"Bezeq" The Israel Telecommunication Corp., Ltd.

Event Transcript

Q3 2023 Financial Results

Tuesday, November 14th, 2023, 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 third quarter of 2023, 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 2023 Financial Results

Tobi Fischbein (Bezeq Group CFO): Welcome everyone and thank you for joining us on Bezeq's 2023 third-quarter earnings call. I am Tobi Fischbein, Chief Financial Officer of the Bezeq Group. Joining us from the senior management team, we have Mr. Gil Sharon, Bezeq's Chairman, Mr. Ran Guron, Bezeq's CEO, and Mr. Ilan Sigal, CEO of Pelephone and yes. Before we start, I would like to direct your attention to the Safe Harbor statement on Slide 2 of our Q3-2023 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. After presenting our quarterly results, we will have a Q&A session. Given the current situation in Israel, if a siren is activated, please do not disconnect from the call. We will take a 10-minute break to move to a safe room and then return to the webcast.

I would also like to use this opportunity to thank Gil for all his dedicated and hard work. Gil has been with us for the last three years, bringing us back to growth, leaving us with a sound group strategy, with excellent results and significant potential ahead of us. We wish you all the best and success in your future endeavors. With that said, let me now turn the call over to Gil, for his opening remarks. After his introduction, I will continue the presentation of our group financial highlights, followed by Ran, who will discuss Bezeq Fixed Line results, and Ilan who will cover the results from Pelephone and yes.

Gil Sharon (Bezeq Group Chairman): Thank you, Tobi. First, I would like to thank all Bezeq Group employees for their courage and dedication to ensure the continuity of communication services to everyone all over the country since the beginning of the war. We provide essential services, which are especially vital in emergency times, and I am extremely proud of how quickly our employees mobilized, and at times put themselves at risk, to strengthen our network and support not only our customers, but also security and rescue forces. Furthermore, I recently announced my intention to resign in a few months, after ensuring a smooth transition. I am very grateful for my time as Chairman of the Group, during which we successfully implemented a growth strategy that led to strong business results and consistent growth in revenue and profits. I thank each and every one of my colleagues from the board of directors, the management team, and employees, for their excellent teamwork, commitment, and support. Your efforts are the key to our success, and I am proud to have led this talented team.

Now, let's discuss our third quarter results, beginning on **Slide 3**. We again showed strong execution on our growth drivers with robust fiber take-up in Bezeq Fixed-Line and yes, as well as consistent growth in 5G subscriber plans in Pelephone. As a result, we saw stable revenues despite the MOC decrease in telephony tariffs, along with higher Adjusted Net Profit and Adjusted EBITDA. Sustainability continues to be a top priority for us, and in the quarter, we published our fourth consecutive annual ESG report, which now also includes our key subsidiaries.

On **the following slide**, we address the impact of the war on the Group. Thus far, the effects of the war have not had a material impact on the group's activities and business results. However, the consequences of the war are still unpredictable and depend on its scope and duration, which may change our current assessment. At this point, we are seeing higher demand in the business sector for projects and remote connections and an increase in internet traffic and fixed-line telephony usage, with a short-term decline in customer churn and savings in operating expenses. On the negative side, we see a decrease in roaming activity and sales of mobile handsets at Pelephone. We also expect a short-term decrease in the pace of fiber deployment and the waiver of charges to evacuated residents. Our exposures to foreign currency and the CPI are hedged in accordance with company policy. We are closely monitoring the situation and will update our assessment as developments occur.

On **the following slide**, we show our technology and business roadmap and the progress achieved thus far. In fiber, today we have over 2 million homes passed, already surpassing our 2023 target, total take-up of 532 thousand fiber subscribers on our network, representing a 26.4% penetration rate. In the midterm, our goal is to reach 2.7 million homes, about 85% of Israeli households. In Pelephone, 5G subscribers reached approximately 1 million, representing 38% of total subscribers, which contributed to a 14% increase in service revenues compared to Q4-2020. In the midterm, we expect 5G users to reach 80% of all subscribers as we continue to provide excellent value for our customers.

In yes, our total IPTV subscribers reached 383 thousand, or 67% of total subscribers. We remain the largest Israeli IPTV operator, and we expect roughly all our yes subscribers to migrate to IP in the midterm, leading to significant opex and capex savings.

On the next slide, we present the Group’s financial highlights for the third quarter that show that in addition to growth in Adjusted EBITDA and Adjusted Net Profit, free cash flow significantly increased to NIS 406 million, and we continued to decrease Net Debt.

Turning to **the next slide,** the Group's operational highlights for the third quarter showed strong results across the board. For Bezeq Fixed-Line, fiber net adds were 82 thousand, with 40% growth year-over-year in fiber deployment. Additionally, retail Internet ARPU reached 124 shekels, an increase of 2 shekels compared to the previous quarter and 8 shekels compared to the corresponding quarter. For Pelephone, cellular service ARPU, excluding interconnect fees, grew by 4.4% to reach 47 shekels, with cellular service revenue, excluding interconnect fees, increasing by 2.8% to 371 million

shekels for the quarter. For yes, total TV subscribers and ARPU remained stable compared to the corresponding quarter, despite the competitive market. All companies in the Group remain focused on their core activities and are actively leading growth initiatives. Despite the war, we continue to invest in the infrastructure and services we provide, with a long-term vision to continue to lead the telecom market in Israel.
Now let me turn the call over to Tobi to discuss the financial results in more detail.

Tobi Fischbein: Thank you, Gil. The **next slide** shows the Group's key financial metrics for the third quarter. Revenues were stable despite the second tranche of the MOC telephony reform in Bezeq Fixed-Line and the decrease in Pelephone interconnect revenues. Adjusted EBITDA rose 2.9% to 974 million shekels and Adjusted Net Profit grew 13.7% to 357 million shekels due to lower operating and financial expenses. Free Cash Flow significantly improved to 406 million shekels for the quarter, due to timing differences in working capital.

Turning to the **next slide**, for a comparison of the first nine months results. Revenues, Adjusted EBITDA and Adjusted Net Profit all grew compared to the corresponding period. Revenue growth was driven by increases of 2.3% in Bezeq Fixed-Line and 4.9% in yes.

Moving to the **next slide** where we show the key operational metrics for the past five quarters. On the subscriber side, we saw growth in retail internet subscribers, as well as Pelephone subscribers, which grew by 25,000, the strongest quarterly growth in the last year. On the ARPU side of the slide, retail internet ARPU grew by 2 shekels, or 6.9%. Cellular ARPU, excluding interconnect fees, also rose by 2 shekels due to an increase in roaming and the transition to 5G plans. The decrease in telephony ARPL is due to the second tranche of the MOC tariff reduction.

Turning to the **next slide,** we address our continued effort to reducing debt and maintaining a strong balance sheet. Net debt decreased by over 600 million shekels for the quarter, or 11% year-over-year to 5 billion shekels. The Group's net debt to EBITDA ratio decreased from 1.7 times a year ago, to 1.5 times as of September 30th.

Moving to the **next slide** – We would like to reiterate our guidance, which remains unchanged from the previous quarter, when we updated our expected Adjusted Net Profit from 1.2 billion shekels to 1.32 billion shekels for the full year of 2023. We have already reached our target of 2 million homes passed by the end of October. I will now turn the call over to Ran, who will share more detailed results from our Fixed-Line operations.

Ran Guron (CEO Bezeq Fixed-Line): Thank you, Tobi. In the third quarter, revenues were stable with growth in internet services and cloud & digital, offset by a decrease in telephony revenues due to the MOC tariff reduction. Adjusted Net Profit grew 6.3% to 252 million shekels on lower operating and financing expenses. Fiber net adds were 82 thousand, and the number of homes passed reached over 2 million with take-up of 532 thousand fiber subscribers as of today.

The next slide details the financial highlights for Bezeq Fixed-Line. Despite the decrease in telephony revenues, Adjusted EBITDA was slightly up. The significant improvement in Free Cash Flow – a 190% increase to 310 million shekels, was mainly driven by timing differences in working capital.

On the **next slide,** we highlight our results for the first nine months of the year, which are positive across the board and show the same trends that we saw for the quarter.

The **following slide** shows our achievements in broadband internet as we reached revenues of 489 million shekels in the third quarter, representing an 8.2% increase year-over-year. Retail Broadband Lines increased slightly year-over-year, and internet ARPU increased by 6.9% to 124 shekels due to continued growth in fiber customer take-up.

The next slide details our fiber take-up, which reflect another strong quarter both in retail and wholesale. On the retail side, the acceleration plan implemented in the second half of 2022 to improve take-up is clearly working. In the third quarter of 2023, we achieved 46 thousand net adds, pushing total retail fiber take-up to 335 thousand as of the end of the quarter and 350 thousand today. On the wholesale side, our IRU agreement with Partner, which began in Q1 this year, continues to accelerate our wholesale take-up with 36 thousand net adds for the quarter for a total of 182 thousand subscribers as of today.

In the following slide, we can see that by the end of Q3-2023, we passed over 1.9 million homes, and as of today, we passed over 2 million homes, meeting the target we set in our guidance for the full year. Fiber Net Adds totaled 82 thousand in the third quarter, and total Fiber take-up reached a total of 532 thousand subscribers as of today.

Moving forward to the **next slide**, Cloud & Digital revenues grew by 4.8% year-over-year driven by growth in virtual exchange services, while Transmission & Data revenues grew by 2.5%. The second stage of MOC tariff reductions impacted telephony revenues, while timing differences in infrastructure projects led to the decrease in other revenues.

On the **operating expenses slide**, salaries were up slightly mainly due to salary updates and employee recruitment relating to the fiber project. Operating expenses decreased year-over-year due to lower interconnect payments to operators and the cancellation of payments to the universal fund for 2023, following an MOC industry-wide decision. Other expenses were up due to a one-time provision of 75 million shekels for a special grant to employees pursuant to an amendment to the labor agreement.

Moving to the **next slide**. To summarize, we had another strong quarter in Fixed-Line. The acceleration plan continues to bring gains with growing retail fiber take-up, which drove ARPU growth. Higher broadband and business sector revenues contributed to offset the impact of the MOC telephony tariff reduction. With that, I'll now turn the call to Ilan to discuss Pelephone and yes.

Ilan Sigal (CEO Pelephone and yes): Thanks, Ran. Pelephone posted its highest quarterly revenues from services excluding interconnect since 2017, with 2.8% growth driven by an increase in postpaid customers and 5G subscriber plans, contributing to the 2-shekel increase in ARPU. In addition, we recently acquired Roamability, a company specializing in providing solutions in the global roaming market through the ESIM technology.

On the **next slide,** we show our continued turnaround in service revenues excluding interconnect fees, which totaled 371 million shekels, compared to 361 million shekels in Q3-2022, and 280 million shekels in Q3-2020.

The **next slide** shows Pelephone's financial highlights in more detail. Adjusted Net Profit was impacted by lower interest income from the parent company, while Free Cash Flow significantly increased mainly due to payment of 88 million shekels to the MOC for the acquisition of frequencies in the corresponding quarter.

Moving to the **next slide**. In the first nine months of 2023 Revenues were up 0.8%, Adjusted EBITDA was down 0.9% and Adjusted Net Profit declined 12.3% as depreciation expenses increased due to an update in estimated right-of-use assets for past periods recorded in the corresponding period. Free Cash Flow was impacted by the upfront payment of frequency fees for 2023 in the current period, timing differences in working capital and the payment of 88 million shekels to the MOC for the acquisition of frequencies in the corresponding quarter.

Moving onto operational metrics on the **next slide.** 5G subscribers rose to 961 thousand, for a 30.2% increase. There are approximately one million subscribers on 5G plans as of today, representing 46% of postpaid subscribers. Pelephone ARPU, excluding interconnect fees, increased by 2 shekels.

Moving onto **yes on the next slide.** Revenues grew 4.1%, driven by the launch of the TV+Bezeq fiber bundle and our partnerships with international content providers. Our profitability improved markedly, with Adjusted EBITDA increasing 20.8% to 58 million shekels. For the first nine months of the year, Adjusted Net Profit reached 18 million shekels, compared to an adjusted net loss of 29 million shekels in the corresponding period, driven mainly by higher revenues.

The **next slide** shows yes' continued evolution. As you can see, yes has continued its revenue growth since the fourth quarter of 2022.

Looking at the key financial highlights for yes in the **next slide**. Revenues increased year-over-year for the fourth consecutive quarter, by 4.1% to 328 million shekels, mainly driven by the TV+Bezeq fiber bundle, and agreements with leading international content providers. Adjusted EBITDA and Adjusted Net Profit were both up due to an increase in revenues and decrease in salaries, while the latter benefited also from lower depreciation expenses.

Turning to the next slide, the results for the first nine months of 2023 reflect the same trends in revenues and profitability with revenues increasing and driving both our Adjusted EBITDA and Adjusted Net Profit higher. Free cash flow increased due to improved business results as well as timing differences in working capital.

Moving onto the **following slide** on operational metrics for yes. Total subscribers remained basically flat despite the intense competition in the market, and 67% of yes subscribers are now watching IPTV. STINGTV subscribers continued to grow and reached 118 thousand as of today. We continue to growth in fiber subscribers for yes, which reached approximately 32 thousand as of today. With that, let me now turn the call back to Tobi.

Tobi Fischbein: Moving on to Bezeq International – Our continued focus on the ICT market mainly offset the decrease in consumer ISP activity revenues in the third quarter. Results for the first nine months showed strong growth in profitability with Adjusted EBITDA increasing 11.9% to 150 million, and Adjusted Net Profit increasing 64.5% to 51 million shekels due to cost savings and expansion in the B2B market.

On the **next slide,** we cover the key financial highlights for the quarter. The slight decrease in revenues is due to reduced consumer ISP activity following the regulatory change that began in April 2022, but was offset by an increase in ICT activity. Free cash flow was positively impacted by timing differences in working capital.

The next slide details the financial highlights for the first nine months of the year. As mentioned, our focus on the B2B market is showing positive trends in profitability, with significant growth in both Adjusted EBITDA and Adjusted Net Profit, mainly due to lower consumer ISP expenses and the decrease in salary expenses. The increase in business service revenues due to ICT activity growth and the CloudEdge acquisition, was offset by a decrease in consumer ISP revenue following the regulatory reform. Free cash flow was lower due to payments for retirement plans in 2023, as well as changes in working capital.

Turning to the **last slide.** We had a strong quarter, and we are focused on executing on our strategy while maintaining sustainable growth. The execution of our strategy continues to be successful, evidenced by revenue and profitability growth.

Lastly, I would like to remind our listeners that after this call in English, we will hold an earnings call with Israeli investors and analysts in Hebrew. With that, I will open the Q&A session. If you would like to ask a question, please raise your hand virtually using the “Raise Hand” button in the “Participants” tab. In the mobile app, you can raise your hand by tapping the "Raise Hand" option in the "More" tab. 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. If you later change your mind about raising your hand, you can lower it by clicking “Lower Hand." I will now pause to poll for questions.

David Kaplan (Psagot): Hi, everyone. How are you? I want to focus on equipment sales, particularly in the mobile sector, the handset sales. I know that the iPhone 15 launch came in only towards the end of the third quarter. I imagine that the current situation in Israel is going to push those expected iPhone sales that were going to happen in the fourth quarter out into the first quarter a little bit. How does that impact expenses, specifically for the fourth quarter, when you think about marketing, and you think about other associated expenses, for handset sales?

Tobi Fischbein: On handset sales, the margin is not very high. There will be some delay in those revenues. On the other hand, we will have savings on the cost side. So, it's not going to have a meaningful impact on the Group results.

Ilan Sigal: I'll continue, David. As you said, the iPhone 15 launched at the end of the third quarter. The fourth quarter was supposed to be a big launch for the iPhone 15 in Israel. As you said, I believe that it will be postponed to the first quarter of 2024. There is demand for iPhone 15, the shipments are low right now, and I believe that they will come back later, in the first quarter.

David Kaplan (Psagot): So, just related to the shipments having not come yet - When exactly do you pay for those, and what potential impact would fluctuations on the dollar have on those shipments?

Tobi Fischbein: We have not paid – at least, not for the vast majority of those handsets yet. We will only have to pay for them later, as they arrive. And yes, we have some FX exposure there, as long as when we get them, the FX is higher, then we will be exposed to the higher rate. But we take that into account in our calculations.

Ilan Sigal: We pay for the handsets only when they come to Israel, and they are in the stores - not before that.

David Kaplan (Psagot): So, not when they're in the port, but only when they're in the stores?

Ilan Sigal: Yeah. Exactly.

David Kaplan (Psagot): Okay. So, in theory, the spike in the dollar didn't really have a major impact on Bezeq, I take it.

Tobi Fischbein: The impact that it will have relates to the selling price. Because if there is a spike in the dollar, and we can translate that, at least partially, to the selling price, then the impact will be lower. If the case is not like that, then the impact will be high.

David Kaplan (Psagot): Okay. Thanks.

Tobi Fischbein: You're welcome. Next question is from Siyi He, from Citi. Hi, Siyi.

Siyi He (Citi): Hello, hi. Sorry, my camera doesn't work for some reason. I just have one question, please. I'm just wondering, if you could elaborate, what could be the potential impact on your roaming revenues, given the current situation in Israel? And, if you don't mind, could you remind us, when we look at roaming revenues, how should we think about the impact on the EBIDTA level, which I presume, is usually to be a high margin kind of revenue. Thank you.

Ilan Sigal: Hi, Siyi. We see, as a result of the war, a significant decrease in roaming use for the fourth quarter. But let me just add that the fourth quarter is not as strong as the third quarter, and the third quarter was full of roaming activity. But still, we will feel the impact on Pelephone in the fourth quarter. I believe that like in the past, with Covid, when the war ends, we will see roaming revenues recover very quickly.

Tobi Fischbein: And I will add, Siyi, that based on the trends that we are seeing right now, although we don't quantify this impact, we don't expect it to be significant at the Group level, in Q4. We have a follow-up question from David Kaplan. Yes, David.

David Kaplan (Psagot): Yeah. Hi. On cash flow for the fourth quarter, on working capital in particular. I guess it ties into what we were talking about before, about the handset sales. But inventories in general, with the disruptions that are probably happening with shipments into Israel – how do you foresee working capital looking in the fourth quarter?

Tobi Fischbein: Well, not just because of inventories. Other than handsets, we don't deal with inventories, and we don't hold a lot of that. But as you saw a very strong free cash flow performance in Q3, in Q4, we expect those timing differences to have the opposite effect. There are some payments to suppliers that have been delayed from the end of September to the beginning of October, and there are some other items that, in terms of their nature, will take place in Q4 rather than in Q3. Having said that, and although we don't give guidance for free cash flow, we still expect to be on track with our own plans for free cash flow for the whole year. Thank you, David. Any other questions?

Concluding Remarks

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 full year 2023 earnings call. Thank you.

[END OF TRANSCRIPT]