



Q1 2021 Results Conference Call

May 12, 2021

Good afternoon everyone. I am Zoltán Pandi, Head of Investor Relations at Magyar Telekom. I would like to welcome you to our first quarter 2021 results conference call. Please note that our presentation can be accessed via the link within the conference call invitation and is also available in the Investor Relations section of our website.

Before we get started, I would like to draw your attention to the disclaimer on the second page. Information in this presentation contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties.

As usual, I have senior management with me today: Mr. Tibor Rékasi, our CEO, and Ms. Darja Dodonova, our CFO, who will take you through the presentation and answer any questions you may have.

Now, it is my pleasure to hand over to Tibor to open the presentation.

Tibor Rékasi

Starting with **slide 3**, our operating environment during the first quarter of 2021 proved quite challenging with the third wave of COVID-19 having a more severe impact on our industry compared to previous spikes. For a couple weeks we experienced the most stringent lockdown measures implemented in Hungary thus far. However, we leveraged our agility to swiftly adapt to evolving conditions and used the lessons learned throughout the pandemic to improve our financial and operational performance. As you can see, our revenues grew by 1.9% and our EBITDA AL amounted to 44.2 billion forints in the first quarter, up 8.1% year-on-year. Both are considerable achievements, which will serve as a solid base for us to deliver our annual targets from. Our investment levels during the quarter remained stable year-on-year, whilst free cash-flow stood at -17.1 billion forints, in line with our expectations. Darja will



elaborate on the seasonal elements at play here and provide further details regarding key drivers of this trend.

Moving to **slide 4**, let me outline some of our operational achievements in Q1 2021. First and foremost, we stayed focused on safeguarding the wellbeing of our employees, with the vast majority continuing to work remotely. As the vaccination rollout gathered pace over the past months, we secured vaccines for our employees in Hungary, providing everyone a chance to protect themselves from infection. As a result, we plan to commence a gradual and cautious return to our offices during the second quarter.

Meanwhile, Magyar Telekom's supplier engagement program aimed at addressing climate change was ranked amongst the top 7% globally by the Carbon Disclosure Project (CDP), a true reflection of our commitment to not only reduce our direct CO2 footprint but also minimize our scope 3 or indirect emissions.

During the first quarter, Magyar Telekom also secured critical spectrum on the 900 and 1800 MHz frequency bands, a significant milestone which will allow our customers to continue to enjoy superior mobile services and innovative solutions. The development of the gigabit capable network also continues to plan, whilst the comprehensive radio access network modernization that commenced in the first half of 2020 has been completed across more than 500 base stations.

These improvements in our infrastructure are reflected in the continued positive momentum in our customer base: fixed broadband subscriptions are up by 7.1% in Hungary, while the number of TV customers has increased by 6.5% partly due to strong demand for IPTV services. During the quarter, Magyar Telekom introduced its new cloud-based TV platform, becoming the first domestic provider of such enhanced home entertainment services, including 4K broadcasting.

We also progressed with the implementation of internal efficiency measures, which have in combination with our digitization agenda positioned us well to generate higher



profitability and reinforce our resilience to external challenges that may result from our rapidly changing environment. Our SI/IT business embarked on an ambitious turnaround program in the fourth quarter of 2020 and we are delighted to see promising early signs of stabilization in the segment's financial performance best illustrated by the fact that the net margin contribution of our Hungarian SI/IT operations was up on a year-on-year basis for the first time since the beginning of 2019.

With that I'd like to hand over to Darja to take us through the Q1 2021 financials in more detail.

Darja Dodonova

Thank you, Tibor. Good afternoon everyone.

When we look at our performance quarter-on-quarter, as shown on **slide 5**, the COVID-19 impact and our resilience in overcoming related challenges are apparent. Q1 2021 is the last period where we compare our performance against a "COVID light" base period. The Q2 2020 results were impacted by lockdowns across all our markets and other measures introduced in response to the rapid spread of the virus. Once the first wave had passed, our performance began to recover as favorable usage trends outweighed the negative impacts. However, lockdowns were re-introduced after a spike in cases in the first quarter of this year. Despite this, we were able to report strong growth during Q1 2021, which demonstrates how well Magyar Telekom was able to adapt to a rapidly changing external environment.

Slide 6 shows our revenue performance in more detail. We are delighted with the continued positive trajectory of our service revenues – both fixed and mobile – despite the temporarily lower dynamics in the Hungarian retail broadband revenues. The latter is due solely to the obligatory discounts provided to students and teachers impacted



by the digital education and which was extended from secondary schools to primary schools from March. Nevertheless, thanks to considerable further expansion of the related customer bases, the growth in mobile data and TV was able to offset the structural decline in voice revenues. At the same time, we saw the stabilization in SI/IT revenues, now showing a much more moderate top-line year-on-year decline than we witnessed last year and which clearly reflects the first positive signs of our efforts to transform T-Systems' operation which Tibor eluded to earlier.

Looking at our operational performance in more detail, **Slide 7** illustrates the key developments within our Hungarian mobile operations. Although the restrictions introduced in response to the third wave of the COVID pandemic were more stringent than any before and our shops could be kept open only with limited hours and service offerings, we managed to grow further the number of total SIM cards. The increase was driven by growth in the postpaid customer base, supported by prepaid to postpaid migration, leading to further improvements in the make-up of our customer base.

Our new tariff portfolio introduced in September last year has continued to perform well. In just over seven months, almost one third of our residential mobile customers have opted for one of these new packages, and more and more of them are taking up unlimited plans. This trend was accelerated by the increase in remote working and digital education driven by further lockdown measures in the first quarter, and also led to significant year-on-year increases in data and voice usage volumes.

The trends we experienced among residential customers had a positive impact on ARPU with customers choosing high-value plans to benefit from unlimited usage options. At the same time, strong competition in the SME business segment put downward pressure on postpaid ARPU in Hungary. However, thanks to increased take up of mobile data options among prepaid customers and the improvement in the customer mix, blended ARPU increased by almost 2% year-on-year.



Slide 8 shows the key developments in the fixed market in Hungary. Trends that dominated previous quarters of the pandemic remained intact, namely elevated fixed voice usage and the strong increase in retail broadband and TV customer bases. These achievements are particularly pleasing given that shops were operating under strict limitations due to the lockdown. During this period, we were able to leverage our customer-focused operational approach and efficient sales, including our proactive call centers, higher Telekom-app penetration and the wider usage of our unique AI customer care agent, VANDA.

As TV become the key entertainment channel, we expanded our on-demand services and as a result, customers signed up for additional services and set top boxes. This trend is reflected in the positive year-on-year increase in TV ARPU, which will benefit from the launch of our new TV platform that will evolve in line with changing customer needs.

In the broadband market, ARPU development is distorted by the COVID-related allowances I mentioned earlier. However, on an underlying basis, we experienced the same trend of upward migration as in earlier quarters, validating our network development efforts. In areas where we provide gigabit access, more than half of the new broadband contracts were for either 1 or 2 gigabit packages. Given the increasing demand for higher bandwidth and broadband services due to the increase in home working and digital education, we launched a new 'Smart WIFI' service to our residential customers during the quarter, providing a stable broadband connection throughout the home. Despite this being a very recent initiative, early signs are very promising.

Let me now touch on profitability, starting with EBITDA on **Slide 9**. The higher gross profit year-on-year is attributable to the improvement related to the Hungarian consumer base as well as to positive developments in North Macedonia operation, which was further amplified by the year-on-year weakening of the forint against the



denar. However, this was partially mitigated by continued pressures in the in the SME business market where economic difficulties due to the pandemic were most pronounced. Looking at the indirect cost base, the significant improvement is primarily driven by the lower level of severance expenses compared to the base period. Other operating income was supported by some smaller sized real estate sales. Overall, there was an increase of over 8% in EBITDA After Leases for the first quarter of 2021.

Slide 10 provides further detail on the Group's capital expenditure and the progress of the fixed network rollout program in Hungary.

During the first quarter, capital expenditure was broadly similar to the previous year, meaning we are on track with our annual investment program, despite the challenges posed by the pandemic and associated lockdowns. Similarly, as in the past quarters, first quarter spending was dominated by investment in the fiber roll-out program in Hungary, where we successfully expanded our network with a further 50 thousand access points. We also managed to further improve the penetration of our gigabit-capable network, and by the end of the quarter over 900 thousand customers were connected via either fiber or hybrid-coax technology. The moderate decline in fixed network investments was partially driven by a slowdown in procurement of equipment as well as delays due to the stringent lockdown measures that were in place during March this year.

In addition, we continued with our radio network modernization project which led to higher spending in that category compared to the previous year. The program is progressing as planned, with over 500 base stations now upgraded to provide higher capacity across the current 4G networks, as well as to facilitate 5G rollout. As such, our current outdoor 5G coverage is almost 10%, including services on 2100 and 3600 Megahertz frequencies.

Let me now talk you through the below EBITDA lines on **slide 11**.



As we have seen in the past couple of quarters, depreciation and amortization remained slightly higher than in the base period at 35.1 billion forints in Q1 2021. This is still mainly a function of higher investment, including the activation of acquired 5G frequency licenses in the first half of 2021.

Net financial losses amounted to 1.6 billion forints in Q1 2021, a significant improvement compared to the base period. The year-on-year change was mainly attributable to the absence of negative FX impacts due to the significant weakening of the forint against the euro during the base period in 2020, coupled with the positive effect of movements in the yield curve that led to unrealized gains on the recognition of derivatives at fair value related mainly to swap deals in Q1 2021.

With EBITDA increasing and a significant drop in net finance costs, profit after tax reached 8.9 billion forints during the period.

Moving on to cash-flow developments on slide 12, free cash-outflow generation amounted to 17.1 billion forints in Q1 2021. Cash flow development was driven by a total payout of 35.7 billion forints for PPE and intangibles on the back of a relatively high Q4 2020 CAPEX spend and the usual seasonal working capital increase amounting to 15.3 billion forints. This was very much in line with our expectations and the overall free-cash flow trajectory during the period is very similar to that of the base period.

Net debt reached 511.9 billion forints due to the previously mentioned non-cash 900 / 1800 MHz spectrum licence acquisitions and the cash-outflows I just mentioned. Consequently, our net debt to EBITDA stood at 2.23x at the end of the period.

In terms of cash flow, we expect that some of these items will reverse later in the year and we are confident that with the strong underlying business performance, our previously communicated cash-flow target is achievable by the end of the year.

That concludes our presentation, I will now hand back to Zoltán.



Zoltán Pandi

Thank you very much, Darja.

We are now happy to take any questions you may have. Operator, when you are ready, we will take the first question.

(Take questions)

If you have any follow-up questions, please do contact our Investor Relations team. Please also note that the transcript of our conference call will shortly be available on our website. Thank you again for joining us today and your continued interest in Magyar Telekom.