

"Bezeq" The Israel Telecommunication Corp., Ltd.



Event Transcript

Q4 & FY 2021 Financial Results

Wednesday, March 23rd, 2022, 16:30 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 second quarter of 2020, following the publication of the Company's financial statements at that date, as well as the publication of the Company's investor presentation filed under the Israeli Securities Law 1968 ("Securities Law").

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 2021 Financial Results

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Bezeq's second quarter 2021 results conference call. All participants are at present in a listen-only mode. Following management's formal presentation instructions will be given for the question and answer session. For operator assistance during the conference, please press * 0. As a reminder this conference is being recorded and broadcasted over the web. At this time I would like to turn the call over to Mr. Naftali Sternlicht, Investor Relations Manager for Bezeq. Mr. Sternlicht please go ahead.

Naftali Sternlicht (IR Manager, Bezeq):

Thank you, operator. Welcome everyone and thank you for joining us on the call today. With us from the Bezeq Group's senior management team we have: Mr. Gil Sharon, Bezeq's Chairman, Mr. Dudu Mizrahi, Bezeq's CEO, Mr. Ran Guron, CEO of Pelephone, yes and Bezeq International and Mr. Tobi Fischbein, Bezeq's CFO.

Before we start, I would like to draw your attention to the Safe Harbor statement on Slide number 2, which also applies to any statement made during today's call. The speaker's comments will generally follow the slide presentation, which is available under the Slides tab on the webcast link and may also be downloaded from Bezeq's IR website. You can go through the presentation by clicking on the arrows on the left- or right-hand side.

Let me now turn the call over to our Chairman, Mr. Gil Sharon for prepared remarks. Tobi will then continue the presentation on group financial highlights, followed by Dudu discussing Bezeq Fixed-line results. Tobi will pick up with results of our subsidiaries, after which management will present the Group's business strategy.

Gil Sharon (Chairman):

Thank you, Naftali. We are reporting strong results for 2021, even above our revised guidance for adjusted EBITDA and adjusted net profit. As we announced in our last meeting, when we presented our strategy, our headline was: "from defense to growth" and we are happy to report growth in all parameters, especially revenue growth for the first time in many years.

During 2021, we set the basis for growth with the vast deployment of fiber and 5G.

The full year 2021 results included:

- Revenue growth of 1.1% to 8.82 billion shekels
- Adjusted EBITDA growth of 1.4% to 3.71 billion shekels with an Adjusted EBITDA margin of 42.1%
- Adjusted net profit growth of 0.9% to 1.15 billion shekel

- Free cash flow decreased 29.8% to 1.04 billion shekels due to an increase in CapEx and timing differences in working capital
- Net debt decreased by 1.8 billion shekels compared to 2019, as we continued to improve our liquidity ratios.

We are proud to announce that the Bezeq Fixed-Line fiber deployment reached 1.17 million households with 120 thousand households connected. The retail broadband internet ARPU reached 106 shekels on average for 2021, a year-over-year increase of 7.1%.

In terms of the operating metrics, we closed the year with 2.576 million cellular subscribers, a year-over-year increase of 5.5%, including 590 thousand 5G subscribers as of today. The number of TV subscribers was also up by 1.1%, with approximately 6 thousand net adds, reaching 563 thousand subscribers of which 250,000 or 44% are IP subscribers.

Now let me turn the call to Tobi to detail our financial results for Q4 and the full year.

Tobi Fischbein (CFO, Bezeq Group): Thank you, Gil. Turning to **Slide 4** – Revenues in the year increased for the first time since 2016 and amounted to 8.82 billion shekels, an increase of 1.1%, mainly due to the growth in Pelephone and Bezeq Fixed-Line. Adjusted EBITDA and Adjusted net profit rose moderately due to improvements in Pelephone and yes. CapEx for the year amounted to 1.69 billion shekels, up 12.8%, mainly due to the investment in fiber. The increase in Capex is reflected in a 29.7% decline in free cash flow along with timing differences in working capital.

Slide 5 shows key operational metrics for the past three years. ARPU for our TV and Cellular businesses have stabilized with moderate fluctuations in the past year. Retail broadband internet infrastructure ARPU continued to see significant improvement, increasing from 97 shekels in 2019 to 106 shekels for the whole of 2021 and 109 shekels for Q4. Cellular and TV subscribers as well as retail internet infrastructure lines have all increased over the last two years.

On **Slide 6** we present a snapshot of Bezeq's financial debt for the full year period. By the end of 2021, our gross debt decreased from 2019 by 1.8 billion shekels, or 24%, to 8.1 billion shekels. Total Net debt amounted to 6.1 billion shekels. The results achieved follow our efforts to further strengthen the company's balance sheet. Our Net debt/EBITDA ratio is now 1.8, compared to the 2.4 ratio recorded in 2019.

Moving on to **Slide 7** – This slide presents Bezeq's 2022 outlook and mid-term ambitions. We are targeting Adjusted EBITDA of 3.6 to 3.7 billion shekels, Adjusted Net Profit between 1 to 1.1 billion shekels and CapEx between 1.7 to 1.8 billion shekels.

For the first time, we are publishing mid-term ambitions, we expect stable EBITDA with margins between 41%-43% and mid single-digit growth for free cash flow. CapEx and CapEx/Sales are expected to remain stable through 2024 and decrease gradually thereafter.

In terms of fiber deployment, after exceeding the 1 million household mark in 2021 we aim to reach 1.4 million households by the end of 2022 and 2.1 million households in the mid-term, which represents 80% of households in Israel.

Regarding financial stability, we aim to maintain our high credit rating within the AA group.

Turning to **Slide 8** – We are happy to announce that our board of directors has decided to approve a new dividend distribution policy, according to which the Company will distribute to shareholders on a semi-annual basis, a cash dividend of 50% of the semi-annual net profit according to the consolidated financial statements.

As such, the Board of Directors decided to recommend to the General Meeting of Shareholders a dividend distribution in a total amount of 240 million shekels, which as of the date of passing this resolution constitute 9 agorot per share, and reflects an annualized dividend yield of 3.3%.

Lastly, on **Slide 9** - In 2020, Bezeq published its first ESG report since 2010. The feedback we received was very positive. In 2021, we continued to update the ESG report while working tirelessly to improve our company's ESG ratings.

Looking ahead, we have set various ESG targets which include equal representation of women in Bezeq management and at least 40% on the board by 2030, an increase in the rate of diverse population to 20% by 2030 and reduction of GHG emissions to net zero by 2050, helping to shape our world into a better and greener place.

Now Dudu will share with you updates on Fixed Line operations.

Dudu Mizrahi (CEO, Bezeq Fixed Line): Thanks Tobi. We wrapped up another strong year with a 0.6% increase in overall revenues, despite the 9.4% drop in telephony revenues. The business sector performed extremely well, and massive deployment of fiber continued throughout the year. The equipment sales were strong, and this has led to a noticeable increase in retail broadband ARPU, which has helped to balance out lower wholesale tariffs and keep broadband revenue stable.

As we move to **slide 12**, we can see that Bezeq Fixed-Line revenue was up again for the second consecutive year. There was a decrease in net profit due to an increase in depreciation and higher tax expenses, and free cash flow decreased for the year as we increased CapEx for fiber deployment.

Turning to slides 13 to 14, retail broadband lines grew 2.4% year-over-year. Despite a significant decrease in 2021 wholesale tariffs, our revenues from broadband Internet remained stable, as our retail broadband ARPU increased 6.9%. Our average broadband speed also experienced a considerable boost. Now with 130 Mbps, an increase of 75% year-over-year, our broadband speed will further strengthen our competitive advantage and benefit our customers greatly.

In fiber, we moved full-speed ahead throughout the year, sweeping the nation with fiber optics. Our fiber network has already reached nearly 1.2 million Israeli homes, with 120 thousand homes connected, together representing a penetration rate of 10%. It is truly fantastic progress at an incredible speed. We estimate that we will have 2.1 million homes passed by 2025, meaning Bezeq's fiber optics will be deployed to approximately 80% of all households in Israel.

The next slide briefly describes the full Wi-Fi differentiation we offer. The Be Router is how we set ourselves apart from competitors and bring the best user experience to our customers. Since 2019, customers of Be Router have more than doubled in size, from 321 thousand to 666 thousand, and they now account for 65% of our retail customers.

As you can see on our **following slide**, we have achieved continuous growth in revenue from our business sector, which includes transmission and data and cloud and digital services.

In **Slide 17**, we detailed our fixed-line expenses. Salaries in 2021 were up 1.6% due to the fiber project. Depreciation rose 7% for the year, mainly driven by the increase in CapEx. Operating expenses increased 13.1% year over year. The increase can be attributed mainly to the recognition of expenses for the universal fund for fiber deployment, as well as a rise in subcontractor expenses. Other income was 105 million shekels for the year, primarily due to an increase in capital gains from the sale of real estate.

With that, I'll now turn the call to Ran to talk about Bezeq's subsidiaries.

Ran Guron (CEO of Pelephone, Bezeq International and yes): Thank you Dudu.

Slide 19 shows the key highlights and continued success among our subsidiary companies, displaying subscriber growth as well as improved profitability metrics in

Pelephone and yes. Pelephone posted revenue growth and yes had positive free cash flow for the first time in years.

250,000 yes subscribers, or 44% of total subscribers, are watching TV through IP broadcasting and 88,000 are STING TV customers. Pelephone's subscribers with 5G plans reached 590,000 as of now.

Moving on to **Slides 20-21**, We have taken the necessary steps to become more focused and efficient in the past three years. From December 2018 to December 2021, we reduced our headcount by 1,500 employees including 45% reduction of our senior management positions and those reporting to senior management, leading to savings of 390 million shekels in 2021 compared to 2018, excluding salary creep.

Among the steps ahead are the transition to one new CRM system, which will allow sales and service to customers using a broader approach, including “triple play”. This will permit the company to save in future investments and costs of support while streamlining employee headcount and operating expenses.

As you can see, by streamlining measures, we have already achieved a 20% decrease in salary expenses through headcount reduction in all three companies, decreasing from 912 million shekels in 2018 to 734 million shekels in 2021.

Turning to Slide 22, we are investing in new generations of technologies in Pelephone with 5G and in yes with IP broadcasting over fiber. We intend to continue to lead the market in those areas.

In **Slide 23** – Bezeq’s board of directors canceled the merger between Bezeq International and yes and approved an alternative plan. The implementation details will be presented to the board of the subsidiaries within 60 days.

Among the highlights of the alternative plan are a reduction of Bezeq International’s ISP consumer activity following the cancellation of the separation between broadband infrastructures service and internet access services. We will set up ISP capabilities in yes to enable “triple play” packages that combine fiber and TV.

As a direct result of this plan, Bezeq international will become a growth-focused ICT company with substantial reductions in terms of costs and Capex.

In **Slide 24**, Pelephone was the first company to launch and operate its 5G network in Israel and is still the industry leader with strong advantages such as exclusive use of frequencies. As we maintain our course to gradually deploy our 5G networks and

diverse handsets and plans, we are confident that our 5G network capabilities will create future growth drivers.

Slide 25 shows some key financial metrics for Pelephone. Pelephone returned to revenue growth after a number of years, primarily due to the continued growth in postpaid subscribers and an increase in roaming revenues.

Adjusted EBITDA rose 18.6% for the full year of 2021 and Adjusted net profit rose from negative 11 million shekels, to 75 million shekels for 2021. This robust growth in revenue and profitability was due to a partial recovery from Covid-19, with increase in roaming revenues as well as an increase in postpaid subscribers.

Employee sanctions impacted free cash flow, which resulted in a delay in debt collection from customers for some months.

On the **next slide**, we expand on some key operational metrics for Pelephone. As the bar charts show, ARPU for Q4 2021 was 55 shekels, which is in line with the previous and corresponding quarters. Postpaid subscriber numbers continued to grow for the sixth consecutive year, reaching 2.1 million from 1.9 million subscribers just two years ago. The churn rate in 2021 also dropped to 22.9%, down from the 26.9% recorded in 2020. This was the lowest churn rate in the Israeli cellular market over the last few years.

Moving on to **slides 27 to 29**, I am now going to focus on yes' subscriber growth and IP migration. We are on track to soon be the largest IPTV operator in Israel. yes has continued to lead in professional and high-quality content creation. Through the current IP migration process, we are already seeing savings in satellite costs and the transition from expensive set-top boxes to cheaper streamers.

When looking at the key financial metrics, you can see a 4.7% increase in Adjusted EBITDA for 2021. Free cash flow for 2021 became positive at 29 million shekels, an improvement for the second consecutive year.

yes has shown continued growth in subscribers for the second consecutive year. With total subscribers reaching 563,000 by the end of 2021. Our ARPU has been stable with a 2 shekel increase in Q4 2021.

Moving on to slides 30 to 31, Bezeq International is a leader in providing a wide range of business solutions, such as integration, data and connectivity, both through data centers and on cloud. Currently, we have five activated data centers and we are in a joint agreement to operate a sixth soon. We have also shown growth in cloud

solutions and service contracts with both domestic customers and a wide variety of international business customers. In late December 2021, we acquired a majority stake in CloudEdge. They specialize in the public cloud field, and with their assets and expertise, we are in a stronger position than ever to deliver cloud-based solutions.

Bezeq International has experienced some challenges this year, with revenues and profitability down for the year. Free cash flow was break-even for 2021, due to the employee sanctions mentioned earlier.

I will now turn the call back to Tobi for closing remarks.

Tobi Fischbein (CFO, Bezeq Group): Slide 32 summarizes the Bezeq Group's ongoing operation strategies. 2021 was a strong year - we recorded revenue growth for the first time in years. Our fiber optic deployment pace will continue as we target 2.1 million households in 2025. We aim to continue the transition to 5G plans to positively impact ARPU. yes's migration to full IP will continue with bundled sales of Market TV and broadband internet. Lastly, we intend to continue our ESG efforts, reporting and setting of targets to reach our objectives. Overall, we are progressing in the implementation of our strategy while continuing to focus on growth. We are excited about our future potential, and look forward to delivering shareholder value.

I would like to mention that we will be attending virtually two investor conferences over the next week. The Citi TMT conference tomorrow, March 24th, and the Jefferies Pan-European Mid-Cap Conference on March 31st. We look forward to catching up with investors and analysts.

This concludes our prepared remarks. Operator, let's begin the Q&A session.

Operator: Thank you. Ladies and gentlemen, at this time we will begin the question-and-answer session. If you have a question, please press star-one. If you wish to cancel your request, please press star-two. If you are using speaker equipment, kindly lift the handset before pressing the numbers. Your questions will be polled in the order they are received. Please stand by we poll for your questions. The first question is from Tavy Rosner of Barclay's. Please go ahead.

Chris Reimer (Barclays): Yeah, hi, this is Chris Reimer on for Tavy. Thank you for taking my questions. First, I wanted to talk about the guidance. The 2022 adjusted EBIDTA implies a decline versus 2021. Can you just walk us through the driving forces leading to this decline? And when do you estimate that you'll return to EBIDTA growth?

Tobi Fischbein: Hi. Thank you for your question. As you know, 2022 is a year with

some significant changes in the market, starting in about 10 days, with the removal of the separation between the internet infrastructure and the ISP. We have prepared for this change, but there is still uncertainty on how this will be executed in terms of the market dynamics. This is one of the reasons that result in the adjusted EBITDA range that we have given. On April 1st, we will also see the decline in telephony tariffs, which was decided by the regulator. That is another reason why in this year, in 2022, we are guiding for a relatively stable adjusted EBITDA versus 2021. I hope that answers your question.

Chris Reimer: That's great color, thank you. And then just regarding fiber. You talked about the 120 thousand connected customers, both retail and wholesale. How should we think about the pace of adoption going forward? Especially factoring in the fact that Partner is rolling out fast, competitors are out there also acquiring customers.

Dudu Mizrahi (CEO Bezeq Fixed-Line): Hi, this is Dudu. This is the first time we are publishing numbers regarding the take-up on fiber. I think that in the next quarter and in the coming quarters, we will see the quarterly change in fiber penetration, and you could then extract the pace of customer connections. I can say that we are quite satisfied with the current pace. As I mentioned, in the Q1 results, you will be able to see for the first time the growth in fiber connected customers.

Chris Reimer: Got it. Okay. Thank you, that's it for me.

Operator: The next question is from Ondrej Cabejsek of UBS. Please go ahead.

Ondrej Cabejsek (UBS): Hi, thank you for the presentation. I wanted, maybe, to follow up on some of the regulatory impacts. You mentioned two of them, you mentioned the separation in broadband and you mentioned the fixed voice rate adjustment. So, in terms of the latter, can you please talk us through what exactly do you expect the impact to be, and over what time? And then, I believe there's a third one in terms of DSL wholesale rates that were kind of reset in 2021, to the tune of something like minus 15%, because of the increase in traffic. So, presumably, you are expecting a positive impact from the kind of reset again, going into 2022? How should we think about wholesale DSL ARPUs, and the presumably more normalized environment in 2022, please. Thank you.

Dudu Mizrahi: Hi, this is Dudu. For your first question regarding telephony reform. The reform is going to start in the coming days, in the beginning of April. We already gave the effect on our numbers. It will be in two steps with the second phase in August of next year, and the full year effect will be in 2024 for an annual effect of roughly 170 million shekels on our revenue. So, that's for the telephony. Regarding the ISP, at the

same time, in the beginning of April, the reform in broadband internet is taking effect. We will start selling only the full internet service, meaning both the infrastructure and the ISP part for the first time ever in Israel. Due to the fact that we have very big numbers of customers changing their price plan, upgrading bandwidth, moving to fiber, etc, we expect the take-up to be very high. So, beginning in April, we're going to see tens of thousands of customers monthly joining the combined new service. So that will have, of course, a considerable effect on our ARPU. There will be a negative effect, of course, on Bezeq International, but we will gain ISP customers, both from Bezeq International and from the other ISPs that are currently operating in the market. We expect the overall effect of that to be positive, on a group-wide basis. Regarding wholesale tariffs, there was a sharp decrease in wholesale tariffs in January of last year which had a negative effect on our revenues. In January 2022, there was a rebound in those tariffs and they increased slightly. Wholesale ARPU will now rise during the current year compared to 2021. We are seeing the number of wholesale customers on our network declining mainly due to customer declines in Bezeq International, and we are seeing a positive effect of customers moving to fiber – wholesale customers on fiber. The overall effect is slightly down. So wholesale ARPU will increase and the number of customers on our wholesale will slightly decrease.

Ondrej Cabejsek (UBS): Thank you for that comprehensive answer. Can I just confirm, please, in terms of the DSL ARPU specifically, would you expect the rebound to be kind of the previous levels of high 50s? Because you are closer to the low 50s in 2021, as a result of the –

Dudu Mizrahi: Unfortunately not. It's not a full rebound. The decrease last year was a heavy decrease. The increase that was done two months ago, will slightly offset the dive, but not fully.

Ondrej Cabejsek (UBS): Any kind of ballpark figure, please, is this kind of low single digit increase? Or any comment, please?

Dudu Mizrahi: Well, it's a public tariff, so I can say that it was roughly a 25% decrease last year, with, I don't know, like, 10 to 15% increase this year.

Ondrej Cabejsek (UBS): All right. That's clear. Thank you so much.

Operator: The next question is from Alex Caldwell of Jefferies. Please go ahead.

Alex Caldwell (Jefferies): Hi. Thanks for the call, and for taking my questions. My first question would be, even with a 50% dividend being resumed, looks like the company should still de-lever relatively quickly? It's quite a low ratio. I wondered if you have a level of leverage that you would say is optimal, in, say, 2023, or in the medium term?

And then, following on from that, if there is spare debt capacity, would you have acquisitions in mind? Or be thinking about additional cash return? And then, if there would be additional cash return, do you have a particular view on – on buybacks, or on special dividends? Thank you.

Tobi Fischbein: Hi Alex, this is Tobi. Thanks for your question. I'll take the first part. The board adopted a financial policy about six months ago, aiming to retain our high credit ratings, within the AA group. So, from that we understand that we will have to maintain those coverage ratios, and, of course, other parameters, that allow us to perform based on that objective. But as you have rightly said the cash generation of the group is strong. And as we continue to perform on our guidance, we will be able to create additional spare cash. The board has not made any decisions about what will happen if and when we achieve that spare cash. We don't have any buybacks in mind, and in terms of acquisitions or investments, I will let Gil comment.

Gil Sharon: As we said in our strategy deck last time we discussed, we think that there should be some opportunities for strategic acquisitions within the broad range of our capabilities and knowhow. Without being too specific, I think areas like electricity, which is starting to open up to competition in Israel, and adjacent areas in that area, might be interesting because of our capabilities within the home and within the residential population in Israel. So there's nothing specific yet - we will continue to look and explore these possibilities.

Alex Caldwell (Jefferies): Okay, thank you. And then, my next question would just be on the guidance. So you're guiding to stable EBIDTA over the medium term with margins pretty much flat. So, are we correct to infer from this that current revenues, effectively, you're looking to keep that stable as well, rather than growing? And I just wondered why – why do you not think you can do a bit better than that. I think at the 3Q strategy presentation, you talked about going from defense to growth. And I think at that time, you set out a midterm ambition to – to actually grow adjusted EBIDTA. So I wondered what has changed.

Tobi Fischbein: For the first time, we are announcing today ambitions for the medium term, not just in terms of specific KPIs, but in more general and broad financial parameters as the one you mentioned. This is based on our updated five year plan, which of course includes several different plans that we feel very comfortable about. At the same time, management is working within the group on several additional initiatives that are not yet mature enough. Once they progress, they will be able to generate potential for additional growth. We felt at this point in time that it would be a bit premature to include those in the midterm ambitions. In addition, you need to remember that we are facing decreasing telephony tariffs and their impact will increase over the

next three years. So that sums up why we have given this kind of midterm ambitions.

Alex Caldwell (Jefferies): Okay, thank you. So are those additional plans new to current operations, right? Is that what you're saying?

Tobi Fischbein: Well, they are a part of the current operations, but are things that, as we said, are not necessarily mature enough to be able to incorporate into the guidance. I can give you one example. The board recently decided to change the means by which it will be achieving the strategic and business objectives related to the subsidiary companies, mainly yes, becoming a "triple play" arm, and also having an independent ICT operation that will be focused on growth. One of the things we learned is that as we are approaching April 3rd, Bezeq Fixed Line has diligently prepared for that regulatory change and there may be opportunities to do things in a quicker fashion than we previously thought. If and when it can be executed, this would create additional upside. But there are still a number of question marks out there, so we will need to be a bit more patient before we can become more optimistic.

Alex Caldwell (Jefferies): Okay. That's great. Thank you. I'll just ask – maybe I can just try to squeeze one more in. Just on the fiber target for 2022, at 1.4 million. So if you've already passed almost 1.2 million, that implies quite a strong slowdown, to less than 100 thousand per quarter? So I just wondered if you could talk around that, and also around the fact that with such a slowdown taking place in 2022, but you're guiding for an increase in CapEx at the same time?

Dudu Mizrahi: Hi, this is Dudu, again. You need to understand that we started our deployment in the dense areas of Israel - the big buildings, multi-unit buildings, and that was our main focus during the launch of the project, and during the first year of the deployment. That's how we got to the one million households, representing roughly 45% of the Israeli population. Within a year, we managed to fully cover all those areas in Israel and all the buildings in Israel are now connected to our fiber network. Now we are moving to rural areas, single units, houses, small communities, etc. By definition, deployment becomes much, much harder, and it takes more time. So, with the same amount of CapEx, we're going to reach fewer households - but the difference will be in the take-up. Because we are now moving to areas where we are the sole provider of fiber, we can expect that the take-up in those areas will be higher. Currently, the areas where we are now deployed, and the customers we are targeting are also being targeted by several other operators who deployed in the same areas, tall buildings, big buildings in Israel. The level of competition in those areas is much, much higher. Moving to rural areas, we are the sole provider. In the rural areas, we can wholesale our network and provide services through wholesale.

Alex Caldwell (Jefferies): Okay, great. Thank you very much.

Operator: There is an additional question from Ondrej Cabejsek of UBS. Please go ahead.

Ondrej Cabejsek (UBS): I've got two follow up questions, if I may. One, is following up on the previous question in terms of the medium term outlook. So, you're guiding for flattish EBITDA, flattish CapEx, but mid single-digit free cash flow growth. And you've mentioned previously that there was some kind of debt collection issues around 4Q especially. So if you could just talk us through whether this mid single-digit growth is entirely, or the assumption is, that it's entirely working capital driven, and what's the scale of the unwind of some of the receivables that you're expecting, and the timing of that as well, please? And then, second one if I may, in terms of mobile ARPU trends specifically. So you're now – or previously you've said that in terms of 5G ARPU you're seeing something like a 15% premium. And if I'm not mistaken, you now have between 20-25% of your subscriber base on 5G, yet your ARPU year over year in the fourth quarter was still kind of flattish. So can you just talk about the underlying trends in mobile, in terms of pricing, ARPUs, and what we can expect going forward? Because I believe you've made some pretty encouraging remarks previously, but I'm not sure I'm understanding where the zero year over year growth in ARPU is coming from, with all of the 5G uplift that you're talking about. Thank you.

Tobi Fischbein: Thank you, Ondrej. I'll take the first question, and then sharing with Ran on the second one. On the midterm ambitions - we guided for mid single-digit growth in free cash flow. We are looking into the midterm which is a three to five year term. It's partly a result of CapEx peaking in '23-'24 and starting in 2024 to gradually come down, and that will allow for an increase in free cash flow. But also, we envisage some more volatility on free cash flow, as you rightly said, as a result of working capital changes, an increase in free cash flow even this year. We actually have already collected most of the billing cycle that was delayed due to the employee sanctions that we faced at Pelephone and Bezeq International in the second half of 2021. We are almost after that billing cycle completely, and that will contribute to what we were missing towards the end of 2021. So that's on free cash flow. On mobile ARPU, what we are seeing is that both sequentially and also year on year we have seen a stable result. But when you look into the ARPU breakdown, which is something that we don't publish, you see there is a slight increase in the main part of it, which is actually composed by various service plans. But on the other hand, there is a decline in the interconnect part. Now, interconnect appears both in revenues and in expenses, but in the ARPU, you only see the revenue side. And because the comparative periods had higher minutes, mostly related to the COVID-19 effects, that's why that portion of the ARPU came down towards the last part of 2021. We definitely see an increase in

roaming, and to be more specific, for the full year 2021, roaming is still below 50% of what it was for the full year 2019, which is pre-COVID-19, yet significantly higher, maybe twice, as high as in 2020. But when you look into the second half of 2021, and even more so in the fourth quarter of 2021, you will see that the increase in that percentage versus 2019, is going higher, even to over 60% in the fourth quarter. I don't know, Ran, if you want to add anything on the price plans? Okay. I hope that answers your question, Ondrej.

Ondrej Cabejsek (UBS): Ah, okay. Maybe just two short follow-ups on both questions, please. So, can you be more specific in terms of the collection, how much was that in the second half of 2021, and therefore how much working capital benefit we will see this year? Because you mentioned that you've already managed to collect that. And just in terms of the ARPU dynamic, so, I understand there's slight increase in terms of – or benefit, towards the end of '21, in terms of roaming. But then, is there I think you still have a significant – or what I would expect, rather, is that if you're now, kind of, year over year, adding maybe 20% of your subscriber base onto more expensive 5G tariffs, is there just more competition on 4G? Or – how do I reconcile the fact that there's a minor benefit from roaming, as you say? But then ARPU is still flat, with, maybe 20% year over year growth in 5G subscriber base. So, is there a deterioration in the, say, 4G competition? Or, how do I understand that? Thank you.

Tobi Fischbein: I'll take the first part, and I'll be short. It's a couple of hundreds of million shekels of additional collection that are shifting from 2021 to early 2022. I'll let Ran address the second question.

Ran Guron: I'll give a few insights about the ARPU. First of all, we are not giving any projections about market prices or ARPU. But, what we can see, is that fewer and fewer customers are switching to low tariff plans. This effect does exist in the market, but not as it used to be a year or two years ago. Customers are joining 5G plans, so we have a lot of work to do there. And the bigger unknown is roaming. Roaming is really picking up in this country. In January and February, we saw a lot of people traveling abroad. What will happen in the summer is a big question. So our main ARPU driver, which is yet unknown, is roaming, and we are really looking forward to see if that picks up, because it can make a major change. Those are my insights.

Ondrej Cabejsek (UBS): All right. Thank you very much.

Operator: There is a follow up question from Alex Caldwell of Jefferies. Please go ahead.

Alex Caldwell (Jefferies): Hi. I've just got a couple more, if that's okay. I just wondered,

on the combined internet service, I think other players have been allowed to offer this already, in advance of yourselves and HOT. I just wondered if you've seen any impact from that. And also, is Bezeq fiber able to offer it as straight away as soon as the regulation opens up? Would be my first question. And then, secondly, just in terms of the retail internet ARPU target given at the 3Q strategy day of being just over 130 shekels per month in the medium term – so if you're already at 109 currently, without including the ISP, which I think is around 20, do you not think that you could go considerably higher than that – the 130 in the medium term, given how low fiber currently is in the mix? And then, just lastly would be, on the areas where you're not building fiber, are you open to wholesaling with the other fiber players now starting to build, following the government's tenders? Thank you.

Dudu Mizrahi: Regarding your first question, the two incumbent players, meaning Bezeq and HOT, were forbidden from providing full broadband service. We were allowed only to sell the infrastructure part. Cellcom and Partner, as newcomers, could from day one offer a full broadband service. So, as I mentioned, beginning in April, we will start selling a combined service, and HOT, will start a few weeks later, or close to that date. They need to comply with some regulation first. But the change will apply both to Bezeq and HOT, more or less at the same time. Regarding the effect on ARPU, I'm not sure the number that you provided represents the market ARPU in ISP. I think the numbers are lower. The projection that we gave included the effect of the ISP, with continued growth in the basic ARPU due to customers turning to fiber and upgrading their bandwidth, etcetera. For your last question, regarding those areas that are under the government subsidy, it is still unclear whether Bezeq will be able to offer wholesale services there. In looking at the formal regulation, Bezeq and HOT will be allowed to provide services there on a wholesale basis, but there is still something we need to recheck with the Ministry of Communications to fully be sure that would be the case.

Alex Caldwell (Jefferies): Okay. Thank you. And then, I've just got one more, if that's okay. I just wondered, on the cancelled merger of Bezeq International and yes, I just wondered, is this due to labor negotiations? And then, I just wondered, what would be different with the alternative strategy, if essentially still winding down the ISP services within Bezeq International.

Ran Guron: This is Ran. It's because negotiations were taking too long, this is first. And second, our estimate that the take-up by infrastructure players including Bezeq will be fast, so we are going to reach the same objectives putting yes as a “triple play” arm and focusing Bezeq International on the ICT business integration sector. We're going to reach the same targets in a different way. So the reasons are the time it took, and negotiation is a part of that.

Alex Caldwell (Jefferies): Okay. Thank you very much.

Operator: The next question is from Roni Biron of Ion Asset Management. Please go ahead.

Roni Biron (ION): Hi, guys. Just another follow up on your midterm ambitions, and especially on mobile. In your strategic presentation, in November, you basically pointed to upside of 8 to 9 shekels in ARPU, by, I think, 2025, if I'm not mistaken -between the recovery of roaming and the 5G upgrading. To what extent is this being factored into your midterm ambitions, if at all?

Tobi Fischbein: As part of our midterm ambitions, as I said before, we also took into account Pelephone's midterm plans. Those plans call for a gradual recovery in roaming that will not reach the 2019 levels before 2025-2026. So that's one part of the answer. The other part is that we need to remember that there is also an interconnect tariff which may change over the next three years. Of course, that will have a more or less zero effect on profitability, but will have an effect on ARPU so you have to take that into account as well. And that is also part of our midterm ambitions.

Gil Sharon: If I may – this is Gil. There were a lot of questions here on our midterm ambitions. So, just a few comments. I think, as we said in our strategic presentation last time, in terms of cellular ARPU, we see two positive trends. One is roaming picking up, but no one knows how this pandemic will play out. Currently we are seeing improvement in roaming. As Tobi mentioned, we are thinking that it will pick up only in '25, but it can pick up much faster than that. Israelis love to fly abroad. So it's all about the pandemic. The second lever is the 5G pickup. Now, in cellular, the way that basic ARPU, without roaming, changes is, it goes up or down by two streams. One stream is customers that change their bill plan. Existing customers every year, by hundreds or thousands, change their bill plan. In previous years, we mainly saw a change to a lower bill plan. Once we introduced the 5G plan, which is a higher bill plan but they get more – more gigabytes and higher speed – so now, more customers are switching to a higher bill plan. That is the shift that we're seeing from a downward trend when people were switching from an existing high plan to a lower plan, now they're switching from a low plan to a bit higher plan. So this is a switch, but it's gradual. Every month, it's changing bit by bit because you're changing the whole mix. So, it takes time, but we see this trend. So we have the two trends. One is the mix, hopefully, improving, and we already see it starting to happen, and also the roaming picking up, maybe much faster, hopefully more than we could think about a few months ago. In regards to the other areas of the business, there are a lot of unknowns that could factor in, both positively and negatively. For instance, as we said, maybe the migration of Bezeq International ISP residential customers to Bezeq could be faster. This could improve Bezeq Fixed

Line results, but also reduce very quickly OpEx and CapEx at Bezeq International. So, again, if the pace is faster, this would create quite a nice upside, both in reduction of costs and in higher revenues in Bezeq Fixed Line. Another thing that we can think of in the midterm that of course we don't know if and when it can happen, but maybe at some point Bezeq Fixed Line will be allowed to bundle television into its "triple play". We don't know. But, again, it's a scenario that is possible, that would create some additional benefits for Bezeq Fixed-Line, to be much more competitive and actually providing a product like its competitors. So, again, who knows. But that can happen some day. On the other hand, we have the telephony tariff reduction that is a negative, of course it's factored in, but it can be better or worse than planned, we'll have to see. So, you know, this is the first time we published midterm ambitions. I think, in the future, of course we can do it with some more information and – and, maybe with some different insights. So thank you for that.

Roni Biron (ION): Thank you very much. That was helpful.

Operator: If there are any additional questions, please press star-one. If you wish to cancel your request, please press star-two. Please stand by while we poll for more questions. There are no further questions at this time. I would like to remind participants that a replay is scheduled to begin in a period of 3 hours, on the company's website, at www.bezeq.co.il. Mr. Fischbein, would you like to make your concluding statement?

Tobi Fischbein (CFO, Bezeq Group): Yes, thank you. We appreciate your attendance in our quarterly earnings call. We look forward to meeting you in investor meetings over the next few months, and then talk again on the earnings call for the first quarter 2022 results. Thank you.

Operator: Thank you. This concludes Bezeq's fourth quarter 2021 results conference call. Thank you for your participation. You may go ahead and disconnect.

[END OF TRANSCRIPT]

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