



# Bezeq Group Investor Presentation Q2-2021

August 12, 2021



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## Group Vision

To lead the Israeli telecommunications market, providing a full range of products and services for the residential and business markets and striving for continuous improvement in business results

# Bezeq Group Focus

- Accelerated deployment of **fiber optics** for the residential sector as a **growth engine**, while continuing to strengthen our position in the business sector
- Focus on **customer premises** through a combination of fiber infrastructure, triple play and related products (such as router and wi-fi enhancers)
- In H1 2022 Bezeq will be able to offer unified broadband Internet services (infrastructure and ISP)
- **Structural change** in yes and Bezeq International:
  - Spin-off of the ICT business division to a separate company to focus on a segment with significant growth potential
  - Merge Bezeq International's consumer activities into yes to strengthen TV and Internet offering and leverage Group's fiber infrastructure through triple play offering
- Deepen **streamlining** in key subsidiary companies while improving free cash flow
- Pelephone will focus on marketing **5G growth engine** and ARPU enhancement



Focus on Building Infrastructure and Growth Engines



# Q2-2021 Financial Results Highlights



- Revenues grew 2.1% to NIS 2.2 billion
- Adjusted EBITDA\* of NIS 944 million, down 0.7% y-o-y; Adjusted EBITDA margin of 42.9%
- Adjusted net profit\* of NIS 304 million, up 20.6% y-o-y
- Free cash flow of NIS 85 million, a decline of 41.0% y-o-y primarily due to increased capex
- Net debt decreased by NIS 877 million y-o-y and liquidity ratios improved
- 81% increase in Bezeq's ESG grade with Bloomberg

## Bezeq Fixed-Line

- Stable revenues and 8.9% increase in adjusted net profit\*
- Continued improvement in key operating metrics
  - Increase in retail broadband Internet subscribers for a fifth consecutive quarter
  - 8.2% increase in retail broadband Internet ARPU
  - Continued growth in sales of BE router and wi-fi enhancers. Launch of new BE2 router
- Continued massive deployment of fiber – 718k homes passed as of today

## Subsidiary Companies

- Pelephone posted strong financial results y-o-y :
  - 7.7% increase in revenues and 11.2% increase in EBITDA
  - Continued growth in postpaid subscribers
  - Successful deployment and growth in 5G subscribers
- Improved results in yes
  - Significant improvement in free cash flow in yes which turned positive in 1H 2021
  - Continued growth in yes subscribers with increase in IP subscribers to 33%

## Regulation

- MOC approved cancellation of infrastructure and ISP separation. Bezeq may offer unified broadband Internet in H1 2022
- Hearing held on reduction in telephony tariffs
- MOC approved the merger of Bezeq International into yes



# Progress on Structural Change

- Bezeq's Board of Directors approved the structural change that includes the spin-off of the ICT business division into a new and separate company, and the merger of Bezeq International's private sector ISP operations into yes (following approval of the Minister of Communications)
- The new ICT company will allow management to focus on realizing its potential in the IT market
  - The Israeli IT market size is estimated to be approximately USD 8 billion per year and growing rapidly
  - Bezeq International has a significant presence in this market (revenues of hundreds of millions of shekels per year)
  - The new company aims to combine organic growth with targeted acquisitions
- The merger of Bezeq International's consumer activities into yes will allow us to implement, for the first time, an effective triple play strategy based on yes's strong brand and quality TV product together with Bezeq's fiber infrastructure, supporting growth for the Group in the residential sector
- In light of the company's intentions, the Histadrut labor union declared a labor dispute. The company will conduct negotiations with the employee representatives

An overhead view of a business meeting around a white conference table. Five people in business attire are gathered around the table. A laptop is open on the left side. In the center, a dark blue semi-transparent rectangle contains the text 'Financial Results Bezeq Group'. On the table, there are several documents with charts and graphs, a cup of coffee, a smartphone, and a pen. The background is a light-colored tiled floor.

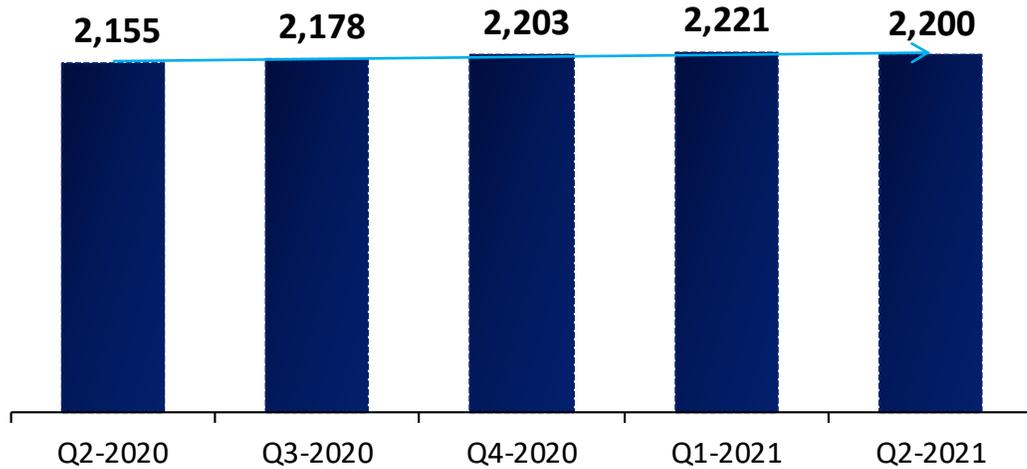
# Financial Results Bezeq Group



# Bezeq Group – Quarterly Key Financial Metrics | NIS Million

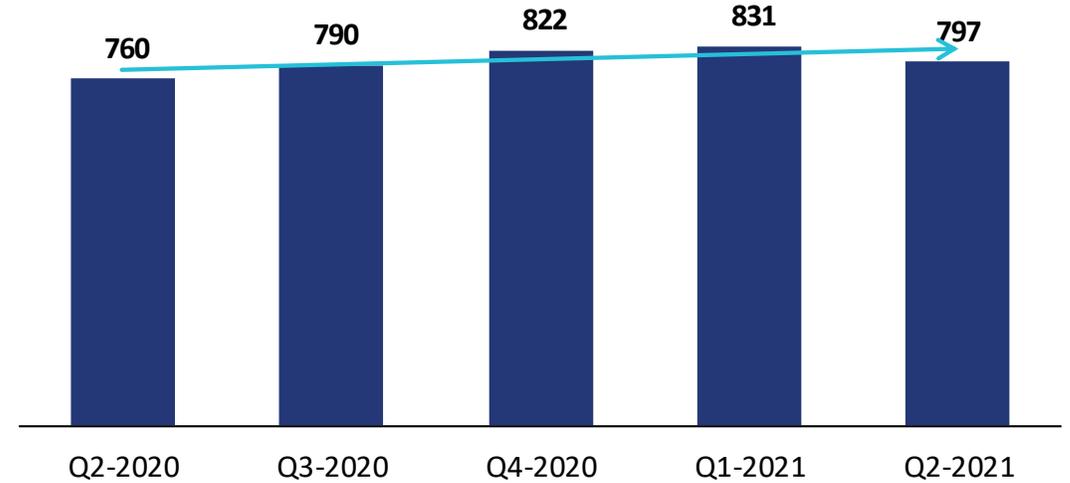
## Revenues

2.1%



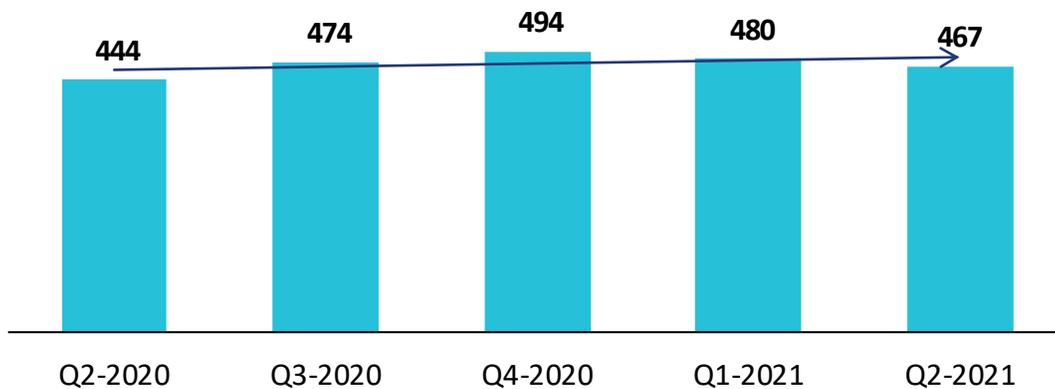
## Operating Expenses

4.9%



## Salary Expenses, Net

5.2%



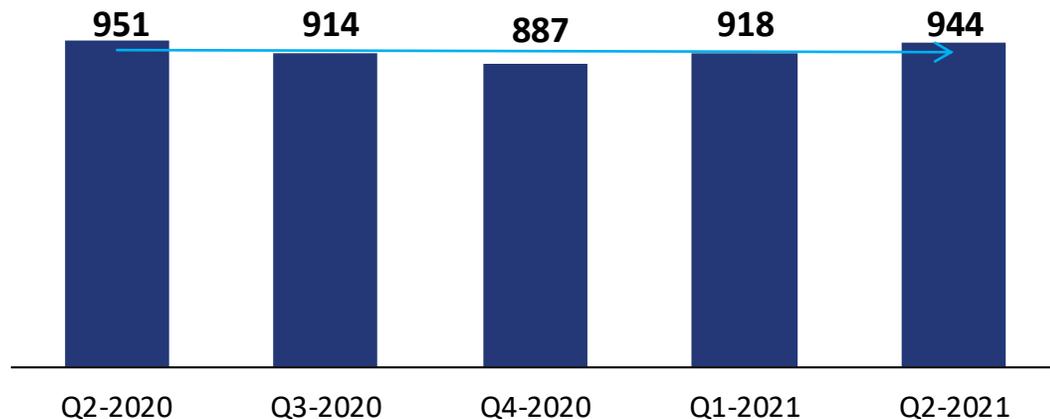
- Increase in **revenues** in Pelephone and Bezeq Online
- Increase in **salary expenses** of Bezeq Fixed-Line, Pelephone
  - Bezeq Fixed-Line - Recognition of stock-based compensation
  - Pelephone - Employees furloughed in Q2-20 due to COVID-19
- Increase in **operating expenses** mainly in Bezeq Fixed-Line and Pelephone
  - Bezeq Fixed-Line - Impacted by initial recognition of universal fund for fiber deployment, COVID-19 impact in Q2-20 and the deployment of fiber in the current quarter
  - Pelephone - Increase in cost of handsets in-line with the increase in handset revenues as well as costs relating to the new cloud system



# Bezeq Group – Quarterly Key Financial Metrics | NIS Million

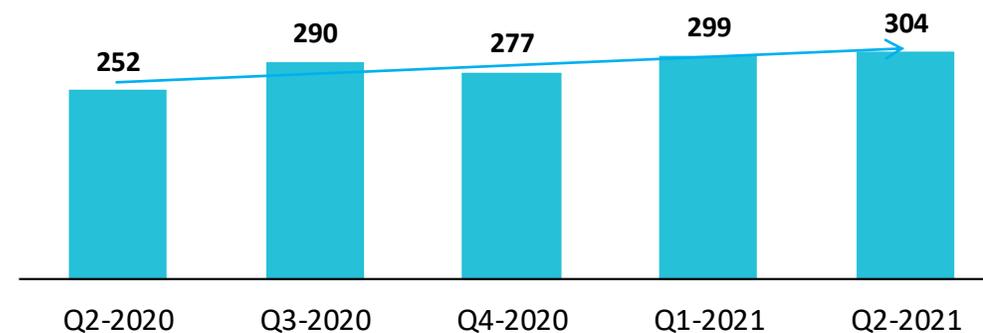
## Adjusted EBITDA\*

0.7%



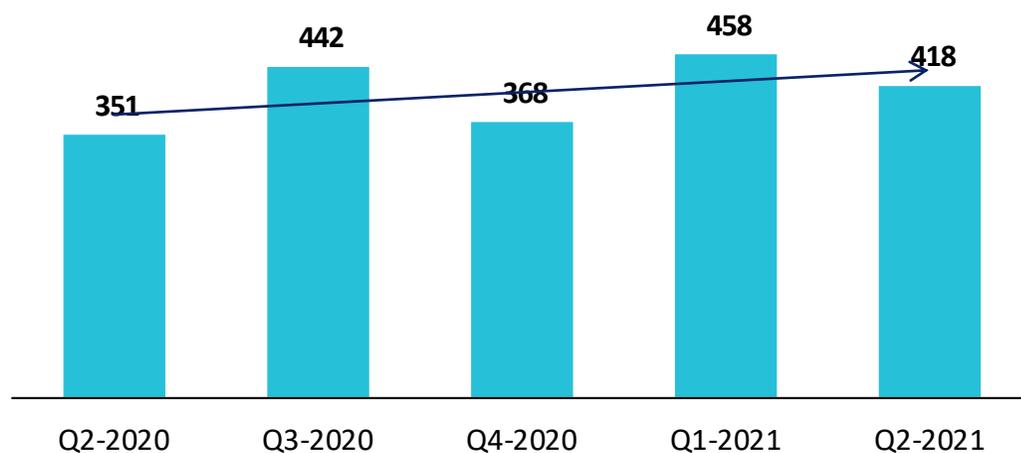
## Adjusted Net Profit\*

20.6%



## Gross Capex

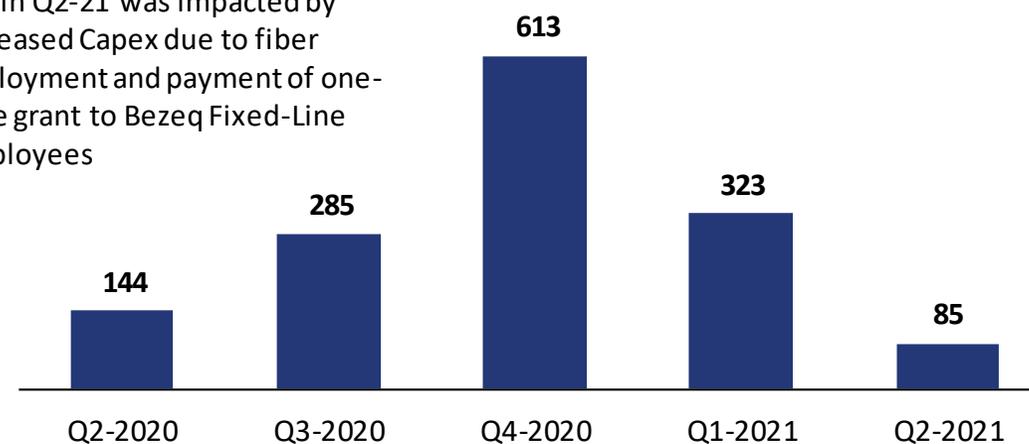
19.1%



## Free Cash Flow

41.0%

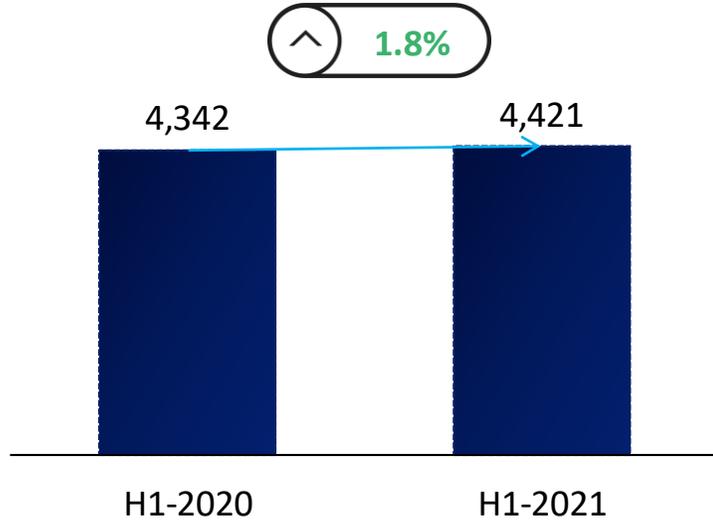
FCF in Q2-21 was impacted by increased Capex due to fiber deployment and payment of one-time grant to Bezeq Fixed-Line employees



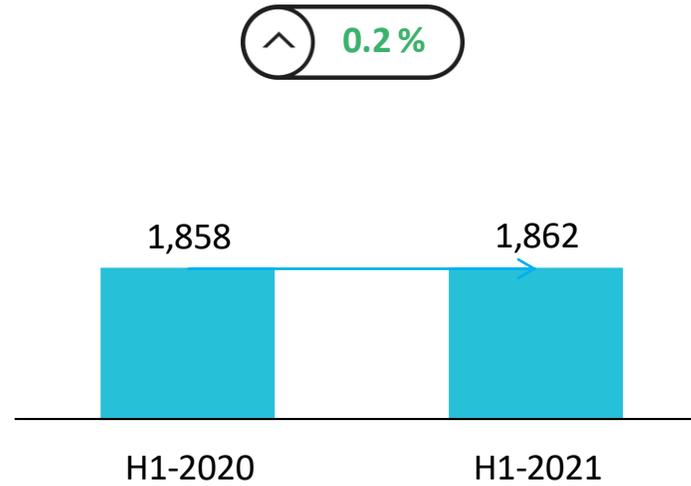


# Bezeq Group – Key Financial Metrics (H1-2021) | NIS Million

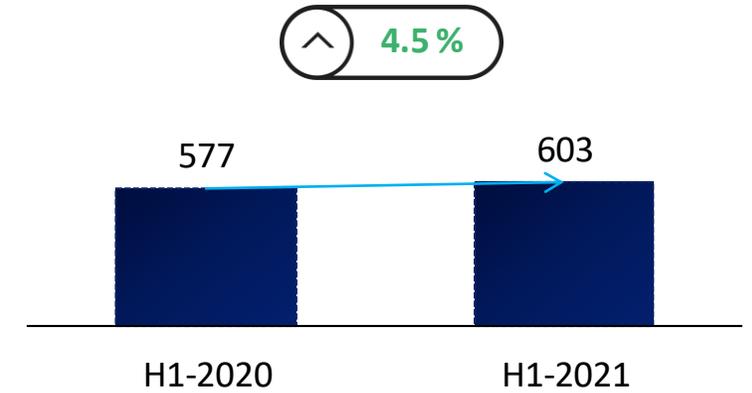
## Revenues



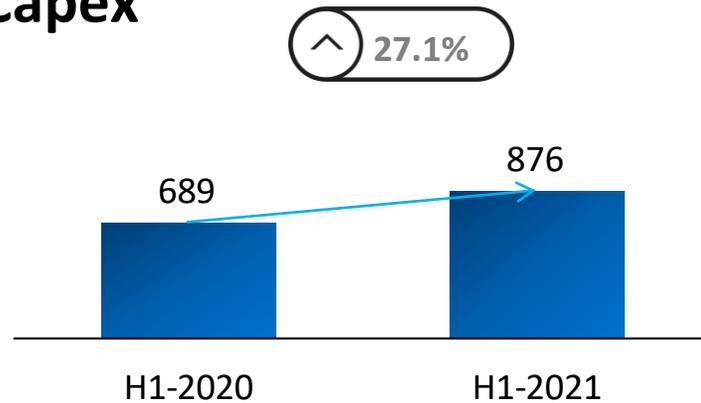
## \* Adjusted EBITDA



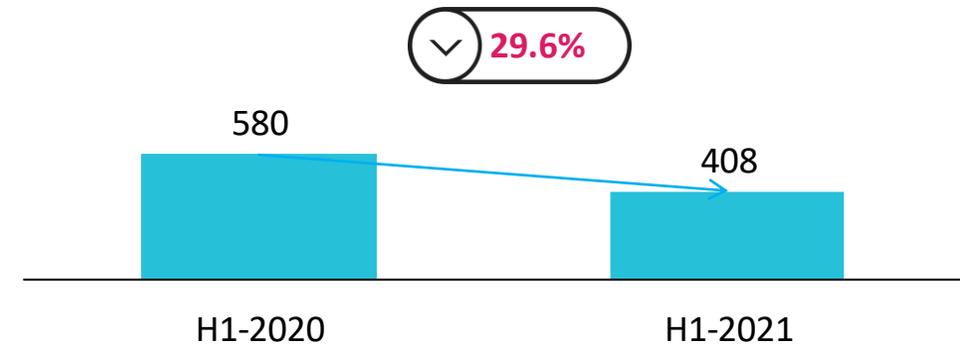
## Adjusted Net Profit\*



## Gross Capex



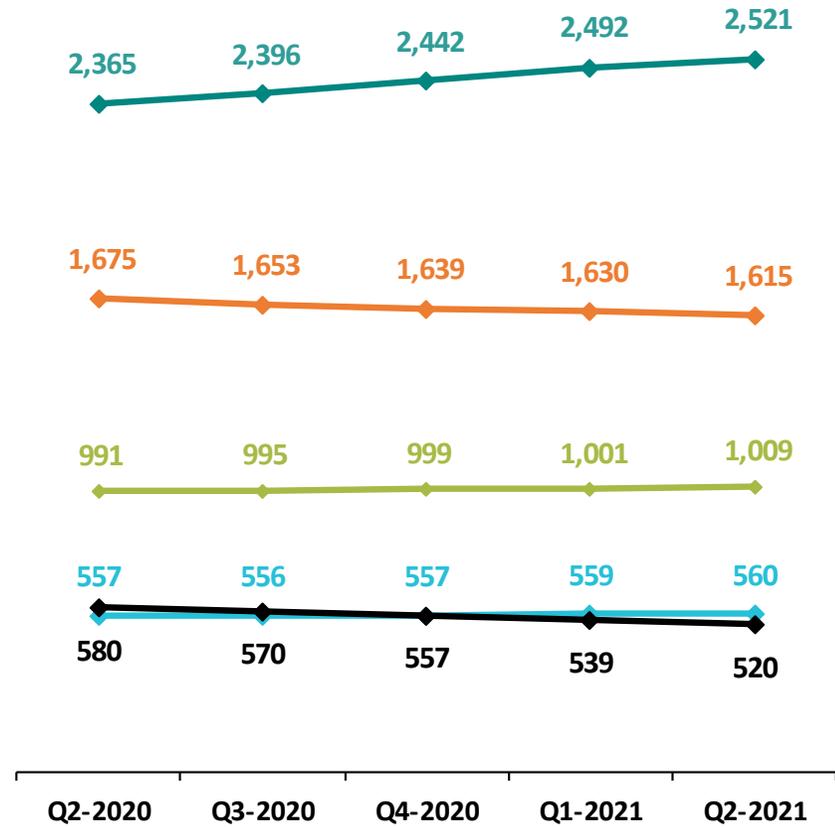
## Free Cash Flow



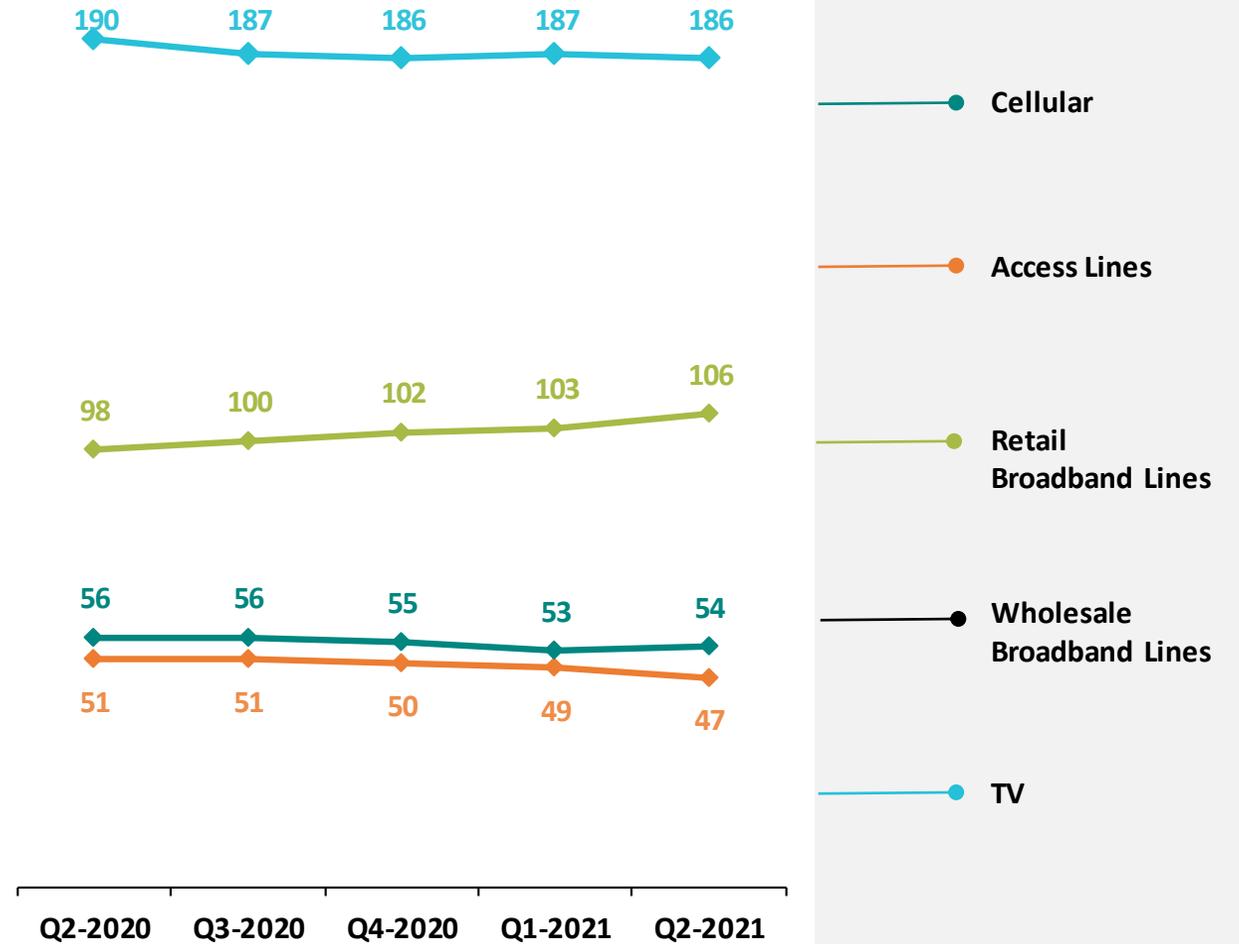


# Bezeq Group - KPIs

## Subscribers (end of quarter, in thousands)



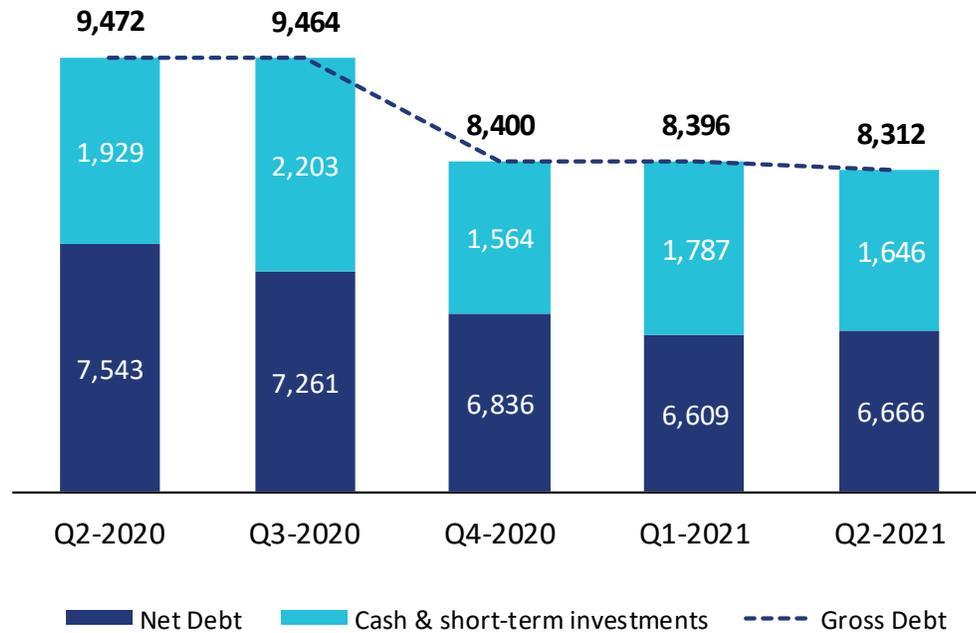
## ARPU (NIS)





# Bezeq Group - Financial Debt | NIS Million

12% y-o-y Decrease in Net Debt



## Continued decrease in net debt

- Decrease of NIS 877 million y-o-y, ~12%

## Further improvement in coverage ratio

- Net debt/EBITDA ratio decreased to 2.0 from 2.3 in Q2-20

## Israeli debt ratings

Rating Agency	Rating	Outlook
S&P Global Maalot	-ilAA	Stable
Midroog	Aa3.il	Stable



# Bezeq Group - 2021 Outlook

As of the date of publishing the Q2-21 report, there is no change to the Bezeq Group's outlook for 2021, as published in the Company's periodic report for the year 2020. We continue to expect:

	Updated Outlook
Adjusted net profit attributable to shareholders <sup>1</sup>	NIS 1.0 billion
Adjusted EBITDA <sup>1</sup>	NIS 3.5 billion
CAPEX <sup>2</sup>	NIS 1.7 billion

The Company shall report, as required, deviations of more/less than 10% of the amounts stated in the outlook

1) Adjusted net profit and Adjusted EBITDA – after adjusting for other operating expenses/income, net, one-time losses/gains from impairment/increase in value of assets and stock based compensation. Adjusted EBITDA and Adjusted Net Profit in 2020 were NIS 3.66 billion and NIS 1.14 billion, respectively.

2) CAPEX - gross payments for investments in fixed and intangible assets. CAPEX in 2020 amounted to NIS 1.5 billion

The Company's forecasts in this section are forward-looking information, as defined in the Securities Law. The forecasts are based on the Company's estimates, assumptions and expectations.

The Group's forecasts are based, among other things, on its estimates regarding the structure of competition in the telecommunications market and regulation in this sector, the economic situation and accordingly, the Group's ability to implement its plans in 2021. Actual results may differ from these estimates taking note of changes that may occur in the foregoing, in business conditions, and the effects of regulatory decisions, technology changes and developments in the structure of the telecommunications market, and so forth, or the realization of one or more of the risk factors listed in the Periodic Report of 2020. In addition, there is no certainty that the outlook will be fully or partially fulfilled, among other things, due to the COVID-19 pandemic and the resulting uncertainty.

A young girl with long brown hair is wearing large, pink over-ear headphones and is smiling while looking at a tablet computer. She is wearing a blue and white patterned top. In the background, a man and a woman are sitting on a light-colored sofa, looking down at their own devices. The man is wearing a blue long-sleeved shirt and jeans, and the woman is wearing a grey and white striped long-sleeved shirt and blue jeans. The scene is set in a bright, indoor environment with light-colored walls and a window with white curtains in the background.

# Bezeq Fixed Line



# Bezeq Fixed-Line – Q2-2021 Highlights

- Stable revenues y-o-y, despite 11.2% decrease in telephony revenues
- Stable revenues from broadband Internet services due to growth in retail subscribers for the fifth consecutive quarter and ARPU offset by the decrease in wholesale tariffs and subscribers
- Continued **robust sales of equipment** led to increased retail broadband ARPU
- Increase in revenues from the **business sector** - 10.0% increase y-o-y in revenues from transmission and data communications and 8.6% increase y-o-y in revenues from cloud & digital services
- Massive deployment of **fiber** and beginning of customer connections
  - 718K homes passed (ready for connection)
  - On track to reach our target of 1 million homes passed by year-end



# Fiber Deployment Proceeding at Record Pace

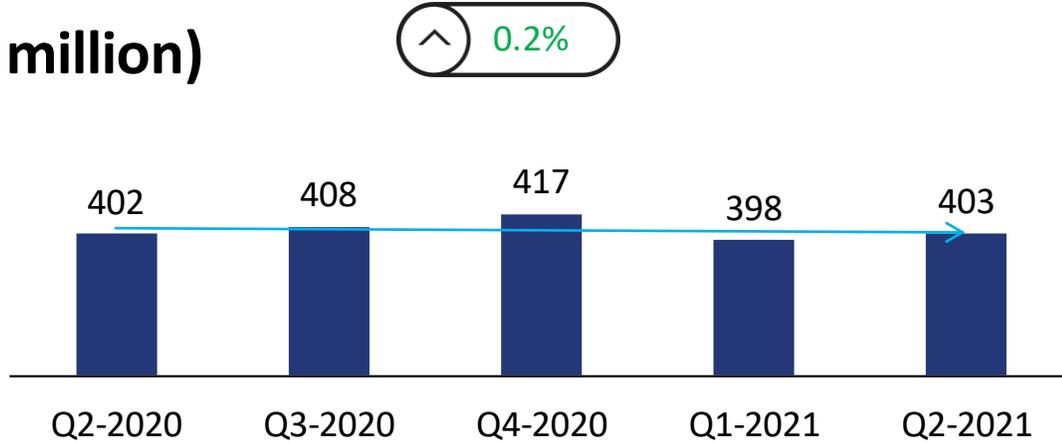
**Homes Passed**  
(Ready for subscriber connections)  
(In thousands)



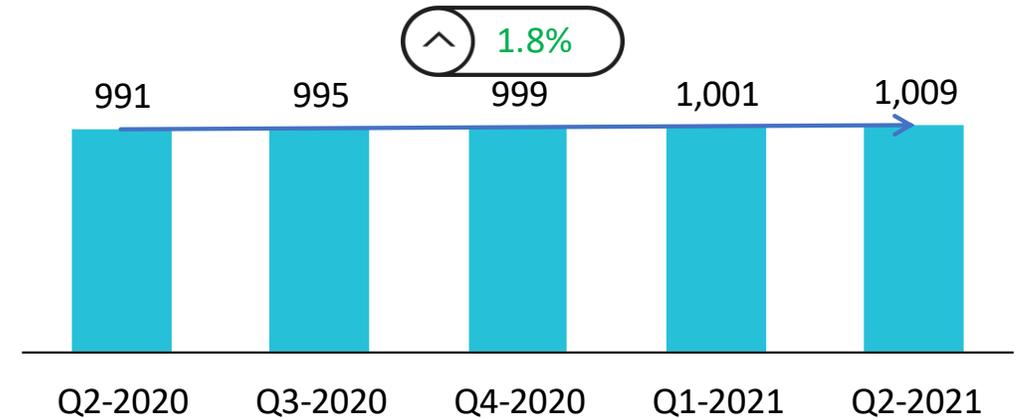


# Bezeq Fixed-Line - Broadband Internet Services

## Revenues from Broadband - Internet Services (NIS million)



## Bezeq Retail Broadband Lines (Thousands)



## Retail ARPU (NIS)



- **Stable revenues** from broadband Internet services y-o-y despite the sharp decrease in wholesale tariffs
- Continued growth in **broadband Internet retail lines** for the fifth consecutive quarter
- Unprecedented **growth** in broadband Internet retail **ARPU**, impacted by the deployment of fiber and accelerated sales of equipment (BE router, Bspot, Be Mesh)
- Launch of **2.5 Gbs** plan in Q2-21

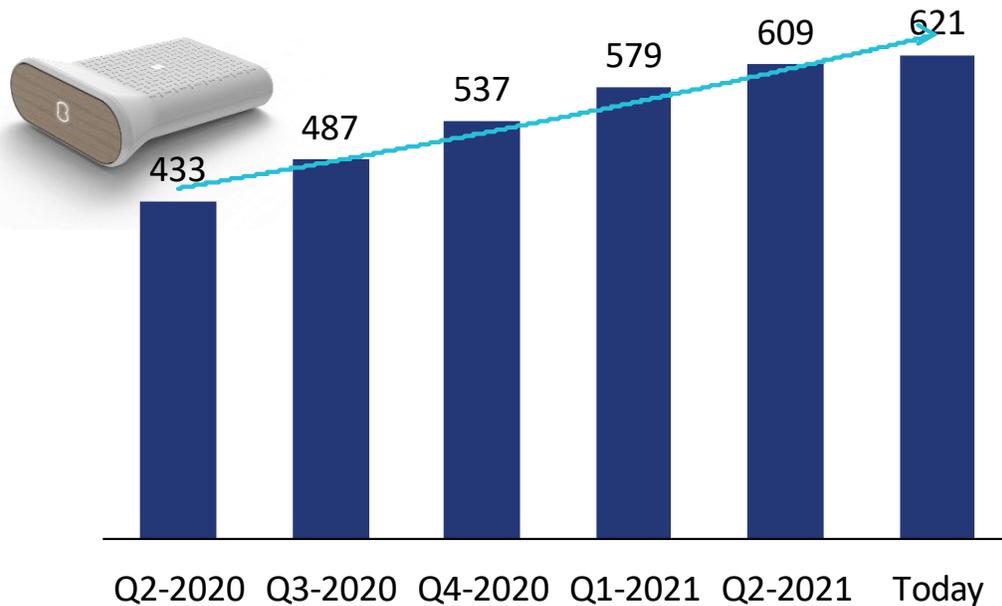


# Bezeq Fixed-Line - Full WiFi Differentiation

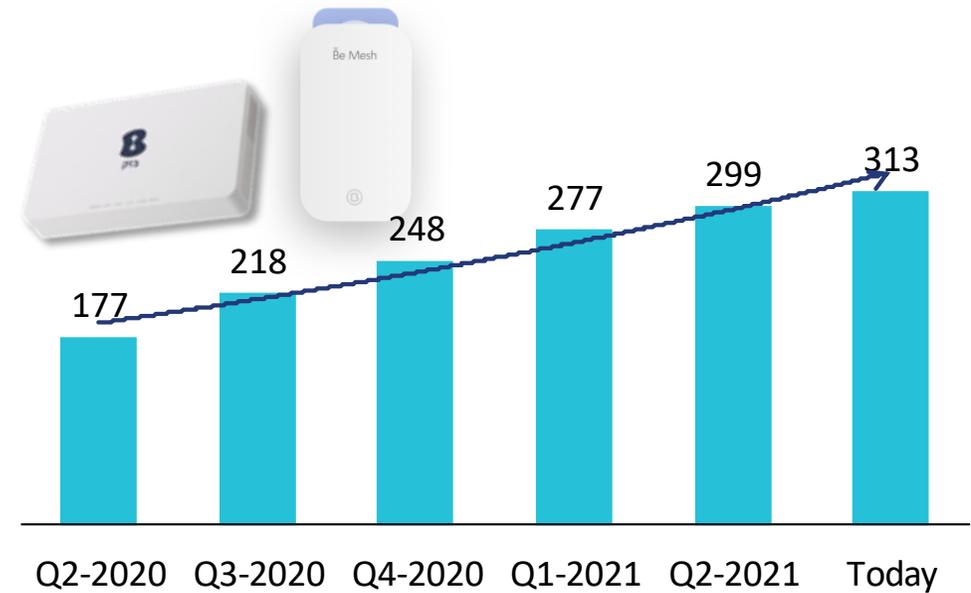
with High Quality Broadband Internet at Home

- Improved broadband experience and customer retention through BE router and Bspot/Be Mesh services
- Launch of advanced Be Fiber router in Q2-21

## Customers with BE router (in thousands)



## Customers with BSPOT and MESH (in thousands)

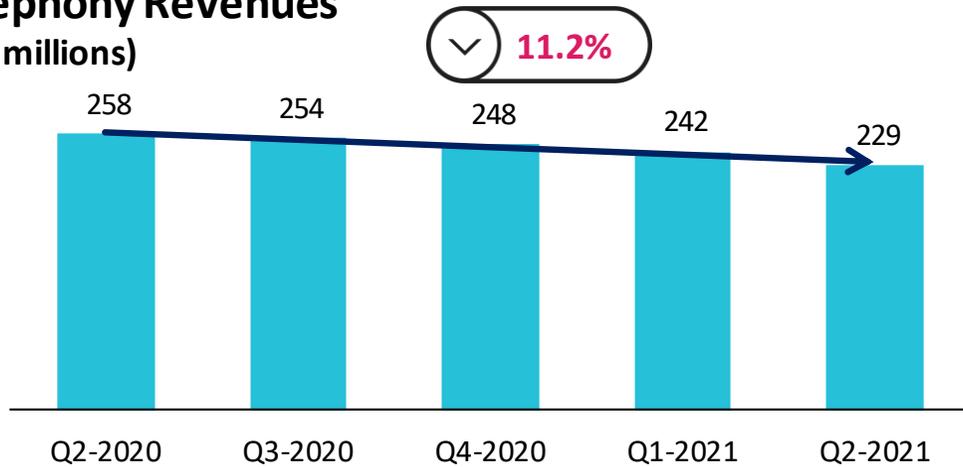


~62% of the Company's retail customers choose to connect via the BE router

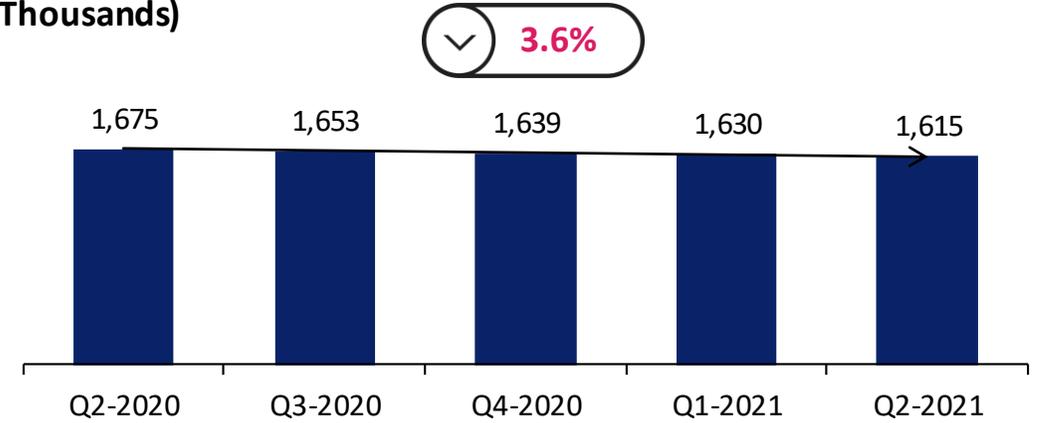


# Bezeq Fixed-Line - Telephony Services

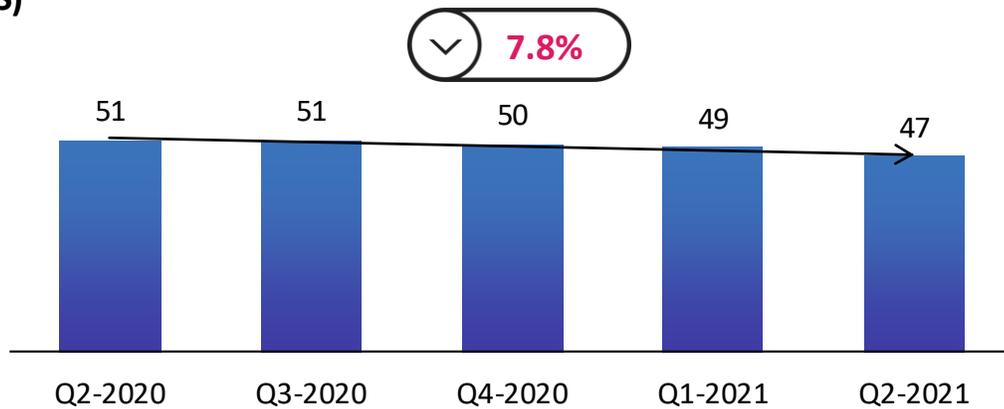
### Telephony Revenues (NIS millions)



### Access Lines (Thousands)



### Telephony ARPL (NIS)

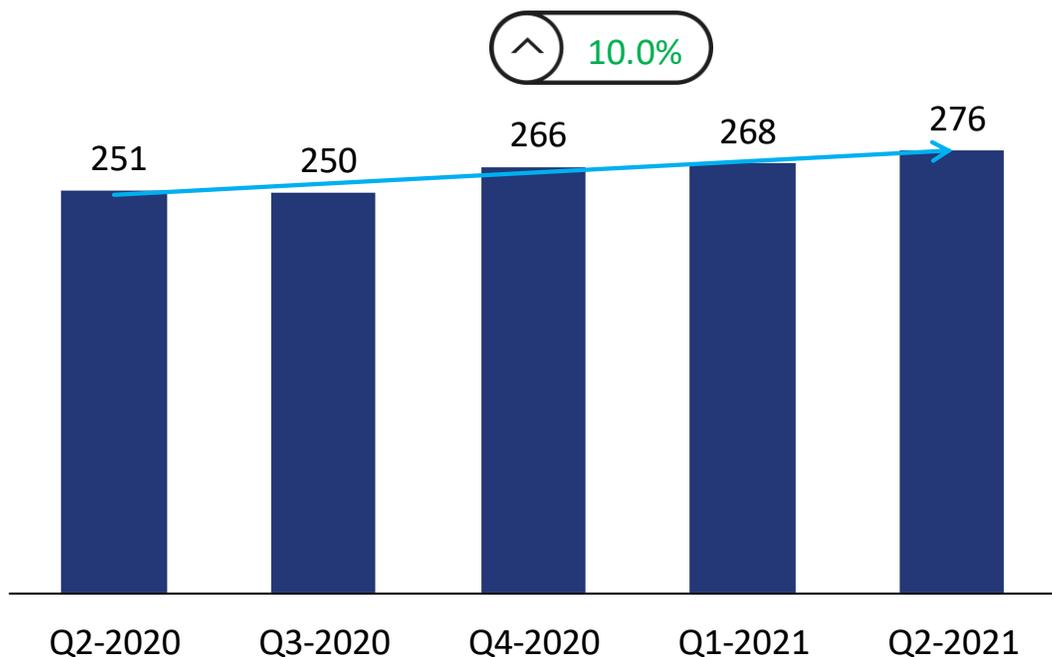


- Lower telephony revenues in Q2-2021 due to lower impact of COVID-19



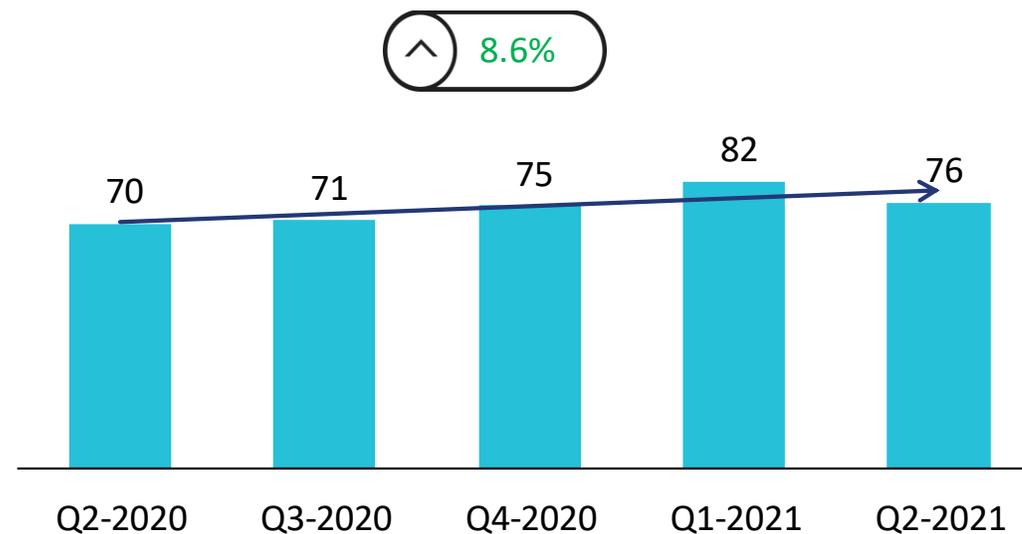
# Bezeq Fixed-Line - Revenues from Transmission and Data Communications and Cloud & Digital Services | NIS Million

## Transmission & Data



- Increase in revenues from transmission services for ISPs and business customers

## Cloud & Digital Services



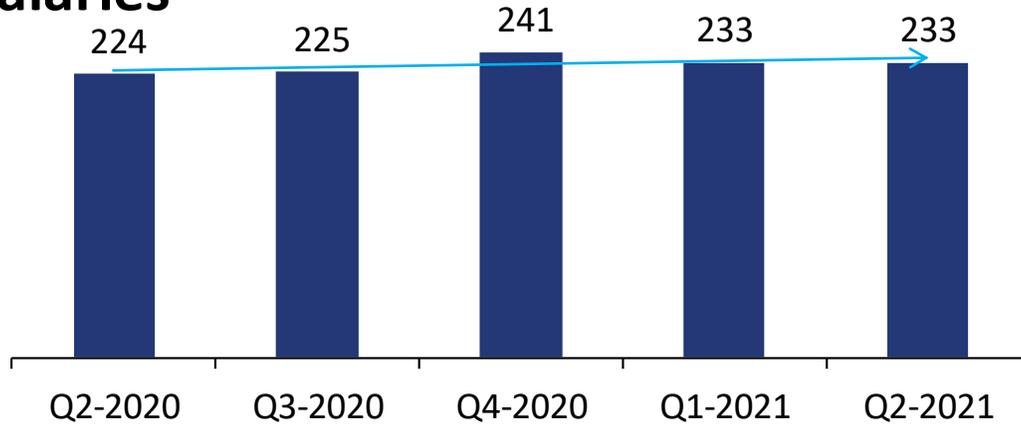
- Increase in revenues from virtual exchanges and business directory services



# Bezeq Fixed-Line – Key Financial Metrics | NIS million

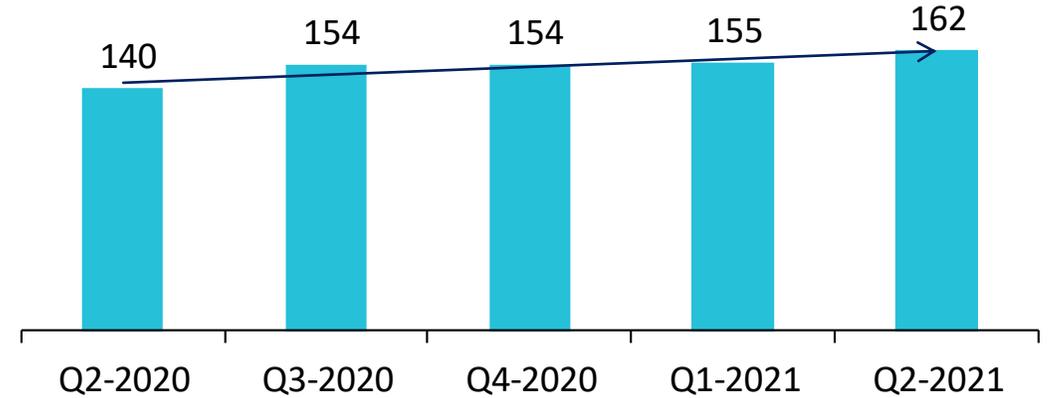
4.0%

## Salaries



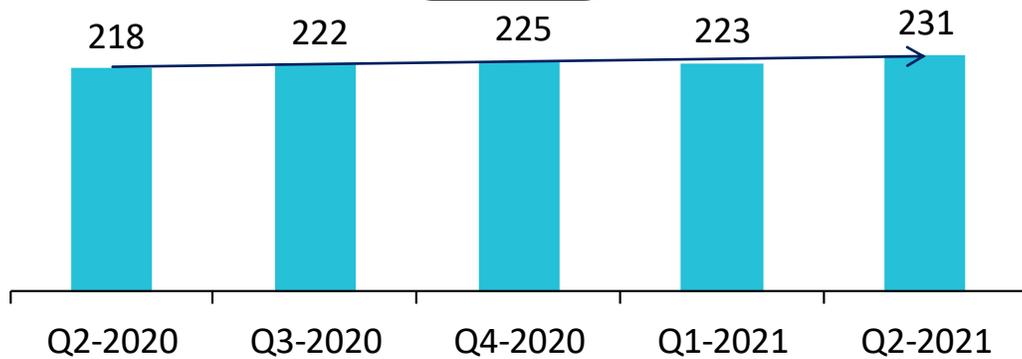
## Operating Expenses

15.7%



## Depreciation

6.0%



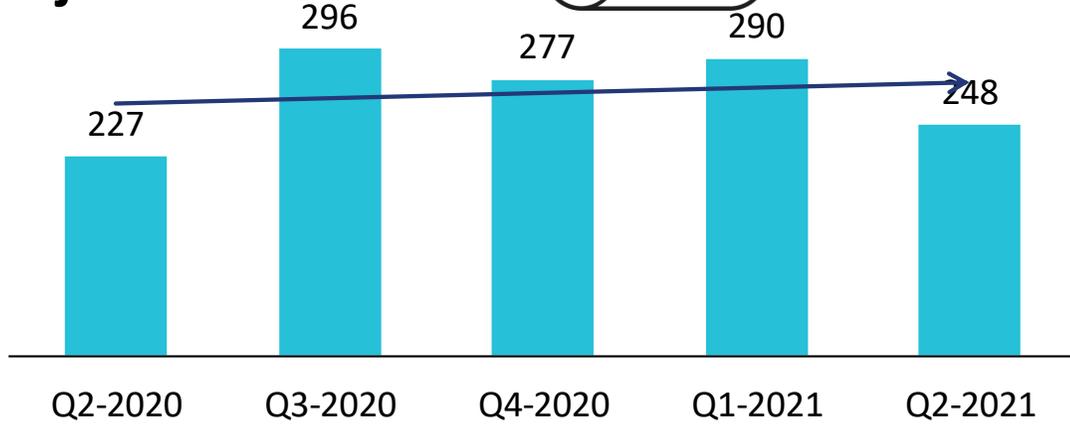
- **Salary expenses** in Q2-21 included recognition of stock-based compensation of NIS 5 million
- **Operating expenses** in Q2-21 were impacted by the recognition of expenses of NIS 10 million for the universal fund for fiber deployment, COVID-19 impact in Q2-20 and the deployment of fiber in the current quarter



# Bezeq Fixed-Line - Key Financial Metrics | NIS Million

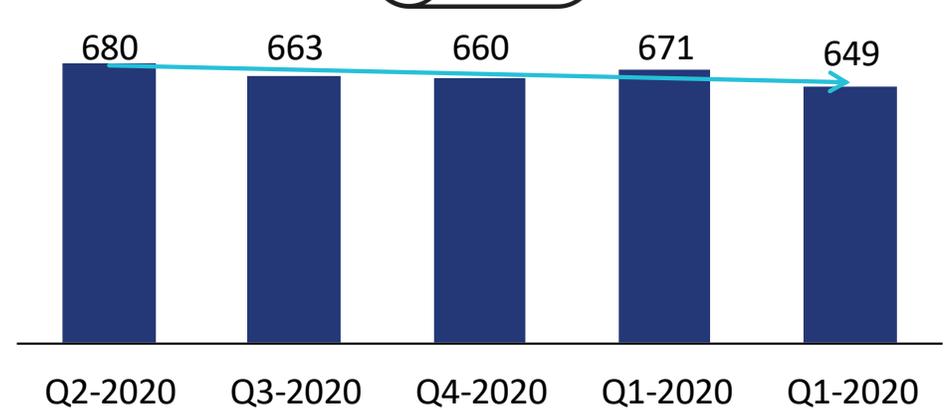
## Adjusted Net Profit\*

8.9%



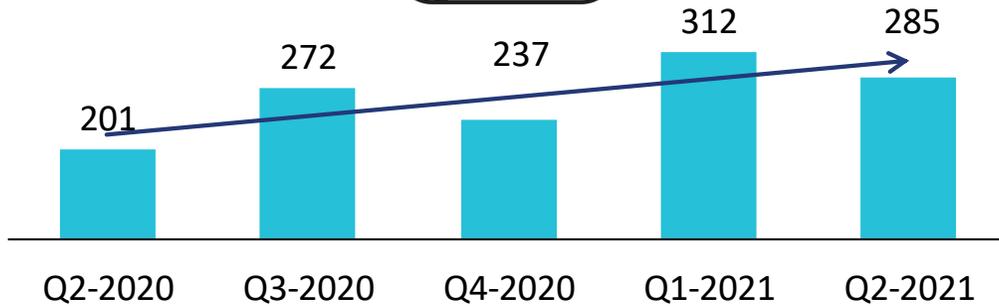
## Adjusted EBITDA\*

4.6%



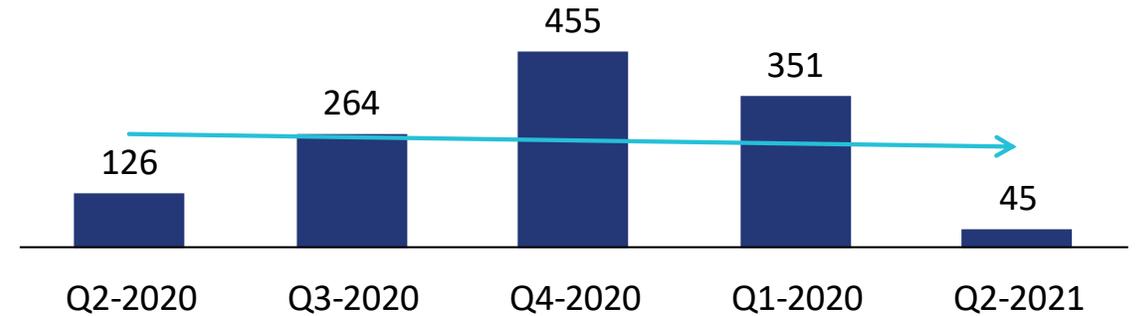
## Gross Capex

41.8%



## Free Cash Flow

64.3%



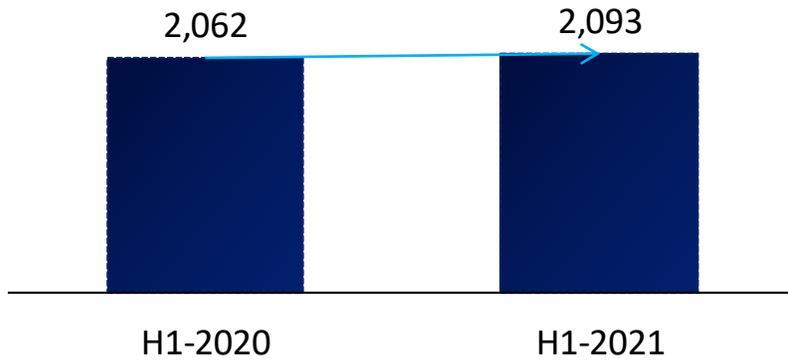
- FCF in Q2-21 was impacted by increased Capex due to fiber deployment and payment of one-time grant to employees



# Bezeq Fixed-Line – Key Financial Metrics (H1-2021) | NIS million

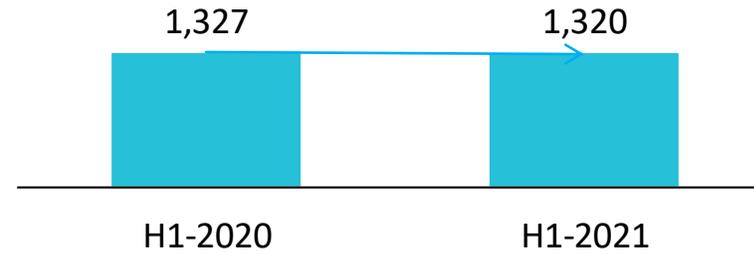
## Revenues

↑ 1.5%



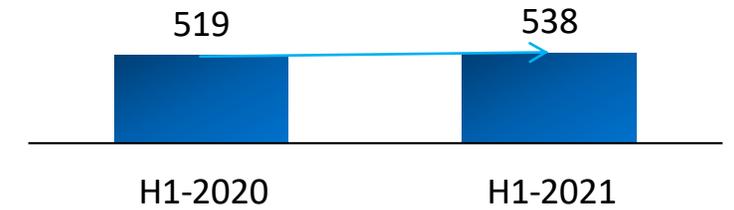
## Adjusted EBITDA\*

↓ 0.5%



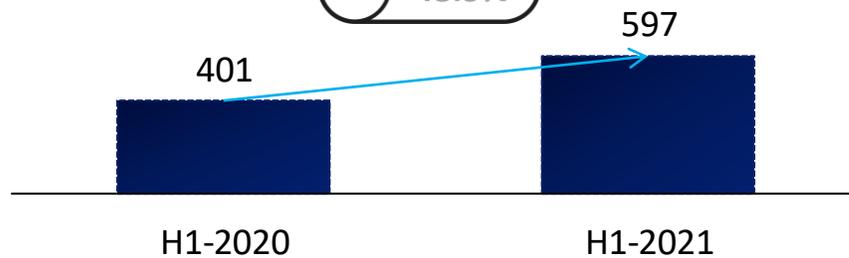
## Adjusted Net Profit\*

↑ 3.7%



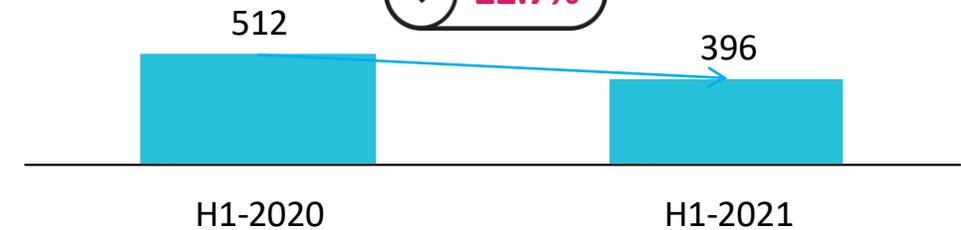
## Gross Capex

↑ 48.9%



## Free Cash Flow

↓ 22.7%





# Bezeq Fixed-Line - Summary



**Growth in retail broadband Internet revenues driven by increase in retail subscribers and ARPU**



**Success in sales of BE router and Wifi enhancers**



**Launch of nationwide deployment of fiber**



**Leading operations in business sector**

**Accelerated fiber deployment together with high quality service reflects potential for continued growth and strengthening of Bezeq's position in the residential broadband Internet market**

# Subsidiary Companies ("Project Alpha")



Bezeq International

yes.



Pelephone



ISP



TV



Mobile

# Subsidiary Companies – Q2 2021 Highlights

✓ All three companies posted subscriber growth



✓ **yes** – Positive free cash flow of NIS 20 million in H1-2021



✓ **33%** of **yes** customers watching TV through IP broadcasting



✓ Continued streamlining in employee headcount pursuant to collective agreements



✓ Increase in number of **Pelephone** subscribers in 5G network plans



✓ Launch of FIBER+ plans over fiber network in **Bezeq International**



✓ Growth in **Bezeq International's** business and data operations



# Subsidiary Companies - The First Stage (2019-2021)

## Steps Taken

- Reduced headcount by 1,400 employees in the last 2.5 years (Dec 2018 – June 2021) through 45% reduction in senior management positions (including those reporting to senior management)
- Lowered operating expenses through joint procurement for all three companies and savings in real estate

## Future Steps Planned

- Transition to one new CRM system – sales and services to customers through a wider approach (including triple play); savings in future investments and costs of support



# Subsidiary Companies - Marching on to Next Generation Technologies

**5G  
Mobile**



**Internet  
over Fiber  
Optics**

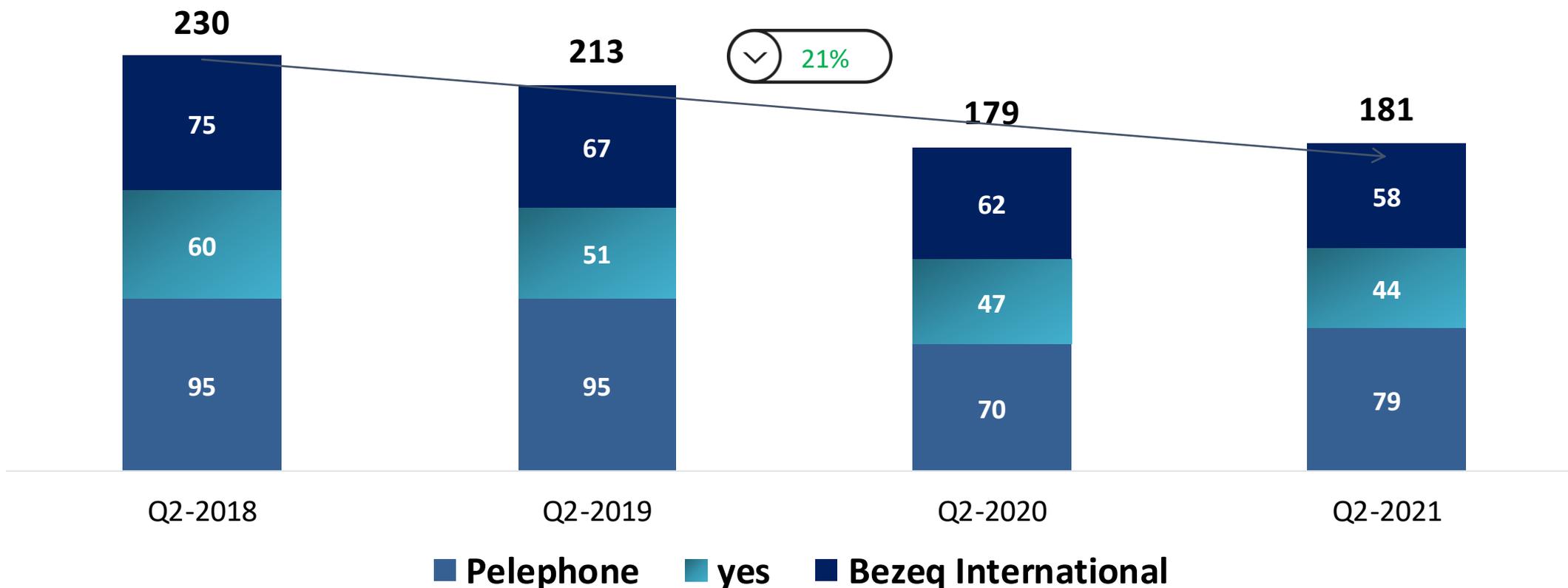


**IP  
Broadcasting**



**New Generations of Technologies in all Subsidiary Companies**

# Subsidiary Companies - 21% Decrease in Salary Expenses\* | NIS million



Streamlining measures led to a 21% y-o-y decrease in salary expenses from Q2-2018 to Q2-2021

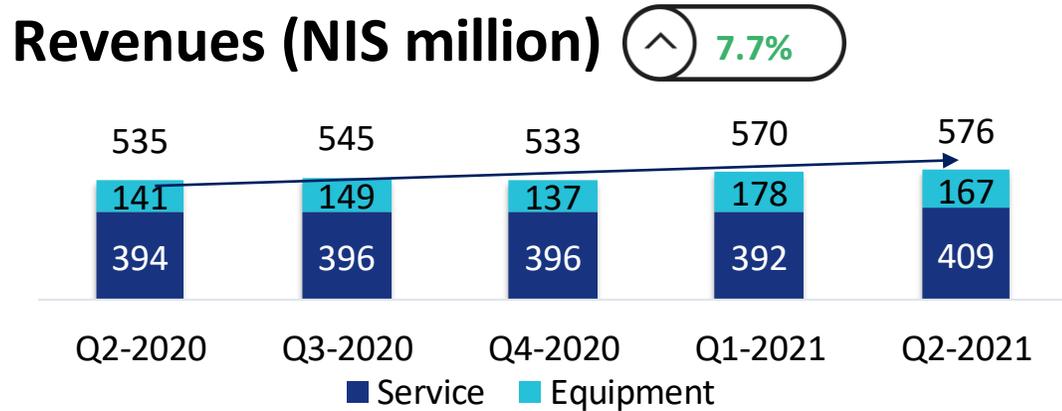
# The Next Generation of Cellular in Israel

- Gradual deployment of 5G network
- Diverse handsets and plans
- Over 400k subscribers today with “5G” plans contributing to increase in ARPU
- Data communications and private broadband networks for businesses and organizations
- Exclusive use of frequencies gives Pelephone a competitive advantage

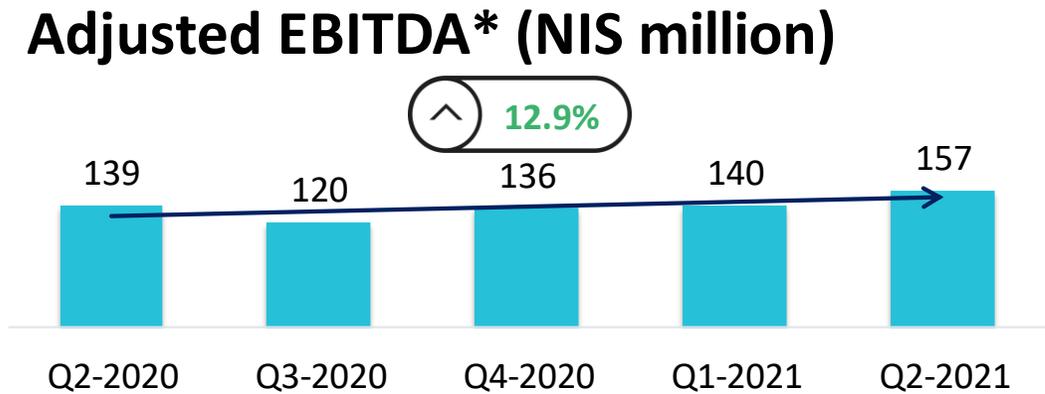


Pelephone was the first company to launch and operate its 5G network in Israel

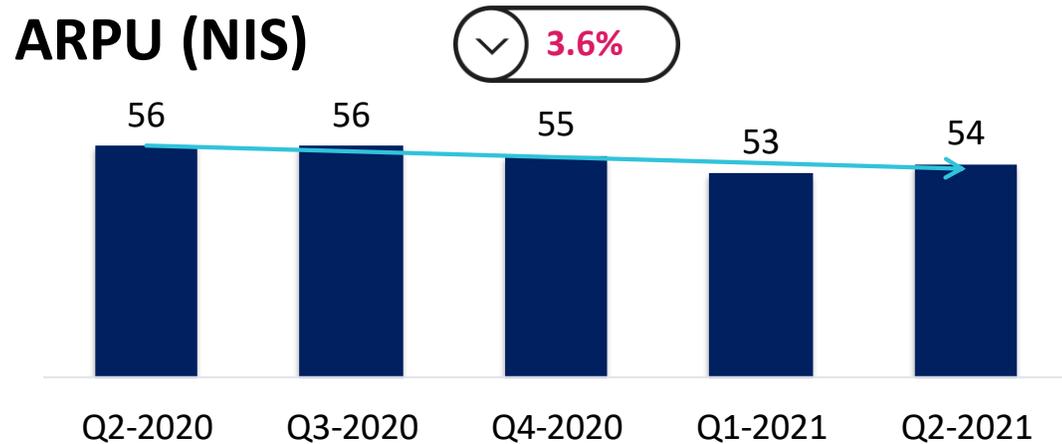
# Pelephone – Key Operational & Financial Metrics



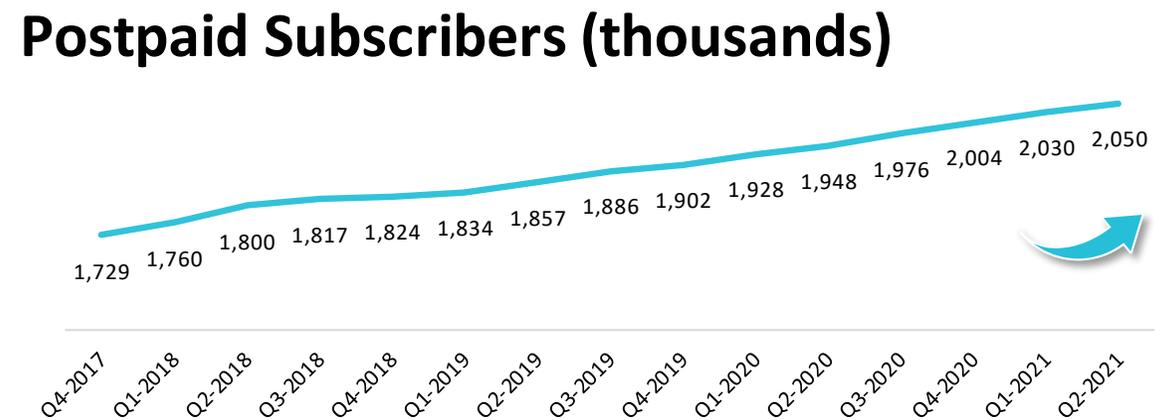
Highest quarterly revenues since 2019



Y-o-Y and q-o-q growth in Adjusted EBITDA



Stable with Q-o-Q growth



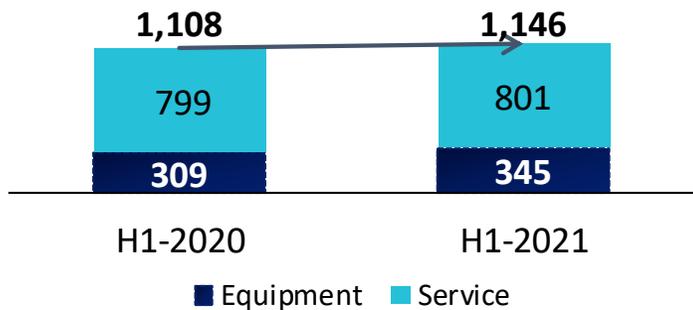
Subscriber growth for the fifth consecutive year moderated revenue decrease



# Pelephone – Key Financial Metrics\* (H1-2021) | NIS million

## Revenues

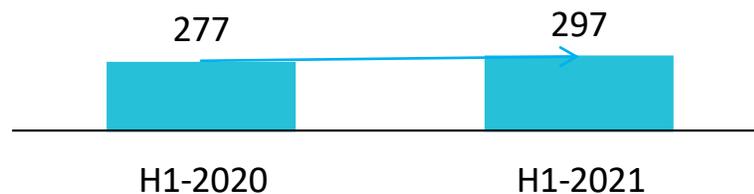
↑ 3.4%



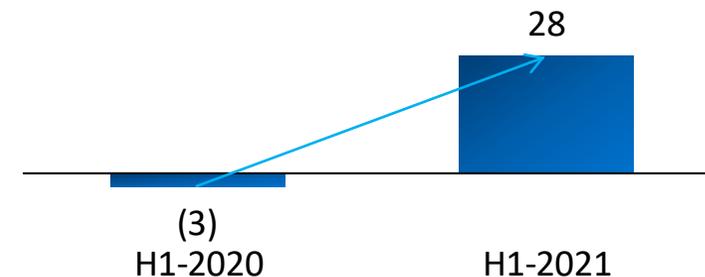
- Equipment revenues increased due to launch of new iPhone
- Service revenues – Increase in roaming revenues and growth in postpaid subscribers, including 5G, partially offset by a decrease in revenues from incoming calls

## Adjusted EBITDA\*

↑ 7.2%

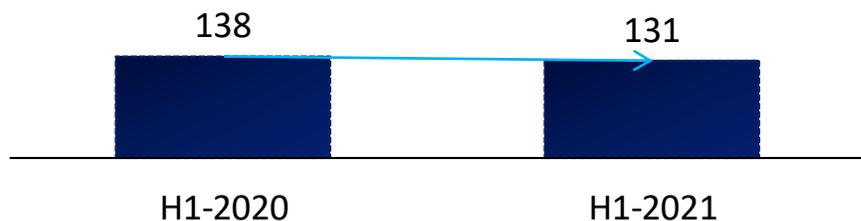


## Adjusted Net Profit\*

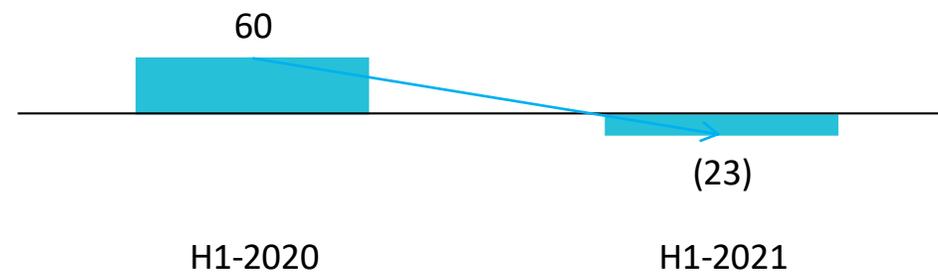


## Gross Capex

↓ 5.1%



## Free Cash Flow



# yes – Continued Subscriber Growth and IP Migration

Improved customer experience along with savings in expenses



Continued subscriber growth



Significant improvement in cash flow with positive cash flow in H1-2021



yes+ LIVE

Groundbreaking technology for watching live broadcasts without delay



33% of yes customers watch TV through IP broadcasting

Leader in original production  
yes continues to lead in production of local content



Savings in transition from expensive set-top boxes to cheaper streamers

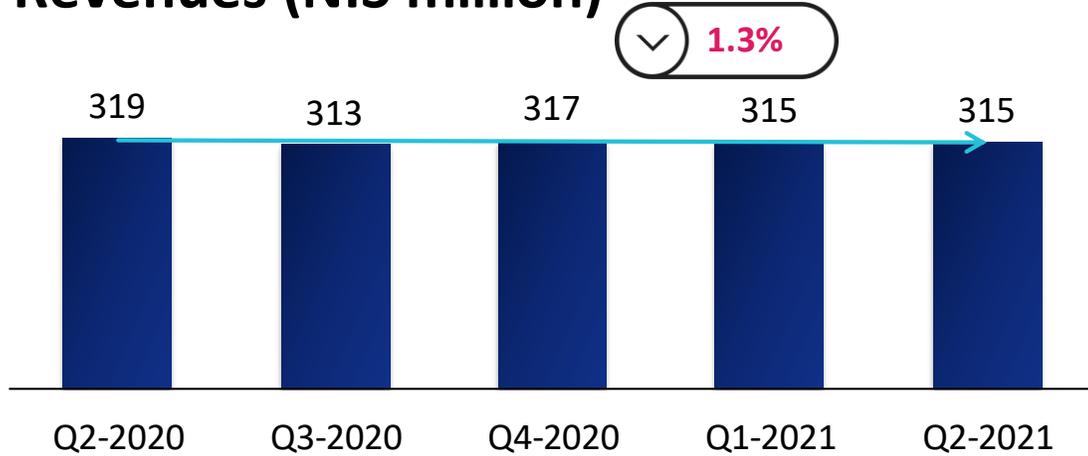


Savings in satellite costs after full transition to IP

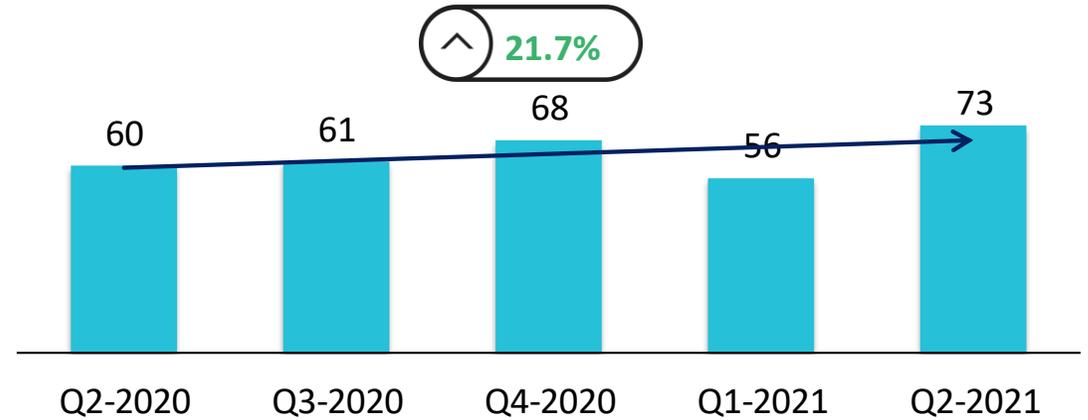


# yes – Key Operational & Financial Metrics

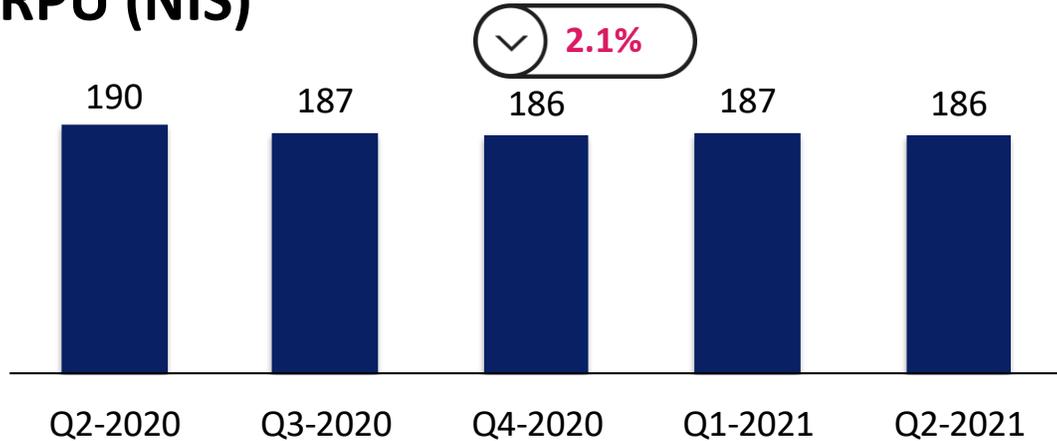
### Revenues (NIS million)



### Adjusted EBITDA\* (NIS million)



### ARPU (NIS)



Stable ARPU over last few quarters

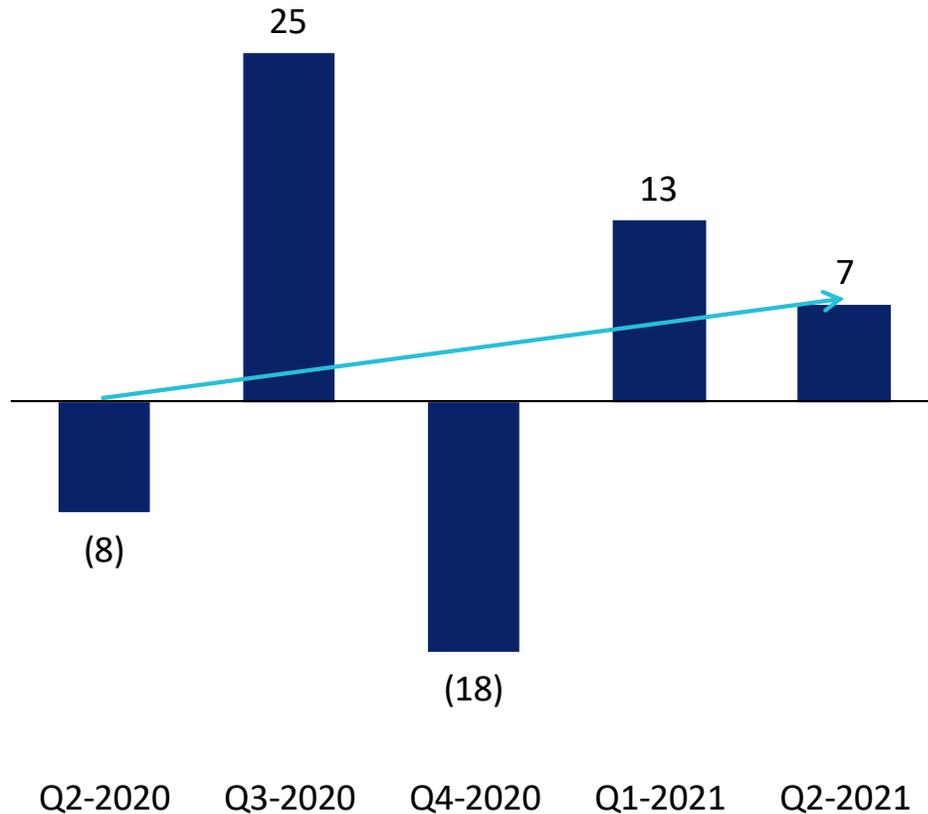
### Subscribers (thousands)



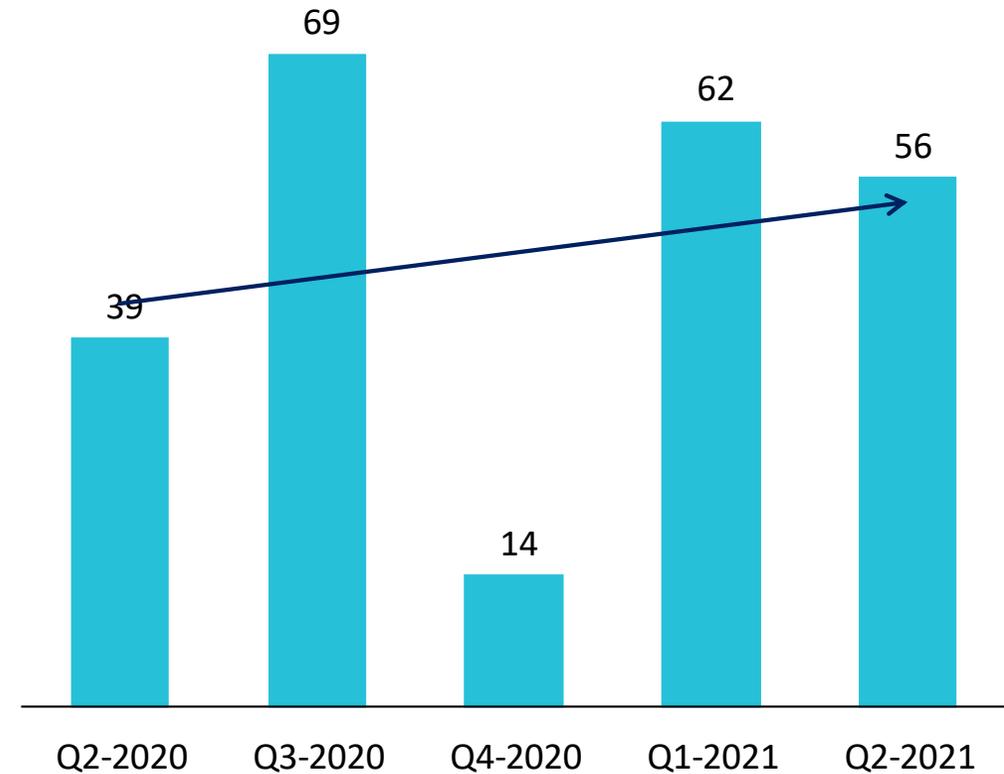
Increase in demand for STING and yes+ led to increase in subscribers

# yes – Significant Improvement in Cash Flow | NIS Million

## Free Cash Flow



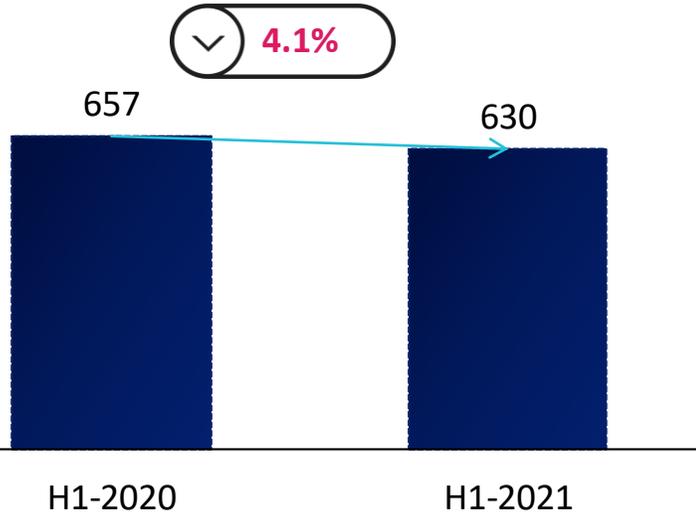
## Operating Cash Flow



After a number of years, yes posts significant improvement in cash flow with positive free cash flow

# yes – Key Financial Metrics\* (H1-2021) | NIS million

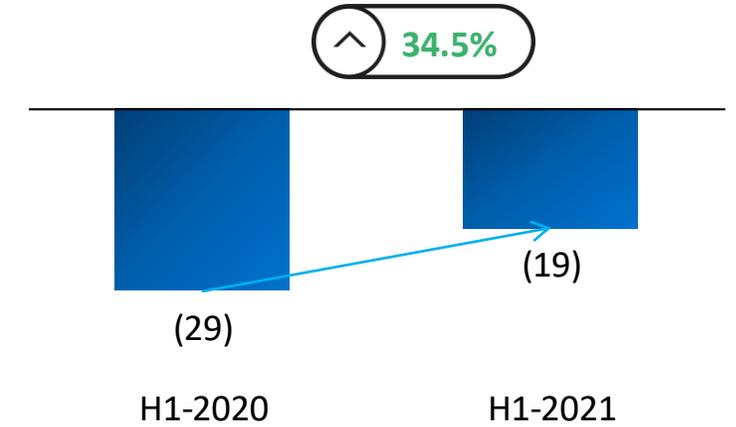
## Revenues



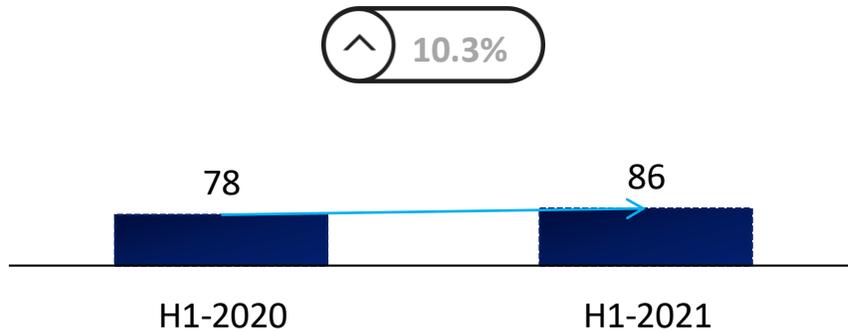
## Adjusted EBITDA\*



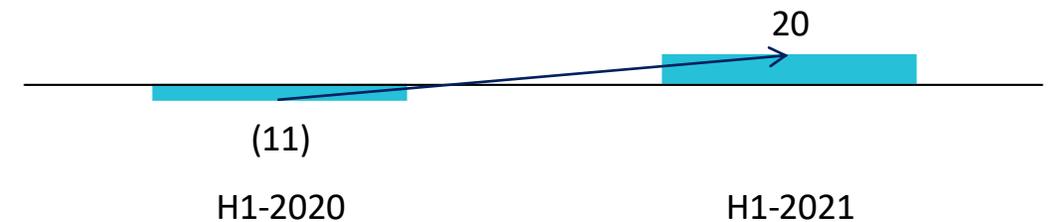
## Adjusted Net Profit\*



## Gross Capex



## Free Cash Flow



# Bezeq International – Leader in Business Solutions – Significant Operator in a Growing Market

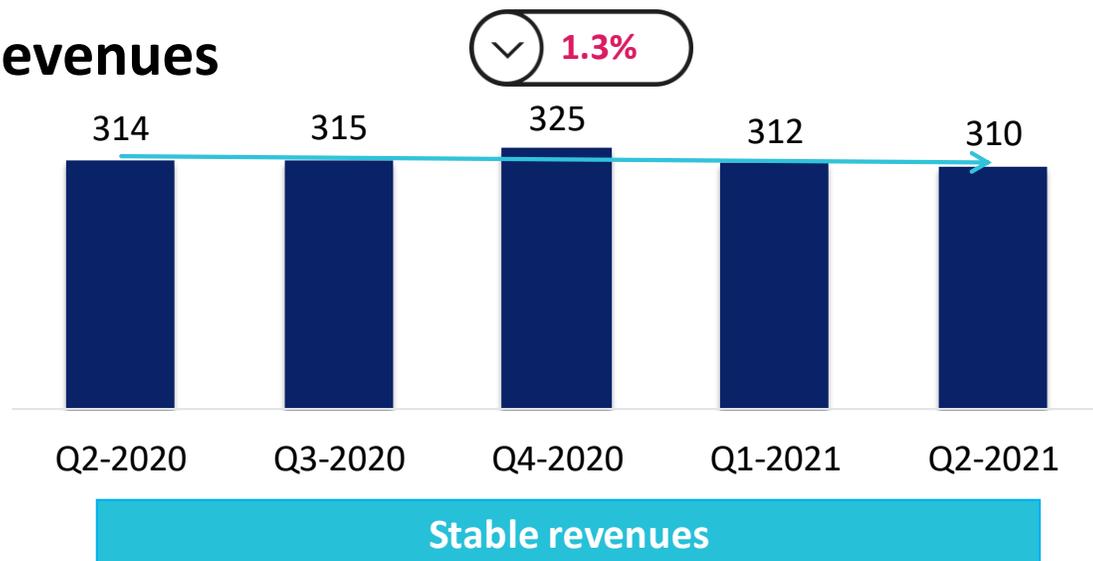
## Wide Range of Business Solutions

- Wide range of data centers in Israel
- Growth in cloud solutions (business applications) and service contracts
- Growth in business and international data services
- Continued expansion through agreements with a wide variety of international business customers
- Winning significant and leading tenders in Israel
- Launch of FIBER+ plans over fiber optics



# Bezeq International – Key Operational & Financial Metrics | NIS Million

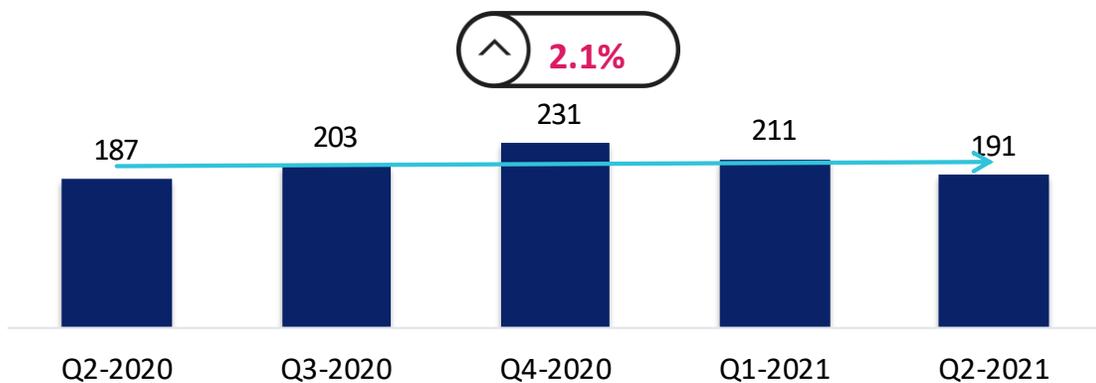
## Revenues



## Adjusted EBITDA\*

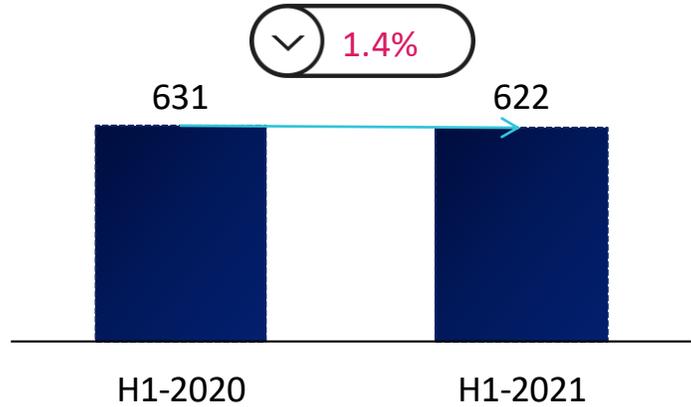


## Operating Expenses (excluding depreciation and other expenses)



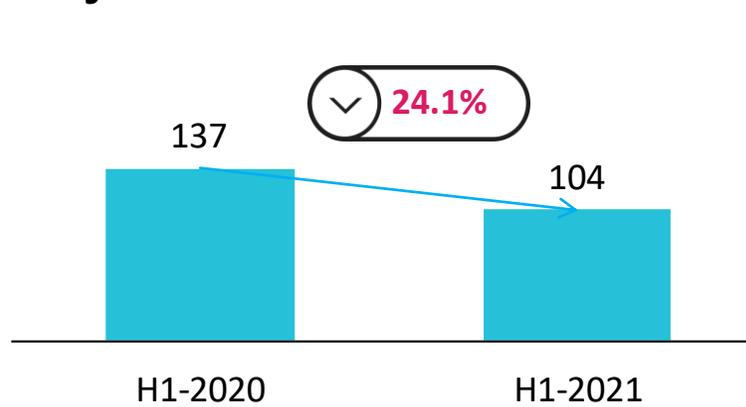
# Bezeq International – Key Financial Metrics\* (Jan-Jun) | NIS million

## Revenues



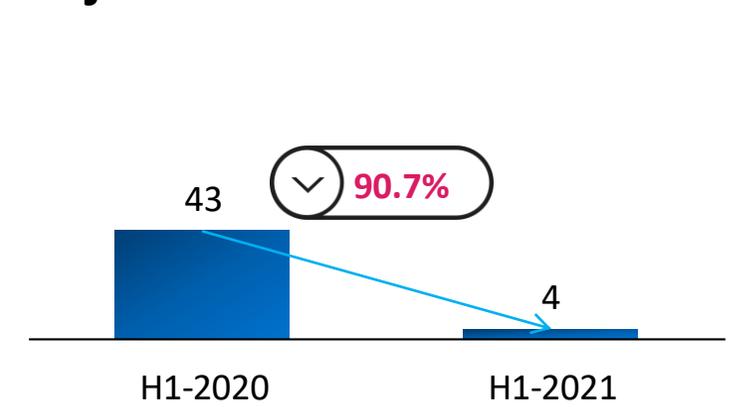
Stable revenues impacted by a decrease in ISP revenues partially offset by an increase in revenues from business services

## Adjusted EBITDA\*

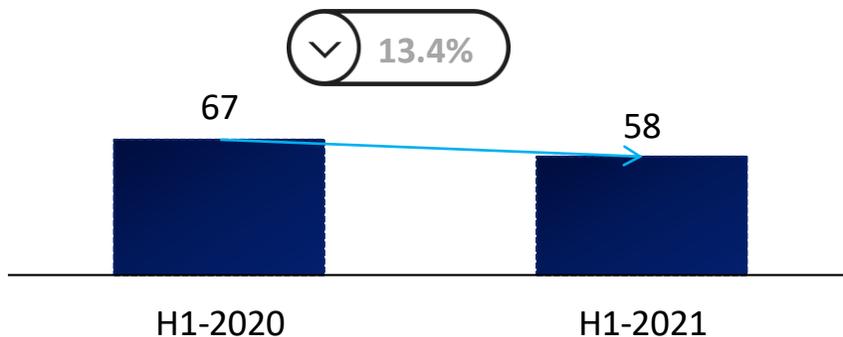


Decrease in ISP profitability and one-time credit in 1H 2020 related to update in wholesale Internet tariffs

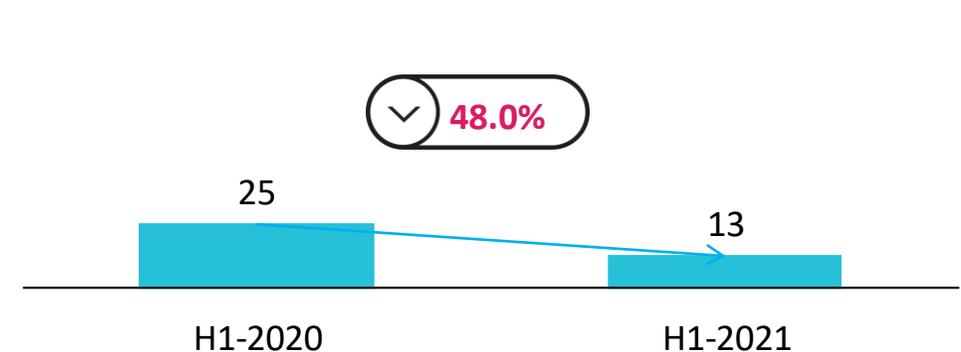
## Adjusted Net Profit\*



## Gross Capex



## Free Cash Flow





# Bezeq Group - Summary



**Strong financial results – increase in revenues and net profit**



**Significant investment in advanced infrastructures**



**Financial strength – significant decrease in net debt**



**Structural change – growth potential and streamlining**



# Thank you

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For more information please visit  
[ir.bezeg.co.il](http://ir.bezeg.co.il)