revenue from the wholesale, market. I was wondering, how might it be impacted by further developments and the upcoming decision of the Ministry of Communications regarding the updated tariff of the fiber optics?

**Ran Guron:** So, I'll let Tobi take the second one. And I'm not sure I understood the first one. So, maybe Tobi can help.

**Tobi Fischbein:** I'll try. You're asking about market share in the internet-wide market, both retail and –

**Sabina Levy (Leader):**No, I'm asking regarding the total market. The growth of the total market, not the market share.

**Tobi Fischbein:** Okay. So, we expect the transition from copper to fiber that we've seen in the past two years to continue in the next couple of years and to see it in the wider market as well. That's natural. We expect most of the market to move over to fiber from all operators. Not 100%, but we think it will reach a relatively high percentage of the whole market. But, again, this is our own assumption, we are not sharing them with everyone. But that's how we are building our own models.

**Tomer Raved:** I'll add another point on that, and thank you, Tobi. Sabina, the market in Israel is roughly 3 million households. We committed to roll out almost 90% of them, and we have guided to that, which is 2.7 million households. So we will get to this number, as Ran mentioned, in two years or so. We also gave you the data regarding current take-up on the network, wholesale and retail, 30 percent-ish, and we will get to 40% in the medium term. Which is what you see in many markets, and also based on our data pretty fast, for an incumbent player over a relatively short period in Israel, even faster than average. That is what you will see probably in five years from the launch of the fiber project, or, two or three years from today. So I think that I gave you rough estimates of how the market is going to evolve over the next two or three years, between retail and wholesale. Specifically on your question, reminding you that most of our wholesale subs are Partner subs, and they are part of an IRU deal, which, even if there is some impact on the wholesale reach, we expect this to have a marginal impact and not a significant impact or material impact on our broadband revenues. That is number one. And number two, I would mention that we are in active and healthy discussions with the regulator regarding this topic, and the direction that we'll be taking regarding wholesale rates in general. Given that globally, you see that, (a) the rates in Israel are relatively low on wholesale, and (b) you see a competitive market, both on our networks and on other networks, there are two other networks in Israel. So we believe, (a) no material impact from every change that will come, and (b) that the regulator understands the market, and where it's heading.

**Tobi Fischbein:** Thank you, Sabina. Our next question comes from Liran from IBI.

**Liran Lublin (IBI):** Hi, guys, good afternoon. I have a question about Bezeq International. Maybe – you've been – entering a new market, and you've been doing it in baby steps. Do you have any thoughts about, maybe, M&As, or any major M&As, in the coming future?

**Tomer Raved:** So, I'll touch that briefly. First, we did our first acquisition at Bezeq International, a successful one, in the cloud integration world, a little bit less than two years ago. We are looking at small investments, but we do not expect significant M&A on that front, but we are looking at investments that are (a) synergistic, and (b) help diversify the product in the market set that Bezeq International is offering. Specifically within ICT.

**Liran Lublin (IBI):** And maybe I can ask another one about that issue. Can you maybe give us a look forward, maybe a few years from now, about how do you see Bezeq International evolving, or what kind of market you're aiming at?

**Tomer Raved:** Yes. So, Bezeq International is still transitioning, as you know, well away from the consumer retail ISP market. And it's really two parts to the business. One is critical infrastructure services, like the sub-sea cable, data centers and hosting services. And the other side is really integration - classic ICT business. We are aiming at the high end of the B2B market, government, military project, large integration project, we excel in. We consider ourselves the leader in the market, or one of the leaders in the market within these sectors, and we'll continue to grow. Especially targeting these type of integration projects.

**Liran Lublin (IBI):** Thank you.

**Tobi Fischbein:** Thank you, Liran.

**Tobi Fischbein:** 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 first quarter 2024 earnings call. Thank you.

[END OF TRANSCRIPT]