

Bezeq – Israel Telecom Corp.,_Citi Global TMT_Sep 3 2025

0:00

Nick, just as an introduction, I guess tell the room all about yourself, You'll start your journey here.

0:06

And let me thank you.

0:07

Thank you for hosting us.

0:09

Glad to be here at the Citi conference.

0:12

For the folks who don't know us, Bezeq is the largest telecom player in Israel, the incumbent player.

0:20

If you think in US terms, put Comcast, AT&T and Verizon together, we're probably what you would think about the scale and impact we have on the Israeli economy and our relative market.

0:31

Here in Israel.

0:33

We predominantly operate in the broadband infrastructure market where we have almost 60% market share and we've been around for more than 50 years.

0:43

We're one of the largest public companies in Israel, 5 billion dollar market cap north of 1.2 billion dollar EBITDA.

0:49

So very large company, but we really play across the diversified telecom industry between broadband, so our second largest player and so in Israel the largest IPTV player and a rising story within the kind of global hyperscaler industry coming to Israel and developing their business and recently makes sense.

1:10

That's very helpful.

1:11

And I guess was kicking off on the operations side and I guess you're quite large on both fixed and mobile.

1:17

Just how do the competitive dynamics look on that side of things?

1:20

I guess you are the leader in most.

1:21

So how do you deal with the competition?

1:24

So Israel competitive landscape evolved in the previous decade and turned into a very competitive market but has also become a more rational market over the past 5-6 years.

1:36

The fact that we have one nationwide fiber player which is better, and the arrival of another builder which covers 60% of the country.

1:45

But then basically you have 2 players on the infrastructure side, but overall, you have 3 to 4 main operators on both mobile and broadband either through a network provider or wholesale player, which is basically bad like silicone partner and the localities subsidiary.

2:02

It's a competitive market but has become a lot more rational on the shareholder front.

2:09

You've seen all 3 out of the 4 players changing hands over the past 5 years to more private equity or private equity like shareholder, more rational shareholders, which have been very good for the market.

2:23

And at the same time, you've seen a lot more when it's rare for Israel even within a very volatile period in the past 5-6 years with 5 different elections, you've seen stable, and I would say even pro-business, open market type approach on the regulatory front.

2:43

And we've seen several decisions that really support the growth in the investment in infrastructure and also the growth in ARPU makes sense.

2:50

That makes total sense.

2:51

And I guess just moving on to the fiber opportunity and where penetration is today.

2:56

Could you tell us a little bit more about that?

2:58

Where are we on that?

2:59

And how big of an opportunity is that for that as a business?

3:02

So Israel is a small country.

3:04

So the cost for passing is significantly lower than other countries, although we did create some elevation in our CapEx levels over the past 5 years, we went from 15 to 16% CapEx to say to the 20 levels.

3:18

But a lot of telecom companies say we just started; we're going to end in some so many years.

3:25

Israel has 3,000,000 households.

3:26

We finished 2.8 as of today.

3:29

So we're done with the country.

3:30

Our CapEx cycle, will end in the next month or so and we will see a significant drop down to the 17 even 16% level, which would create a double-digit growth in cash flow.

3:41

What we've done over the past 5 years with a great case study even less than 5 years from zero fiber homes passed to 2.8 million.

3:50

And at the same time our take up continues to go up now with 33% take up on the network.

3:55

So although our total broadband market share remains flat, fiber growth drives growth in ARPU because when you sell one gig plan at 30, 40, or 50% higher than the copper plans, we've seen blended ARPU growing at 35% over the course of the past 3 years.

4:16

Makes sense.

4:16

And I guess that brings me on to, I guess you've touched on a couple of times, and I guess, the up selling opportunity that comes with selling into 5G for example.

4:25

How is that going for you so far?

4:26

And where are you on that journey?

4:28

Is that sort of the real next leg of growth?

4:30

Yes.

4:31

So Israel went through on the cellular side, significant reforms on mobile 10-12 years ago, ARPUs went down from \$50 a month to \$10 a month for an unlimited plan.

4:44

The world record in some more time low in terms of in a very, very expensive country.

4:48

But over the past 3 years, we've seen a 20 to 30% increase in ARPU, due to 5G.

4:54

Within 3 years since we launched our 5G offering, we converted 60% of our customer base to 5G, really helps drive ARPU.

5:04

So this really is relatively early days in 5G and I think the ARPU opportunity for us and for the rest of the market is significant.

5:13

We see plans selling now for even \$20 with 5G and 5G Max, where we slice the network and provide even 500 megabytes speeds on mobile.

5:22

That's fantastic.

5:24

That's very clear.

5:25

And then just on the yes business for yourselves, where are you on that journey?

5:29

And I guess you've already mentioned that market share is quite stable.

5:32

So I guess that's always a focus of how churn going.

5:36

Is that something that you guys focus on a lot and how do you try and circumvent some of that?

5:41

So first, it's important to highlight that the TV market is the most competitive within the media and telecom space in Israel and globally, we've seen a little market share decline with TV and skinny bundles and cord cutters.

5:56

Yes.

5:56

They've been through significant restructuring and lost a lot of money over the past 4 or 5 years.

6:01

Now finally stabilized as we almost completed the migration from satellite to IP, really reducing cost significantly and headcount by half.

6:14

We will churn completely away from the satellite in 5 months, which would save us roughly \$30,000,000 a year on a fixed OpEx line item, very significant.

6:22

That's 3% of the group EBITDA.

6:27

At the same time, what's a bit weird is that it's really not priced in and it creates a lot of upside.

6:33

We have structural separation between the different businesses, meaning our broadband business cannot sell TV, but our TV business can sell broadband.

6:42

That helps stabilize and grow our TV business and maintain our market share.

6:46

But we are in the process of getting approval to remove structural separation which is part of the formal work plan of the Minister of Communication for this year.

6:55

If we do that, we have a \$400,000,000 tax asset which we can write up and use. That's roughly 30 to \$40,000,000 a year in addition to significant cost cutting both on headcount and non-headcount, and some top line synergies as well.

7:11

That makes sense.

7:11

And I guess you've touched on the financials, and it would be quite naive as not to talk about financials in this forum.

7:18

You've got a target at this moment in terms of having EBITDA growth of 2% over the medium term.

7:23

I guess at this moment in time; first half of the year you've been sort of flat year on year.

7:27

Just sort of wondering what are the levers you can pull to sort of get you back up to that level and that's I guess in terms of how conservative is that target if at all?

7:35

So we have within our revenue, a part which is non-core, which is a high margin legacy business and telephony and ISP which is now less than 8% of revenues that is declining and obviously it's a high margin business.

7:48

The impacting EBITDA the same time our core revenue is growing faster than our EBITDA, but the mix of that creates a lower EBITDA CAGR of 2 to 3%.

7:58

This year is the last year of fiber rollout with high headcount cost.

8:03

We'll see almost 4 to 500 people between fixed line and international departing at the end of this year as part of our union agreements.

8:10

And you will see this OPEX savings in addition to the satellite cost I mentioned, create actually a 4 to 5% uplift and it can be done.

8:18

But with the declining legacy business, the blended CAGR would be 2 to 3%.

8:23

Importantly because of the CapEx reduction, the free cash flow growth and we guided to up to 9%.

8:29

We're actually going to be even higher as you see CapEx going down because this shift gives us a lot of flexibility.

8:37

I guess you touched on some of the Opex opportunities that you have up for grabs in terms of how do you think of the overall Opex picture of the business in terms of what are the other levers that you can potentially pull to help you get there?

8:48

So we are relatively an efficient business.

8:49

We are currently at 43% EBITDA margin on the group side and on the fixed line side actually at 60% EBITDA margin.

8:57

We believe in the AI opportunity mostly around the call centers and the network monitoring where we adopted and use actual AI tools to save technician costs and obviously call center costs.

9:15

So we adopt a lot of AI tools talking touching AI for a second.

9:19

We are also the enabler - basically we are the infrastructure that allows all the hyperscalers that R&D center in Israel that are probably the number one R&D Centers for all the tech companies you covered globally outside the US.

9:36

It's all in Israel from the NVIDIA, Amazons of the world to Apple, Microsoft, Facebook, Samsung. They invest heavily like NVIDIA, in the first super quantum computer that they are developing in Israel.

9:46

We are the one that enables that.

9:48

We provide the solution to their data centers for the quantum computing solutions, massive opportunity there. By the way, not in our guidance.

9:57

And finally, because we have been one of the first telecoms globally to adopt WIFI 7 and start implementing solutions there.

10:06

What we're doing, we are monitoring your devices at the home, and we can help manage the device, improve bandwidth and speeds to specific devices based on your usage and also improve security, software and cyber AI, as we call it.

10:23

That's interesting because I guess if we stick with the topic of AI and I think we're in this debate at this moment in time, is it really, is it a monetization opportunity or is it just an efficiency drive?

10:33

How do you think about the balance of the two?

10:34

And do you think it's more of an AI opportunity for you guys or a lot of AI opportunities?

10:40

The charge, specifically the operation right within accounting, within marketing, but we are first and foremost focused because AI is fairly my guidance to the team were like, how do we make money from AI now?

10:53

It's important we test that every employee has Chat GPT and Copilot and other tools, but we need to start thinking now how we make money.

11:02

And I think I walked through some of these B2C and B2B opportunities, but adopting tools, embracing them, but also understanding these are very early days and no one knows how much time it will take, but to make money from the infrastructure and the need for speed and bandwidth, the output play.

11:21

This is where we play.

11:23

Makes sense.

11:24

So I guess moving on now.

11:25

I guess we've touched on AI, we've touched on the financials a little bit.

11:28

If we start talking about, you touched on the regulatory environment becoming a lot more favorable.

11:32

Just wondering about the structural separation.

11:34

Could you run us through that process?

11:36

How does that look today?

11:38

Sure.

11:39

So that started probably started 25 years ago in many countries globally and it was removed in Europe in the early 2000s.

11:48

The idea was when telecom companies were privatized, they had 100% market share in most cases.

11:54

And to allow other companies to compete, they created a structural separation.

11:59

In Israel, they forgot to remove it. In the past few years, it took time for them to get back to the kind of ancient regulation removal.

12:08

But what we've seen and that is encouraging, is that there were 3 separations, basically 3 products, TV, ISP and infrastructure.

12:17

Yeah, there was a concept like that.

12:19

And we successfully removed with the regulator the separation between ISP and infrastructure actually 2.5 years ago.

12:27

And everybody saw the sky didn't fall. We created real value for customers that had now only two technicians to call and not 3.

12:37

And I think now we've been in very constructive conversations with the regulator.

12:43

They made a couple of public announcements about their intention to make a decision this year for the formal target.

12:49

It had a lot of value for customers, both on the price side and the service side and of course for the company and shareholders, it makes total sense.

12:57

That's very helpful.

12:58

So if I guess if we focus a little bit more on the ability to be acquisitive in the environment and I guess you've made a bid for the mobile assets of Hot.

13:07

Can you tell us the rationale a little bit more?

13:09

How is the environment helping you do that, but also what's the attraction for yourself?

13:14

So first we've seen the beginning of the consolidation era a couple of years ago when the number one competitor, number one player in the market, Cellcom, with almost 40% market share, buy the 5th player, Golan.

13:28

We saw a more rational market, but still with a very low ARPU on cellular and still in a very under invested market on 5G.

13:38

If we look at Israel since Bezeq started the fiber era, Israel went from number 70 in the world to number 10, number 9 in terms of speed at the home.

13:50

Mobile, we're still number 17.

13:52

The way to get there is to allow for consolidation, not creating monopolies and get Israel the way it should be and where it is on technology and fiber.

14:02

It should also be there on 5G to creating or allowing a company like Pelephone which is a cellular subsidiary to merge with Hot Mobile, create more or less the same size for a market perspective as Cellcom, which is the number one.

14:17

But at the same time maintain 3 networks in Israel, which is the common number of networks, 2 to 3 networks for a country with 10,000,000 population.

14:26

And we strongly believe it's doable.

14:29

It seemed like Altice is very serious about investing in local assets.

14:34

We are not in any shape or form have any intentions to bid for the fixed time assets.

14:41

So we just bid for the mobile one and the process just started.

14:45

So TBD, obviously it has very significant synergies and it would allow for extra excess value for the customers.

14:54

Makes sense.

14:55

Just in terms of further M&A opportunities that you see out there, is that the area of focus for you now or do you think the opportunity goes beyond what we see in mobile?

15:04

So look, we demonstrated ability to grow our EBITDA and significantly our free cash flow since we know where to invest and we are the number one infrastructure player in Israel.

15:14

We know how to invest in infrastructure before when without M&A create real value with high teens of our OC and our dividend and which is the result of a very strong cash flow actually grew by almost 80% over the past 3 years.

15:31

So very consistent strong execution and IRO on our project. On M&A, we did a few things.

15:40

Especially in fixed line and ICT.

15:45

We are looking at other areas.

15:47

Another public announcement we made as part of the development in the region.

15:51

We bid for a subsea cable that connects Europe to Asia and a quick one-minute background on that.

16:00

Today all the broadband from Europe to Asia goes through the Suez Canal.

16:06

So the hyperscalers are dependent on a very crowded area which could be hostile between the countries in the region of the Suez Canal.

16:14

And it's been the case for 10 years now.

16:17

All of them including Google, Microsoft, NVIDIA have been looking for redundancy.

16:22

And between the country and the region, Syria, Lebanon, Israel and the existing Suez Canal, we see that all of them realized or most of them realized, Israel is the only solution to connect Europe to Asia, basically going from Israel or from Tel Aviv down to Jordan, Saudi, and from there to India.

16:42

We just completed the first project for Google, over land in Tel Aviv, down to Aqaba, Hail in Saudi and from there.

16:50

So that already exists, not a theory.

16:53

And then Bezeq was the subcontractor to execute this project.

16:57

And you're going to see us benefiting from the dynamics in the region.

17:01

And for, hopefully normalization, that we saw in the initial launch of the Abraham Accords four years ago with the UAE.

17:08

Hopefully, we'll see it.

17:09

We'll see it soon with Saudi, and that creates significant opportunity for our business with or without M&A makes total sense.

17:19

I guess just in terms of other opportunities that are out there, infrastructure is a key part of the business.

17:23

And if I'm thinking about towers and fiber, how do you think about monetizing that going forward?

17:29

So we invested in our fiber network in our core back-end fiber and allow it now to offer up to 50 gig per household.

17:40

So we prepared the network, upgraded the core already as part of the kind of four-year CapEx cycle, which is coming to an end to allow it for these speeds.

17:50

And the playbook as I mentioned, it's not really growing market share, it's growing ARPU because we offer higher speeds.

17:56

So we already see now that almost 5% of our new sales are higher speeds, multi gigs, 2.5 gig, 5 gig.

18:04

And I think then the exponential growth of data and need for broadband always surprised us in a positive way and our network is ready for that.

18:16

Meaning for the next, if I would bet 10 to 20 years, our network on the B2C and also on the B2B side does not need significant CapEx to serve the expected speeds, unless you tell me that you'll need 100 gigs at the home in the next 10 years, not yet, maybe.

18:34

That's very interesting.

18:35

And I think that probably brings me on to the next point.

18:39

When you're spending less, they want to know about shareholder return.

18:42

So how can we think about shareholder return going forward?

18:45

You do have a pretty strong balance sheet today; you told me CapEx is going down.

18:49

OpEx should be also following that.

18:51

So how do you think about shareholder returns going forward to give them the growth you've already delivered?

18:55

So what we've done, even within this CapEx cycle, we were able to begin paying dividends 4 years ago, but at the same time, continue to deliver.

19:06

So today, we stand with probably the strongest balance sheet compared to our European comps with the lowest leverage at 1.5 times to EBITDA.

19:14

At the same time, I mentioned EBITDA, dividends grew by 80%.

19:18

Our DPS grew by 80% from 2022 to 2025.

19:23

And you see net income growing, you see payout growing very, very consistent demonstration from 50 to 80% payout.

19:34

We are looking to continue to increase that.

19:36

We have the flexibility.

19:38

We are looking to continue to deliver, with higher dividends, may consider buybacks, but with growing mid to high single digit growth in net income and at the same time flexibility on the balance sheet to really continue to increase and have attractive returns to shareholders.

19:58

That's very clear.

20:00

In terms of, I guess, we've been talking about all of the things that are, are wonderful and all of the opportunities ahead.

20:05

If I were to talk about potential risks to the business, where would you say I focus?

20:10

Where do you think the areas that we need to talk about?

20:13

So first, the biggest risk that Israel had was around volatile regulatory environment that over the past 20 years, I think we demonstrated and proved to the market over the past 5 years that we have constructive dialogue with the regulator, and we mitigated a lot of these bigger risks around wholesale rates, regulation, etc.

20:39

Just recently, we saw two major risks eliminated, one wholesale rate regulation, the Minister of

Communications announced that within two years they are lifting completely the regulation around supervising wholesale rates that was a big risk for the company.

20:59

And second, we saw the copper switch off reform.

21:01

You know, we've been maintaining a copper network to 100% of households even with 90% penetration on fiber.

21:10

And starting this year, finally, we can start the process of switching off copper.

21:14

By the way, not in our guidance yet.

21:18

That's very important.

21:19

Secondly, Israel and global macro has suffered many black swans over the past about five years.

21:30

COVID, inflation, Russia, Ukraine, the unfortunate series of events in Israel in the past two years.

21:37

But at the same time, Bezeq demonstrated resiliency and execution on results without interference, even with so much noise in the background and the really unfortunate events in Israel that we hope will be over very soon.

21:54

We see Bezeq performing and outperforming and we upgraded guidance twice this year.

22:00

So I think we showed the world and the country the strength of our infrastructure and the resiliency of our operations and financials consistently given in some crazy volatile 5 years, that makes total sense.

22:14

That is very clear, I guess, with we're running out of time.

22:17

So I want to open up the floor to questions.

22:20

I don't know if there's any questions out there.

22:22

If anyone wants to ask any specific questions, this is your opportunity to do so.

22:31

They're all scrambling.

22:31

I hear them.

22:32

So I'm going to ask you the question I hate asking most, which is the question I should have asked today.

22:39

And I guess if that was the case, what was the question I should have asked?

22:43

Is there any area that you would like me to have touched on that I haven't touched on?

22:48

OK.

22:49

One question I'm getting more often than not, especially given the Israel situation, are you expanding into other territories in the region?

22:57

Makes sense.

22:59

The short answer, no or not at this point, but not short term, not midterm.

23:06

Longer term, there could be interesting collaboration with our Jordanian friends, hopefully with our upcoming friends in the North.

23:15

But I think in the near term, what I mentioned around the need for redundancy and connectivity with Saudi already creates some interesting upside in the region.

23:29

So this is where the regional development positively impacts us.

23:34

But no, we're not going to buy a Syrian telecom company at this point yet.

23:37

But that's the question I'm getting recently.

23:47

We're going back to public markets, and this is a very important conference.

23:55

I think we demonstrated and the public market in Israel is demonstrating in general, not just public resiliency and ability to reach all time high levels over the past year with better volumes.

24:11

A lot of international investor demand.

24:14

We've been on the road meeting investors every month in the past 2 years after October 7th.

24:22

And we see that people understand the very strong macro of Israel with one of the fastest growing GDP per capita in the OECD, if not the fastest, with a very high population growth rate.

24:38

Everything you need for a healthy telecom company and that's really helped support the company even without growing markets or growing output.

24:50

It's just the fundamentals of this country and the fact it continues to attract all these hyperscalers as the key geographic targets just create unlimited opportunity.

25:01

You see all the momentum and tech and all these trends.

25:04

We touch everything.

25:06

We empower all of that.

25:08

So this is a very big momentum for us.

25:11

That was an exciting time.

25:14

I don't know if there's any more questions.

25:16

If not, we do have the opportunity to wrap up and it's been a pleasure to host you and appreciate it.

25:20

Thank you so much.

25:21

Thank you very much.

25:21

Thank you, guys.

25:22

Thank you.