

"Bezeq" The Israel Telecommunication Corp., Ltd.



Event Transcript

Q2 2024 Financial Results

Tuesday, November 19th, 2024, 15:00 Israel Time

DISCLAIMER

This document includes a transcript of the conference call held on the above date regarding the Company's financial results for the fourth quarter and year 2023, following the publication of the Company's financial statements at that date according to the Israeli Securities Law 1968 ("Securities Law"), as well as the publication of the Company's investor presentation.

This document includes statements made at that conference call and accordingly contains only partial information regarding the Company's financial results and the Company's periodic reports published under the Securities Law. The reports can be accessed at the Israeli Securities Authority's website, www.magna.isa.gov.il. A review of this transcript and/or the aforementioned investor presentation published by the Company is not a substitute for a review of the detailed reports of the Company under the Securities Law and is not meant to replace or qualify the full reports. The Company is not responsible for the accuracy or completeness of the information contained in this document. This transcript does not constitute an offer or invitation to purchase or subscribe for any securities of the Company, and neither this transcript nor anything contained herein shall form the basis of, or be relied upon, in connection with any contract or commitment whatsoever.

Q3 2024 Financial Results

Tobi Fischbein (CFO, Bezeq Group): Welcome everyone and thank you for joining us on Bezeq's 2024 third quarter earnings call. I am Tobi Fischbein, 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 Q3-2024 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. Following the presentation 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'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 (Executive Chairman, Bezeq Group): Welcome everyone. Let's start on Slide 3. Despite the challenges of the war, all the group companies posted another quarter that evidences the implementation of our strategic plan as well as our resiliency as a company and as a country. We recorded an increase of over 2% in core revenues, due to 3.6% growth in Bezeq Fixed-Line, despite the war's impact on Pelephone's roaming revenues. Adj. EBITDA was impacted by the reversal of the provision for the universal fiber fund in Q3-2023, as well as the war's impact on roaming revenues. After adjusting for these, Bezeq Fixed-Line's and Pelephone's Adjusted EBITDA increased by 2% and 6% respectively. Group Adjusted EBITDA decreased by only 1%.

We continued to grow in our strategic drivers recording a 50% year-over-year increase in fiber take-up and 25% growth in 5G subscriber plans. I am very proud that we have reached 2.5mm homes passed faster than expected and already have 31% take-up on our network. This reflects 781K fiber subscribers and for the first time we have more fiber subs than copper subs on our network. Our strategic focus on the group's core activities led to the sale of Bezeq Online for 50mm shekels, contributing to financial efficiency and reflecting our commitment to creating value for our shareholders.

On the following slide, we present the highlights of the quarter. After adjusting for the universal fiber fund and the impact of the war on roaming revenues, Adjusted Net Profit decreased 2.6%. Free cash flow declined this quarter mainly due to an increase in CapEx; however, we reported 2.2% growth for the first nine months of the year to over 1 billion shekels.

The next slide shows some of the key indicators by business. Bezeq Fixed-Line had 65k fiber net adds in Q3-2024. The retail broadband ARPU is growing nicely, increasing to 131 shekels, thereby reaching our mid-term ambition from less than three years ago. Moreover, we're on our path to reach our 140 shekel ARPU updated mid-term ambition. On the mobile side, we saw continued growth in our 5G subscriber plans, reaching over 1.2 million subscribers as of today, equivalent to 53% of total postpaid subscribers. Our cellular business continues to thrive and without the roaming impact, demonstrated significant growth in both top line and Adjusted EBITDA. The TV sector continues to be extremely competitive but yes' market share has been relatively stable with a moderate 1% decline in TV subs.

Slide 6 shows the evolution of all our businesses to where we are today as well as the roadmap for the mid-term. At the beginning of the year, we published the group's business roadmap, and we are on our way to achieving all the ambitions in the medium term, including the completion of the fiber deployment, the completion of the migration from satellite TV and significant growth in free cash flow from the combination of a higher Adjusted EBITDA and a lower CapEx. With the great progress in these milestones and the successful execution of our strategy, we remain focused and confident in our ability to deliver our target of increasing EBITDA-Capex by NIS 400-500mm in the mid-term. Now I would like to turn the call over to Tobi, to discuss the financial results in more detail.

Tobi Fischbein (Bezeq Group CFO): Thank you, Tomer. Slide 7 shows a 2.1% increase in core revenues primarily due to growth in core revenues at Bezeq Fixed-Line. Adjusted EBITDA and Adjusted Net Profit were impacted by the continued provision for the universal fiber fund compared to the cancellation of the provision in Q3-2023, which resulted in a 30-million-shekel impact, together with the effects of the war on Pelephone's roaming revenues.

In the next slide, the nine-month results show a 1.1% growth in Group core revenues as well as a 2.2% increase in free cash flow.

Turning to the next slide, we show our operational metrics. I would like to highlight the 6% increase year-over-year in our retail broadband ARPU along with a continued increase in cellular and 5G subscribers.

The next slide highlights a decrease of 290 million shekels, or 6% year-over-year, in our net debt to 4.7 billion shekels while improving the coverage ratio from 1.6 to 1.5 times. We remain committed to maintaining our high credit rating. 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, Tobi. On the next slide, Fixed-Line core revenues increased 3.6% to 970 million shekels, mainly due to higher revenues from broadband services, transmission and data communications as well as

infrastructure projects. Broadband retail customers reached over 500 thousand today and ARPU rose 5.6% to 131 shekels in the third quarter.

On the following slide, we show that Adjusted EBITDA in the third quarter was impacted by the reversal of the provision for the universal fiber fund in Q3-2023 as well as higher salary expenses.

Turning to the next slide, Adjusted EBITDA and Adjusted Net Profit in the first nine months of 2024 were impacted by lower telephony revenues mainly in the first half of 2024 due to the MOC tariff reduction.

Turning to Slide 14, in the third quarter we saw moderate growth in broadband revenues mainly due to a decrease in wholesale tariffs for use of the passive network.

Moving to the next slide, we show the take-up trend. Q3 saw 41 thousand retail fiber net adds and 24 thousand wholesale fiber net adds.

Turning to the next slide, we show continued fiber deployment with an increased focus on take-up. Today, we have over 2.5 million homes passed and over 780 thousand active subscribers in our fiber network, resulting in continued growth of our take-up rate, which has reached approximately 31% as of today.

Slide 17 shows continued revenue growth in the third quarter of 2024 in Transmission & Data Communications. Other Revenues were positively impacted by higher recorded revenues from infrastructure projects.

The next slide shows an 8.5% increase in operating expenses resulting from higher expenses related to the universal fiber fund due to the reversal of the provision in Q3-2023, as well as higher sub-contractor expenses related to infrastructure projects for the defense industry. Salary expenses increased 6% due to an increase in minimum wage, wage creep as well as lower vacation days used due to the war. With that, I'll now turn the call to Ilan to discuss Pelephone and yes.

Ilan Sigal (CEO, Pelephone and yes): Thank you, Nir. Moving to the next slide, Pelephone posted stable revenues despite the impact of the war on roaming revenues which is estimated at 20 million shekels. The results were driven by higher ARPU from cellular plans and an increase in equipment revenues. In addition, 5G subscriber plans continued to grow with 52 thousand net adds in the quarter.

Moving to slide 20, we show 5G subscriber plans reached over 1.2 million subscribers as of today. Subscribers on 5G plans amounted to 53% of postpaid subscribers.

On the next slide, we see that Adjusted EBITDA decreased 5.9% due to the impact of the war and the reversal of the provision for the universal fiber fund in Q3-2023. Free cash flow was negatively impacted by timing differences in the payment of frequency fees. We saw similar trends for the nine-month results on Slide 22.

Slide 23 shows the Q3 key operational metrics. As seen, we recorded an additional increase in postpaid subscribers, including 5G subscriber plans and a decline in prepaid subscribers due to the impact of the war. ARPU rose 2 shekels from the previous quarter despite the impact of the war on roaming revenues. This is our third consecutive quarter with an increase in ARPU.

Turning to yes on the next slide. We continued the migration from satellite to IP with 456 thousand IP customers today. Fiber continues to grow, and we have now reached 68 thousand as of today.

The Q3 and nine-month financial highlight slides show declines in revenues due to increased market competition and the non-billing of customers in the line of conflict, partially offset by higher revenues from the TV/fiber bundle. Adjusted EBITDA and Adjusted Net Profit were impacted by the decrease in revenues and the timing of the provision for the universal fiber fund, partially offset by lower content expenses.

On slide 27, we show yes' Q3 key operational metrics. yes saw continued growth in IP-based TV subscribers, which increased 20% in the period. As of today, 81% of yes subscribers are watching TV through IP. We also recorded growth in fiber subscribers, jumping 120% year-over-year. With that, let me now turn the call back to Tobi.

Tobi Fischbein: Thanks, Ilan. Moving on to Bezeq International. Revenues and profitability metrics were impacted by lower consumer and business ISP revenues due to the MOC unified Internet regulatory reform, as well as lower ILD revenues. The decrease was partially offset by higher ICT revenues from cloud services.

On the next slides, we see similar trends in the quarter and nine-month results. Let me point out that Free Cash Flow in the quarter and nine month period was positively impacted by timing differences in working capital, a decrease in CapEx and lower employee severance payments compared to the third quarter and nine-month period in 2023.

Turning to the last slide, I want to reiterate that we remain focused on executing on our strategy by focusing on our group's core activities and key growth drivers – robust fiber take-up in Bezeq and yes, continued growth in Bezeq's data business, as well as consistent growth in 5G subscriber plans at Pelephone.

Finally, I would also like to mention that we will be attending the Morgan Stanley European Technology, Media & Telecom Conference this week in Barcelona. For those attending, 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. I will now pause to poll for questions. First question from Liran Lublin of IBI. Hi, Liran.

Liran Lublin (IBI): Hi guys. I have a quick question about your guidance. You're obviously falling behind 3.8 million shekels EBIDTA that you guided for. But on the other hand, CapEx is also well behind the numbers that you guided three quarters ago. How should we think about CapEx for this year, and for next year, and about EBIDTA? What are the main reasons that you're falling behind? And what is the guidance for the next quarter?

Tomer Raved: Liran, I'll start and thanks for the question. Tobi, feel free to add if you have anything. So, great question. Look, the impact from the war is not material, but as you see, it definitely has some impact, mostly coming from the roaming side of things. We'll likely be a little bit below on EBIDTA guidance, around 2%-ish, not more than that, but CapEx will also be below, so free cash flow will actually be better than expected this year, while still meeting all of our investment plans, even rolling out more fiber than expected. On the Adjusted Net Income side, we expect to meet our guidance for the year, and are reiterating the number that we gave out. Going forward to your question, we are the end of the CapEx cycle, given that we are nearing the completion of our fiber project and the migration from satellite to IP. So, you will see some time during the second half of next year, and definitely into 2026, a significant drop in CapEx. And with the growth of EBIDTA really reaching toward our midterm guidance that I mentioned, around EBIDTA minus CapEx, of an increase of up to 500 million shekels in that metric. So, overall, everything is working according to plan. Yes, there is a slight impact from the war on EBIDTA this year, but nothing significant, or nothing that makes us worried.

Liran Lublin (IBI): Okay, so just to follow up on that, considering that cash flow is going up, and your net debt is obviously very low, any thoughts about increasing the dividend payout?

Tomer Raved: Yes, and it's part of our communication to the market, and with the guidance that we gave. This past March, we increased our payout from 60 to 70%. We will evaluate the dividend policy at management and board levels in the coming March again. And we'll communicate to the market, obviously, the metrics supporting this ongoing trend.

Liran Lublin (IBI): Thanks.

Tobi Fischbein: Thank you, Liran. Next question from Tavy Rosner, of Barclay's. Hi, Tavy.

Tavy Rosner (Barclays): Hi, guys. Thanks for taking my questions. I have three, please. First, I wanted to ask about the universal fiber fund. How should we think of the operating assumption in the coming quarters? Will you just use a flat 50 basis points? Or do you see a chance that the MoC might lower the requirement to a lower percentage going forward?

Tomer Raved: I'll take this one. Complicated topic, but simple for you and the guys on the line because you know the material well. The Ministry of Communications offered Bezeq to take on more areas that were unsuccessfully covered by the universal fund, and we took upon ourselves additional areas. Most of them were covered this year and some will be rolled out next year. Last year, this led to the MoC not charging anything from the universal fund, it was zero percent. There was a draft published by the MoC that this year it would go down from 0.5 to 0.2 percent. We expect it to be less this year. And we expect this to be resolved in the coming weeks, before the end of the year. With that said, since the country is almost rolled out, we do not expect to have significant universal fund provisions going forward, but it's still TBD and looking for more formal communication from the regulator around that.

Tavy Rosner (Barclays): Okay, that's helpful. On to my next question. In my note, I have you guys putting about 300 employees on early retirement next year. I'm wondering if that's the correct number? And how should we think of one-time costs, and also potential cost saving benefits, down the road?

Tomer Raved: As you are aware, every year under our agreement with the employees at Bezeq Fixed Line, we have the option to retire 50 people. And in the last year, going into the end of 2025/2026, we have an additional 300. It's an option. We're probably going to use a significant part of that option, given that we are nearing the completion of the fiber rollout next year. We will communicate properly next year regarding numbers, plan and savings. I think it is premature to provide numbers, but, yeah, it's an option that we will seriously contemplate using next year.

Tavy Rosner (Barclays): Okay. And lastly, structural separation. I think the MoC said they would finalize this issue in Q4. We are late November now; do you still expect them to make some kind of decision now? Or it's just going to get pushed away to next year?

Tomer Raved: First, I expect the MoC to always abide by its work plan. But I think the regulatory environment incurs across the country delays. So, it's an active work stream between us and the MoC. I think it's too early to provide a timeline on that. But, as you

correctly alluded to, this is part of the formal work plan of the MoC. It's an active work stream, too early to provide additional color on that.

Tavy Rosner (Barclays): Okay, thank you. I'll get back to the queue.

Tobi Fischbein: Thank you, Tavy. Next question from Sabina, from Leader. Hi, Sabina.

Sabina Levy (Leader): Hi. First of all, congratulations on the quarter. It's good to see that you're continuing to show and report strong results, despite everything that is happening in the country and the market and the competition. I have a one follow-up regarding the regulation, and then another one regarding the TV sector. Could we expect any developments in the next coming quarters regarding wholesale tariffs? I understand that the processes within the Ministry of Communications are slow. In case there will be a delay, or it would take longer for them to decide on the updated wholesale tariff, is it possible that we'll see agreements with other companies, like something that you have with Partner? Maybe we should see additional players making similar deals with Bezeq?

Tomer Raved: So, I'll start, and Nir, if you want to add anything. First, on the regulatory front, the MoC set a target to be valid by June 2025. We fully expect them to have some sort of hearing or announcement around wholesale rates in the coming six months. We do not know whether they will stay the same, or potentially change, up or down. But connecting into your second question, we are always open and in discussions with all the players in the market regarding wholesale rate IRUs, we are very open on that front. Most of the players in the market wholesale our network on the regulated fees. Partner did sign an IRU, we may see more in the future. Reminding you that we did make a change in the IRU with Partner to allow them to resell, to smaller players, at the same terms of our IRU. Meaning, everybody can use the same terms by reaching out to Partner. I hope that answers your questions.

Sabina Levy (Leader): Yeah. Well, my question was, regarding the recent announcement of Cellcom, about the transaction with HOT. Do you believe it should impact, or could impact, the time frame regarding the transaction between yes and Partner?

Ilan Sigal: Hi, Sabina, it's Ilan. How are you? We still don't know. We believe that we will have some answer in the next few weeks. The Authority made us believe that in a few weeks we will have some kind of answer, not sure which direction it will go.

Sabina Levy (Leader): But – can I reasonably assume that there is a more than 50% probability that both transactions will be approved?

Ilan Sigal: Maybe.

Sabina Levy (Leader): Okay.

Ilan Sigal: We really don't know.

Sabina Levy (Leader): Thank you.

Tobi Fischbein: 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 fourth quarter and full year 2024 earnings call. Thank you.