



## Q4 2020 Results Conference Call

Feb 26, 2021

Good afternoon everyone. I am Zoltán Pandi, Head of Investor Relations at Magyar Telekom. I would like to welcome you to our fourth quarter 2020 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 4**, I am delighted to say that Magyar Telekom rose to the challenge and delivered results that were on target for 2020. I am particularly proud of our employees' resilience in the face of the COVID-19 pandemic and the dedication they have shown to achieve these results. In the fourth quarter, the business achieved robust results with a significant 5 billion forint improvement in total EBITDA After Lease to 56.6 billion forint. This strong final-quarter performance meant that we not only successfully delivered in line with the most important annual financial KPIs, such as revenue, EBITDA After Lease and free cash flow, but we outperformed on these key metrics. These targets were set pre-COVID-19, so I therefore consider it a particularly



strong achievement that we were able to grow the business despite the challenges we faced.

2020 will be noted as a year of significant investments into our fixed and mobile networks. The fiber network roll-out gathered pace last year with overall development exceeding previous years' levels. As a result, our investments have exceeded what we initially planned in 2020.

Moving to slide 5, the past year has seen us reach important strategic milestones. Thanks to our investment program, our network is stronger than ever before. During the COVID-19 pandemic we saw unprecedented demand for communication services with voice and data traffic surging by 75% and 30% in peak periods respectively. These developments prove that we should not slow down, rather step up our efforts with gigabit network roll-out where we reached almost 2.5mn access points by the end of 2020. There have also been significant developments on the mobile side. We are well-positioned to maintain our market leading positions, having secured critical spectrum during the 5G auction earlier in 2020 and also on expiring bands on 900 and 1800 Megahertz in January this year.

We continue to monetize the uplift in data demand, which proved to be a key driver of Q4 performance. Darja will talk you through the details in a minute.

2020 was also a year of major efficiency improvement: by actively analyzing every item in our cost base we were able to reduce indirect costs by over 5 billion forint compared to the previous year.

When it comes to delivering for our wider stakeholders and the environment, COVID-19 brought previously unforeseen challenges. For our customers we continued to offer tailored solutions for SMEs and non-profit organizations, allowing for smoother communication and enhanced digital development during this testing period. In response to rising infection rates, around 80% of our employees continue to work from home and we have adopted remote working wherever possible.



Our strong ESG credentials continue to attract external recognition. I'm pleased to report that Magyar Telekom has once again received an AA rating from MSCI placing the company in the top 20% of MSCI's all country world index's telecommunication services investment universe with particularly strong scores on the environmental pillar. The latter is very much supported by the fact that our operations are net carbon neutral on the basis of scope 1 & 2 emissions for the sixth consecutive year.

With that I'd like to hand over to Darja to take us through the Q4 and full year 2020 financials in more detail.

***Darja Dodonova***

***Thank you, Tibor.***

When we break down the year by quarter, as we have done on **slide 6**, COVID-driven volatility becomes clearly visible. While the first quarter was only mildly impacted by the pandemic, second quarter results were hit by national lockdowns in our markets and related measures introduced in response to the rapid global expansion of the virus. Once the first wave had passed, by the third quarter we saw signs of recovery in our performance as favorable usage trends outweighed the negative impact of weaker tourism on roaming and visitor revenues. Despite the re-introduction of some social distancing measures during the second wave of the pandemic, we saw the continuation of these positive developments into the last quarter of the year. These, coupled with recovery in SI/IT performance and profit from real-estate sales, resulted in outstanding year-on-year revenue and EBITDA growth in the fourth quarter of 2020.

Looking at our revenue performance in more detail on **slide 7**, positive year-on-year trends in the fourth quarter were again primarily driven by higher telecommunication service revenues, which were attributable to the favorable developments in mobile data, fixed broadband and TV services. While the majority of the growth in equipment



sales revenues was down to third party export sales in Hungary, the recovery seen in System Integration and IT trends also played a key role in supporting our performance. These factors, resulted in an overall 3.6% increase in total revenues for the fourth quarter and led to a 1% improvement for the full year.

**Slide 8** illustrates the key developments within our Hungarian mobile operations. Thanks to our attractive offers, our efforts to migrate customers to postpaid plans continued to yield results with further increases in the number of postpaid as well as data subscribers. Our new tariff portfolio introduced in September last year, which offers an increased monthly data allowance at more favorable prices, was welcomed by our customers, with an increasing number of them opting for unlimited data plans. This led to a strong uplift in the average monthly data usage. We expect that with the continuous expansion of our 5G network, and the emergence of more affordable 5G capable handsets on the market, the appeal of our unlimited packages which include 5G service will increase further going forward.

Although voice usage also showed significant increases during the second wave of the pandemic, this positive trend is not fully reflected in revenue growth due to the increasing portion of our customers using unlimited voice tariff plans. However, with social distancing measures remaining among the key tools used to combat the spread of the pandemic, demand for mobile voice communication is expected to remain strong which could add further impetus to pre-to-postpaid migration going forward.

In terms of blended ARPU, we maintained the positive trajectory primarily due to the improving customer mix. Both pre- and postpaid ARPU trends showed an improvement in the last quarter as we successfully leveraged higher demand for data.

**Slide 9** highlights the key developments in the fixed market in Hungary. Similarly to earlier quarters of 2020, the primary driver of the improvement in fixed performance was the further significant expansion of the broadband customer base, accompanied



by an increase in TV subscribers. Not only did we manage to take our fair share of the growth in these markets, but once again we outgrew the market in both service categories ending the year with over 41% market share in fixed broadband and 34.5% in TV, with the latter delivering outstanding annual growth of over 2 percentage points. These results are a clear reflection of the success of our strategy, our customer centric approach and our enhanced agility which led to strong improvement in customer satisfaction in almost all segments and which facilitated further take up of multiple services among residential customers.

The positive momentum in ARPU continued, supported by the general rebalancing introduced at the start of September, the temporary rise in fixed voice usage and the migration towards higher bandwidth broadband packages. The moderate slowdown in fixed broadband ARPU growth was driven by the compulsory monthly allowances provided to secondary school students and teachers impacted by the reintroduction of remote learning in Hungary from November 2020.

Turning to **Slide 10**, Group EBITDA After Leases showed notable improvement which led to an increase of 2.5% for the full year. Fourth quarter performance was driven primarily by the positive underlying developments in gross profit and further savings in indirect costs, especially in marketing, network maintenance and repair expenses. Due to the successful completion of several real estate sales in the last quarter of 2020, including that of Telekom Park, other operating income was on a similarly high level as in the prior year. Nevertheless, for the full year income related to real estate sale transactions declined, reflecting the lower pool of assets that can be included in our rationalization project.

**Slide 11** provides a breakdown of the Group's capital expenditure and the Hungarian fixed network rollout delivered thanks to our investment program.



As outlined earlier, the significant increases in annual investment levels were primarily attributable to the increased pace of our fiber rollout, but also reflect the higher spend on customer premise equipment, in line with increased customer demand for gigabit network connections. As such, not only did we manage to increase the number of fiber access points at a record rate, but we also saw the highest ever number of broadband customers signing up for a fiber connection during 2020, the latter resulting in a moderately higher related spend versus our targets. In parallel, we continued with the upgrade of our cable network to so called hybrid-fiber-Coax technology. This is capable of providing gigabit speed which, together with our fiber network, makes gigabit speed available at almost 2.5 million access points across our footprint in Hungary.

Some of the increases in Capex were attributable to the developments we made as part of the mobile network modernization project. To date, we have upgraded over 300 base stations in Hungary to provide higher capacity across the current 4G networks, as well as to facilitate 5G rollout. Thanks to these developments and the launch of 5G service on 2100 Megahertz frequency, by the end of 2020, 5G service was available to 30% of Budapest's population and 7% nationwide, including 5 regional capitals and 21 towns around Lake Balaton.

Let me now talk you through the below EBITDA lines on [slide 12](#).

Depreciation and amortization remained slightly higher than in the base period, as D&A reached 141.1 billion forints in 2020. This is mainly a function of higher investments, including the activation of the recently acquired 5G frequency licenses.

Net financial losses amounted to 23.9 billion forints in 2020, improving moderately against the previous year. Despite an increase in indebtedness and the significant weakening of the HUF versus the EUR, lower interest rates and gains on derivatives mitigated the negative impact.



With EBITDA on the rise, somewhat higher depreciation and an increasing contribution of our North-Macedonian segment in forint terms resulting in an uplift of non-controlling interests, profit after tax grew moderately compared to the base period to 42.4 billion forints.

And let us now look at the cash-flow developments on **slide 13**.

Free cash-flow generation (excluding spectrum licences) reached 69.5 billion forints in 2020. Despite increased investment into the business, favourable working capital developments, rising profitability and lower financial charges payable resulted in an improvement of 4.5 billion forints in the annual free cash flow. Free cash flows including the payment of 5G spectrum license fees in Q2 2020 reached 15.3 billion forints, whilst net debt reached 417.4 billion forints by the end of 2020.

Moving on to **slide 14** I would like to spend a minute on probably the most anticipated topic of today's call, which is shareholder remuneration. Our Board of Directors strive to strike the right balance between the profit and cash-flow generation of the company, the indebtedness level as well as the business outlook when formulating shareholder remuneration proposal.

Accordingly, I believe that the proposal by the Board of Directors on shareholder remuneration of 25.5 billion forint demonstrates resilience amidst a turbulent external environment and is largely consistent with total shareholder remuneration over the past 4 years. The 25.5 billion forint proposed total sum is also 10.2 billion forint greater than the cash flow after spectrum licence generated in 2020, in other words we partly rely on our balance sheet to complete shareholder remuneration after 2020. Furthermore, it should also be taken into consideration that in January 2021 Magyar Telekom successfully participated in the auction for 900 and 1800 Megahertz frequency licenses. This deal is expected to impact our indebtedness as early as Q1 2021, meaning that Magyar Telekom's year end net debt to EBITDA ratio adjusted for



the liabilities related to the auction would be above 2.2x. With significant COVID-19 related uncertainties ahead and considering the current indebtedness of Magyar Telekom, the Board proposes a similar level of total shareholder remuneration as in previous years.

The total shareholder remuneration will be made up of a cash component of 60% and a buy-back component of 40%. The proposed buy-back element is more significant in size than the one completed in 2020. The main reason for this shift is that with today's share prices, management believes that the buy-back is a value accretive proposition compared to a regular cash pay-out. This is illustrated by the company's ability to generate double digit free cash flow yields in the upcoming period whilst as of today we also see a significant gap between the consensus target price of Magyar Telekom compared to prevailing share prices.

All in all, the proposed shareholder remuneration is the equivalent of a 15 forint per share cash dividend component assuming that the total number of outstanding shares (net of treasury holdings) remains in line with that of today date and 10.2 billion forint buy-back component.

With that I would like to hand it back to Tibor to guide us through the short to mid-term outlook.

***Tibor Rékasi***

Thanks Darja.

Let's now look at the main operational deliverables that we will be focused on in 2021 on **slide 16**.

We remain committed to maintaining and improving our network quality. On the mobile side we are very well placed following the completion of the 900 and 1800 Megahertz auction to cement our market leading position which will be supported by the gradual deployment of 5G. For our fixed infrastructure, we will continue to invest



in further fiber roll-out. At the same time, we will focus on managing our legacy network, implementing a phased retirement of the copper network as the fiber roll-out progresses.

In 2020 we have seen good progress on the B2C side and will continue to pursue opportunities in this segment, alongside those in B2B. Our ultimate aim is to achieve outstanding customer satisfaction ratings in all the subsegment we operate in. As far as SI / IT is concerned, 2021 should mark the beginning of a new chapter and we plan to bring this business back to its growth path.

In terms of efficiency, we have harvested most of the low hanging fruits in the past couple of years, such as large-scale headcount reductions or more significant real estate divestments. We will now shift our focus to reducing complexities in the legacy network and leveraging our digital agenda.

Meanwhile, we are embarking on the next phase of our sustainability strategy in 2021 and I'm hoping to share more details on this towards the end of the first half year. Our aim is to maintain our best-in-class ESG ratings in the upcoming period.

**Slide 17** shows the guidance regarding our financial targets for this year. From an external environment perspective, 2021 may very well be a difficult year, but we also see the potential for normalisation towards the second half of the year. With that assumption in mind, we believe our revenues and EBITDA have a growth potential of around 1 to 2%. Investments are expected to be closer to 2020 levels representing somewhat higher values than we have seen in years preceding 2020. I expect that if we deliver on our EBITDA and CAPEX guidance, free-cash flow generation should be largely in line or slightly above 2020.

Moving forward and looking at the 2021-24 outlook on **slide 18** we believe that we can deliver moderate growth in terms of revenue and EBITDA in the longer run, although



the growth profile may be more front-end loaded. The gradual uplift in EBITDA might trigger an FCF uplift of 1 to 2% in the 2021-24 period, with some years potentially impacted by fluctuations in our investment pattern. With this outlook in mind and looking at the current financial position of Magyar Telekom, I am pleased to say that the Board of Directors has also considered the implementation of a mid-term shareholder remuneration framework as part of the 2021-24 outlook to be composed of a cash dividend and share buy-backs. Moving forward our intention is to grow shareholder remuneration whilst focusing on net profit and free cash flow evolution as the most important KPIs.

With this I will hand back to Zoltan to kick off the Q&A session.

***Zoltán Pandi***

Thank you very much, Tibor.

That concludes our presentation. 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.