"Bezeq" The Israel Telecommunication Corp., Ltd.

Event Transcript

Q2 2025 Financial Results

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Yohai Benita (Bezeq Group CFO): Welcome everyone and thank you for joining us on Bezeq's 2025 second quarter earnings call. I am Yohai Benita, CFO of the Bezeq Group. Joining us from the senior management team today, we have Mr. Tomer Raved, Bezeq's Chairman, Mr. Nir David, Bezeq's Fixed-Line CEO, and Mr. Ilan Sigal, CEO of Pelephone and yes. Before we start the call, I would like to direct your attention to the Safe Harbor statement on Slide 2 of our presentation, which also applies to any statement made during today's call. We would like to inform you that this event is being recorded. Following the presentation of our 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'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 Group Executive Chairman): Thank you Yohai. Let's start on Slide 3. We had another busy quarter with excellent results and significant progress in our group strategy with accelerated momentum across our growth engines, including fiber, 5G and IPTV at yes. A key indicator to our successful quarter is the mid-single digit growth in ARPUs across all services, which led to 3% growth in core revenues, and to double-digit growth in Adjusted EBITDA and Adjusted Net Profit, which were also positively impacted by write-ups at yes due to the Partner TV deal. The Group continues to report growth in total broadband retail subscribers, driven by accelerated fiber deployment, enhanced customer value and our ability to offer bundled services at yes. The infrastructure revolution led by the Group, positions the Israeli economy at a very high level of resilience and readiness for the AI era as an Enabler, Adopter and Provider. As part of the Group's core strategy, we will continue to invest and identify future growth engines. Most recently, we announced that we are reviewing a couple of potential synergistic acquisitions - the acquisition of Exelera Telecom and HOT Mobile. In parallel, regulation in Israel continues to evolve and is gradually becoming more consistent with global trends. In addition to recent formal progress in the process to remove structural separation and following the completion of the copper switch-off reform earlier this year, the MoC also published a wholesale-tariffs hearing which marks an important and historical milestone given the suggestion to gradually remove most of the wholesale tariff supervision in Israel following a two-year transition period. It reflects the regulator's recognition that the market is competitive and mature enough for such a move, with the understanding that Israeli consumers will continue to benefit from advanced services at competitive prices. Last week, we once again revised our 2025 outlook upwards, now expecting Adjusted EBITDA of 3.85 bn shekels and Adjusted Net Profit of 1.45 bn shekels.

Moving to the next slide, our technological and business roadmap is on track to reach our mid-term KPI targets, including the completion of the fiber deployment this year, reaching at least 40% take-up, continuing our consistent ARPU growth across all verticals and leveraging our leading position in 5G and TV.

On slide 5, you can see a good snapshot of our financial highlights for this strong quarter, both in top-line as well as in strong profitability and free-cash flow metrics. We're very proud of our achievements and of our consistent ability to deliver on bottom line results.

Turning to slide 6, let me point out that you can really see how even in a year with a volatile geo-political situation, our core business continues to perform and outperform. Total fiber subscribers as of today, reached 924 thousand with over 2.8 million homes passed. 5G subscriber plans reached 1.33 million and ARPU grew approximately 5%. yes ARPU from subscribers, which includes the TV and fiber activity, was up 3% and reached 189 shekels. I will now turn the call over to Yohai, who will elaborate further on the Group results.

Yohai Benita (Bezeq Group CFO): Thank you, Tomer. Moving to Slide 7 - We show a 3.1% increase in core revenues due to higher core revenues from all key group segments. Adjusted EBITDA grew 11.3% and Adjusted Net Profit grew 46%, due to the increase in the valuation of yes.

Turning to the next slide, we show the half year trends which were similar to Q2 in revenues and profitability. Free cash flow was impacted by Bezeq Fixed-Line tax assessments paid in the first half of 2025 and a tax refund received in the corresponding period.

Moving to the next slide, we show our operating expenses. Salary expenses decreased 5.5% due to the sale of Bezeq Online and its deconsolidation as of Q2-2025. We recorded decreases in operating expenses and depreciation expenses, mainly due to the change in the valuation of yes.

The next slide shows our quarterly operational metrics. Broadband retail ARPU continued to grow. In addition, we recorded increases in Pelephone ARPU as well as in yes ARPU year-over-year, due to fiber growth.

Slide 11 highlights our balanced capital structure with net debt at 4.9 billion shekels and a coverage ratio of 1.5 times. We remain committed to maintaining our high credit rating.

Moving to the next slide, in accordance with our 80% dividend payout policy, the board of directors recommended the distribution of 583 million shekels, or 21 agorot per share, reflecting 50% growth in the dividend per share.

Moving to the next slide, we recently upgraded the Group's guidance for 2025 for the second time this year. We are now forecasting Adjusted EBITDA of 3.85 billion shekels and Adjusted Net Profit of 1.45 billion shekels. I will now turn the call over to Nir, who will share more detailed results from our Fixed-Line operations.

Nir David (CEO Bezeq Fixed-Line): Thank you Yohai. I am very proud of this quarter's performance thanks to our nationwide advanced network and the successful implementation of our strategy. Turning to Slide 14, Fixed-Line core revenues increased 4.5% to 979 million shekels, driven by an increase across all core revenue items. Broadband retail fiber customers reached 592 thousand today and ARPU rose 5.4% year-over-year to 136 shekels.

On the following slide, we show Q2 financial highlights with Adjusted Net Profit down 8.1% to 216 million shekels, mainly due to higher financing expenses resulting from the impact of the dollar-shekel exchange rate on hedging transactions. Free cash flow was up 20%, mainly due to timing differences in working capital.

Turning to the next slide, we show continued fiber deployment reaching over 2.8 million homes passed, with over 924 thousand active subscribers in our fiber network today, representing 63% of total broadband subscribers and resulting in a take-up rate of 33%.

Moving to the next slide, we show the take-up trend. Q2 saw 29 thousand retail fiber net adds and 15 thousand wholesale fiber net adds.

Turning to the next slide, broadband revenues were up 2.8% despite the decrease in wholesale tariffs for use of our passive network. Transmission and data revenues grew 5.5% to 309 million shekels, and Other revenues grew 14%, due to higher revenues from infrastructure projects. With that, I'll now turn the call over to Ilan to discuss Pelephone and yes.

Ilan Sigal (CEO Pelephone and yes): Thank you, Nir. Moving to slide 19, Pelephone posted 3.7% growth in service revenues reaching 361 million shekels, driven by continued growth in ARPU and postpaid subscribers, including 5G subscriber plans, despite the impact on roaming revenues in June due to the war with Iran. 5G postpaid subscriber plans grew by 39 thousand, reaching 1.33 million subscribers today. 5GMAX subscribers reached 80 thousand today. We raised our estimates and are now expecting to reach 150 thousand 5GMAX subscribers by year end. This is another great example of Pelephone's leadership position and technological advancement which provides real added value to our customers.

Moving to the next slide, Adjusted EBITDA and Adjusted Net Profit were impacted by the war with Iran, as well as the increase in frequency fees resulting from the termination of the MOC discount period. Free cash flow was up 59%, reaching 43 million shekels, mainly due to timing differences in working capital.

Moving to the next slide, we show 5G postpaid subscriber plans reaching over 1.3 million subscribers as of today, representing 58% of postpaid subscribers, and Q2 service revenues showing consistent growth over the last few years.

The next slide shows Q2 key operational metrics. As seen, we recorded an additional increase in postpaid subscribers. ARPU rose 4.5%, or 2 shekels year-over-year.

Turning to yes on slide 23. First, yes is truly outperforming in the past few quarters, with innovation, premium content, and enhanced focus on free cash flow as most of the migration from satellite is near completion. You can see all of this in the results, and more to come. Revenues increased 1.3% to 320 million shekels due to higher revenues from the TV + fiber bundle. Proforma Adjusted EBITDA rose 30% to 56 million shekels, driven by higher revenues and streamlining of expenses. Total TV subscribers increased by 1,000 this quarter, representing the first quarterly increase in total subscribers since Q1-2023. We posted quarterly growth with 9 thousand net fiber subscriber adds reaching 100 thousand as of today.

Moving on to the next slide, Proforma Adjusted Net Profit was down 69% due to higher financing expenses resulting from a decrease in the value of hedging transactions due to a decline in the US dollar exchange rate.

On the next slide, I would like to highlight the 5 shekels year-over-year growth in ARPU from subscribers, due to higher revenues from fiber plans. We showed continued growth in IP subscribers reaching 483 thousand today, representing 86% of total subscribers. With that, let me now turn the call back to Yohai.

Yohai Benita (Bezeq Group CFO): Thanks, Ilan. Moving on to Bezeq International on Slide 26. Business revenues grew 6.4% mainly due to higher revenues from cloud activities, the sale of business equipment and international telephony services. Adjusted EBITDA was down mainly due to lower revenues from consumers. We are continuing with our streamlining plan, including the implementation of the employee retirement agreement for the years 2025 through 2027.

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.

Chris Reimer (Barclays): Yeah, hi. Chris Reimer from Barclays. Thanks for taking my questions. Congratulations on the strong results. I was wondering if we could talk about the proposed Exelera acquisition and if you can talk about how you see the potential in that asset and are you acquiring also a customer base or is it just the asset?

Tomer Raved: Yes, I'll address that briefly. First, we submitted a non-binding Letter of Intent for the potential acquisition as reported. We started the initial diligence, so this is at a very preliminary stage. I'm not going to comment on that transaction, but I will make a comment on the strategy and the trends. As previously mentioned, I think we talked about this, today most of the international cables from Europe to Asia go through the Suez Canal. Bezeq Fixed Line recently completed a project as a subcontractor for Google to lay down a new cable from Europe to Asia through Israel and Saudi Arabia. Given the regional developments and given the need for redundancy for all the global hyperscalers, we see a very big opportunity across data needs and capacity for additional terrestrial cables and Israel sits geographically at the best intersection for this type of cable. We're probably going to see more and more, and we expect to be a player in that potential upside, but this is pretty early days.

Chris Reimer (Barclays): Ok, regarding salaries, you mentioned the decrease had to do with the disposal of the Bezeq Online unit, but going forward, considering you've basically reached your rollout on the fiber, correct me if I'm wrong here, but how should we look at wages going forward considering the decrease in spend on the infrastructure as well as the ongoing employee agreements?

Tomer Raved: We have collective union agreements across the different subsidiaries. This year, and we talked about this, we have the right under the current agreement with the fixed line union to let up to 300 people retire. We will retire a significant number of these people as we reach the end of the fiber project, which has both an impact on headcount and non-headcount capacity when we finish the deployment. So, it will have a significant impact on the headcount cost of the fixed line business entering next year. This year, in Q4, you'll see a provision with the cash flow impact next year. On the other hand, at the international business, as Yohai mentioned, we have a new agreement to retire up to 150 people in the next two to three years. That's also something that will impact wages in the coming year or so.

Chris Reimer (Barclays): Great. Thanks. That's helpful. That's it for me.

Yohai Benita: Okay. Thank you. Next question from David Kaplan from Psagot. Hi, David.

David Kaplan (Psagot): Hi, everyone. How are you? I have a couple of quick questions. The first one is when I look at the results from this quarter, and if we strip out the impact of the re-evaluation of yes, there wasn't a great deal of growth in EBITDA. So how should we think about the growth of Bezeq going forward, keeping in mind that Bezeq while overall is seeing subscriber growth as a group, we're seeing some cannibalization of those subscribers by staying on the television side and by yes, on the broadband side from its higher revenue cousin, so to speak. That's my first question.

Tomer Raved: I think it's very straightforward. Our EBITDA this quarter without the one-off was as expected, flattish. But if you look at the different categories of the businesses between Bezeq fixed line and yes, predominantly you've seen growth in EBITDA, for a solid accounting impact. You see some softness in Pelephone given roaming and spectrum fees compared to the corresponding quarter. So that's very easy to explain, but this is in line with our expectations. We continue to expect at least 2% CAGR in our EBITDA going forward exactly as we communicated. And you see the different KPIs are above expectations. So, we're very happy with these results, even putting aside these one-offs. yes alone, excluding all these accounting issues grew EBITDA by 30% this quarter. That speaks to some of the trends in the business.

David Kaplan (Psagot): Okay. In Bezeq international, we saw a drop in revenues versus the previous quarter. What was that related to?

Tomer Raved: Bezeq International grew its core revenues significantly this quarter compared to the corresponding quarter.

Yohai Benita: Core revenue in Bezeq International increased by 14 million shekels versus the parallel quarter.

Tomer Raved: Correct. 6% growth.

David Kaplan: But not versus the previous one. You lost 10 million shekels.

Tomer Raved: Correct. You will continue to see legacy going down and some timing impact in the integration business. But overall, you will continue to see significant growth of mid to high single digits in core revenues. Profitability will still go down in the transition period, given that we're losing the legacy ISP business, which is non-core and that you can see in core revenue growth. And there is timing - definitely the time of year impacts the business given the large projects, but profitability will go down given the transformation we talked about.

David Kaplan (Psagot): Okay. Just a quick follow-up on the question that Chris asked about the cable business. You mentioned the potential data center growth in Israel. Do you see Bezeq being a player on the infrastructure side of that or more as a service provider in transmission?

Tomer Raved: We will continue to be a leading infrastructure player on connectivity both terrestrial and hopefully also international. At this point, we are a big player in the call location data center business and in the hyperscale business, we're currently not a player.

David Kaplan: Okay, great. And my last question, the financing expenses were higher this quarter. I think that it's something to do with hedging the dollar. Can you explain how that impacts or is going to impact CapEx or finance going forward?

Yohai Benita: Sure. It's part of the group's hedging policy. Part of the companies in the group hedge against the change in the Israeli shekel versus the dollar. This quarter we saw the Israeli shekel strengthening versus the US dollar. So we had to revalue these transactions, and it resulted in an approximately 50 million shekel loss, which was all recorded in this quarter. So going ahead, I would assume that we will not have this kind of impact in the coming quarters.

David Kaplan (Psagot): And the strategy behind that though, does it have an impact on CapEx in any shape or form?

Yohai Benita: Yeah. So, it's to hedge both CapEx and operational expenses. Part of the expenses on the group level are exposed to the US dollar. And we want to mitigate this risk.

David Kaplan (Psagot): Great. Thanks very much.

Yohai Benita: Thank you. Next question from Ondrej Cabejsek from UBS.

Ondrej Cabejsek (UBS): Hi, thanks for the presentation. Two questions for me, please. One is on the other transaction that we haven't spoken about yet. So, regarding your bid for the mobile assets of Hot Mobile, I was wondering what the process is there. And is it somewhat related at least in terms of who gets to decide on the final outcome of this to the removal of the structural separation? And I guess where I'm coming from is in the past, we haven't been used to too many positive regulatory events around Bezeq. So, these two events could be potentially both very positive. So, will it even be allowed to happen at the same time? Because the timeline kind of potentially coincides. So that's one question. And then the second question would be around the remainder of the assets, primarily the fixed asset. I was just wondering, should that, for example, be acquired and in the case of a full exit of Altice from Israel, should that be acquired by a private equity, is there a risk you think to the overall competitive dynamics on the fixed side, assuming mobile can improve, but is there some kind of risk to the fixed side of it? There's maybe a new entry coming in or do you think that is not a concern at all. Thank you.

Tomer Raved: The problem is that you know the market too well. First, thank you for the questions. One important comment to specifically address, you mentioned about regulatory news. I would counter that Israel has been with a relatively volatile regulatory environment in the previous decade. In the past four to five years, we've seen it's not all good news, but more constructive and rational regulatory decisions, even with four different governments and five different ministers, very constructive and adopting more and more reforms that are consistent with the European approach. They removed structural separation between infrastructure and ISP. We saw the copper switch off reform. We saw the wholesale hearing, which had pros and cons, but it's more consistent with the regulatory approach in Europe. So overall you see constructive, rational, and not bad/good news, but constructive. Just general comments reflecting on the past five years, maybe not 15 years, but five years. Specific to your question, Altice is running a process, to sell their Israeli asset. As part of that, we submitted an indication of interest. We joined the process. They are in a process. There are no timelines yet for first round bids, if you will. But we submitted an interest and also a valuation, 2 billion shekels, for the mobile unit only on behalf of Pelephone. It has nothing to do with structural separation. And we will update the market. If there is anything to update at this point, they are in a process, we have to join the process and we are standing still. The rationale for that and the synergies I think are obvious, but we think this will significantly benefit the mobile market in Israel, the infrastructure level investment and the ranking of Israel in the mobile industry in terms of mobile speeds and network efficiencies nationwide. Regarding structural separation, your question, we did update the market on the progress and what the MOC is formally communicating. In April, they announced they will conclude their review and decide this way or another by the end of this year. Recently, they also announced they hired an economic advisor and announced some sort of RFI to the market as part of the formal process. So, we see it progressing in a very formal way and we hope to hear news in Q4 about that topic. Regarding the structural separation, the focus is Bezeq fixed line and yes, less relevant to the other subsidiaries in the business at this point.

Ondrej Cabejsek (UBS): Thank you, Tomer. If I may, do you have any views on the potential future of the fixed market? If the fixed asset is exited as well?

Tomer Raved: I forgot to answer this point. Sorry. So, I don't think the change in ownership changes the market dynamics. I do think if you look at the past few years, that change in ownership has benefited competition and the level of investments and got this market in a lot better shape. We are proud to be one of the leaders, but we're not alone. This market evolved thanks to the change in ownership in Bezeq, Partner and Cellcom, coming up IBC and probably Hot follows. I think it can only do good for the market, you have rational shareholders with long-term views.

Ondrej Cabejsek (UBS): Thank you, and if one quick follow up, if I may on the mobile side, because I think part of the CapEx plans you've mentioned for the next several years. Is just the rollout of 5G where, Israel may be just like Europe may be a bit behind some of the other economies that you would benchmark to, like the North American, Asian and Middle Eastern economies in the Gulf. And then, so my question is basically, is the under investment angle part of the rationale of even thinking of doing consolidation in Israel currently.

Tomer Raved: Look, I think the ARPU in Israel and mobile are relatively low compared to the world and low to begin with and I think there's a lot of upside there. We talked about that in the context of 5G and Pelephone strategy. I think on a group level, we communicated a reduction in CapEx going forward. That comes from the end of the fiber roll out. It does not come from lower CapEx in the cellular business that will remain elevated. We expect to deploy more and invest more. As part of our long-term plan, we never guided for reduced CapEx on the cellular business, but on a group level, we do expect to go from the 20% CapEx to say, level down to the 16% to 18% we have been talking about for the past year.

Ondrej Cabejsek (UBS): Clear. Thank you very much.

Yohai Benita: Thank you. Next question we have is from Siyi from Citi, hi Siyi.

Siyi He (Citi): Hi, good afternoon. Thank you for taking my questions. I have two, please. And both of them relate to your views on your midterm guidance, hopefully a different aspect. The first one is - I was wondering if you can talk about the upselling opportunities that you saw in Israel on both 5G and ARPU and fiber. Because if I look at the growth rates of your ARPU, in both fixed and mobile, it seems that you could be more than comfortable to reach the top end of your guidance. So, I was wondering if we look at the absolute opportunity, do you feel that your guidance is according to your original plan or is it better than you expected? And my second question is on the midterm EBITDA CAGR. You talked about that. You expect to grow at 2% but considering that the top-line pressure is going to phase out on international and then you have the cost savings coming through and I was wondering what you think about this 2% CAGR. Do you think that is conservative as well? Thank you.

Tomer Raved: I'll start the high level, and you are free to add, first on the EBITDA point. Yeah, we expect at least 2% CAGR. Obviously, we still have the legacy high margin revenue declining, which still is approximately 5 plus percent of total group revenue, which will still impact EBITDA but you are right that with the phasing out of the fiber deployment and some of the headcount reduction we will see a better OPEX profile. We expect to get 2% or more in the coming years but we have to take into account this legacy revenue reduction that will be with us in the next two to three years.

Secondly, as to your question on the ARPUs, in general, I think you see across the board that, generally speaking, our play book does not come from raising prices. It comes from adding value to customers and most of the ARPU growth in the fiber business came from migration from copper to fiber which will continue over the next two years and then the next evolution of that is multi-gig 2.5gb - 5gb which will contribute in addition to other value add services. I think it's the same with the mobile business. People are willing to pay more for 5G. Ilan, do you have anything else to add to that?

Ilan Sigal: Yeah, I can add that our target is 45 to 50 shekels ARPU based on the transition mentioned from 4G to 5G and now from 5G to 5G Max. We are now at 46 shekels, so we are on track. We'll see how the transition will go from 5G to 5G Max and then we'll see if the range of 45 to 50 is right, but as we see now, it is the right plan for us, 45 to 50.

Siyi He (Citi): That's clear, thank you.

Yohai Benita: 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 2025 earnings call. Thank you.