



4Q 2019 Results Conference Call

February 19, 2020 at 17:00 CET

Good afternoon everyone and welcome to the Magyar Telekom fourth quarter 2019 results conference call. I am Péter Bauer, Head of Investor Relations at Magyar Telekom, and with me today is Mr. Tibor Rékasi, our CEO, Mr. János Szabó, our CFO, who will take you through the presentation and answer any questions you may have. Also joining us today is Darja Dodonova, who will take over the roll of CFO from János from March 1, and would like to take the opportunity to introduce herself later in the call.

Please note that the Q4 results presentation can be accessed via the link provided in the conference call invitation, and is also available in the Investor Relations section of our website.

Before we begin, 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.

Now, it is my pleasure to hand over to Tibor who will begin the presentation.

Tibor Rékasi

Thank you, Péter. Good evening everybody.

Let me begin with an overview of our 2019 operational and financial achievements and our outlook for 2020 and 2021, before János provides more details on developments in the final quarter of 2019.

In 2019, we took some notable steps to secure our leading market positions, leaving us well placed for the year ahead. In 2019, we successfully progressed the roll out of our fixed network, expanding our fiber coverage by a further 340 thousand access points, and successfully completed the Docsis upgrade process. These actions have enabled us to provide gigabit speeds on approximately half of our fixed network in Hungary.



With regard to our service portfolio, we continued to reshape our offering throughout the year with the aim of maximising the potential for cross-sell and up-sell opportunities. For our fixed market, thanks to the rebalancing of our broadband portfolio, we strengthened our competitiveness and we are now better placed to exploit our network capabilities. By the end of 2019, around 55% of our residential broadband customers opted for a package of over 100 megabits per second. Meanwhile, following a restructuring of our mobile data portfolio to promote packages with higher monthly data allowances, average monthly mobile data usage almost doubled compared to 2018.

One of our main focus areas for 2019 was to further strengthen our position in the FMC segment. In line with this, we have introduced the so called 'group-subsidy' offer which enables customers to group together the different subsidy amounts they are entitled to. The initial results of this initiative are encouraging, with growth recorded across almost all service lines. Furthermore, an increasing number of customers are opting for a 2-year contract in exchange for the more favourable terms on which they can purchase smart equipments.

In North Macedonia, despite elevated competitive pressures, we were able to sustain the positive developments seen in the previous quarters with regard to both customer acquisition and financial performance. This is attributable to the competitiveness of our offerings.

Turning to our next slide showing the Group's annual revenue and EBITDA performance in 2019.

Revenues during the year grew moderately as increases in telecommunication revenues in both Hungary and North Macedonia were offset by lower Hungarian SI/IT sales. Revenue growth was driven by continued strong demand for fixed and mobile data in both countries, combined with an increase in equipment sales in Hungary.



Group EBITDA, excluding the impact of IFRS 16 adoption, grew by over 4% year-on-year thanks to an improvement in gross profit in both countries of operation. This was supported by a reduction in indirect costs stemming from lower employee and marketing expenses in Hungary. Group EBITDA was favourably impacted by the implementation of IFRS 16 to the tune of 19.6 billion forints.

With regard to delivery against our targets set out on slide 5, as forecasted, the revenue growth trend witnessed last year slowed considerably in 2019, driven by a reduction in SI/IT and mobile equipment sales dynamics. However, following greater than expected growth in Hungarian fixed and mobile data revenues, and a strong performance in North Macedonia, total revenues in 2019 performed slightly better than originally forecasted. Revenue growth was further supported by the devaluation of the forint against the denar.

Group EBITDA also exceeded expectations, as the anticipated efficiency improvements were coupled with better revenue performance which boosted gross profit in both countries.

While capital expenditure in 2019, excluding the impact of IFRS 16 adoption, was broadly in line with our original target, Free Cash Flow excluding frequency payments declined by 4%. This contrasted with a forecasted increase in free cash flow of around 5%. The discrepancy is due to increased outpayments driving up working capital requirements, combined with lower proceeds from real estate sales.

The Board of Directors has reviewed the 2019 financial statements of Magyar Telekom and proposes a dividend payment of 20 forint per share for the 2019 business year for approval at the Annual General Meeting. The Board of Directors also decided on initiation of a sharebuyback program with HUF 5.2 billion value subject to the necessary authorization of the Annual General Meeting.



On slide 6, we have set out our guidance for 2020 and 2021. In line with our earlier forecasts, we expect revenues to remain broadly stable in the next two years as a result of positive trends in telecommunication service revenues being offset by a slowdown in SI/IT and equipment sales.

Our EBITDA forecast remains unchanged with 1 to 2% growth per annum expected in 2020 and 2021, driven by further improvements in indirect costs. However, to provide a better basis for future comparison, EBITDA After Leases will become a key performance indicator going forward.

Capex, excluding the impact of IFRS 16 implementation and any possible spectrum costs, is expected to remain stable.

Free Cash Flow, excluding spectrum license fees, is expected to increase by around 5% in 2020, owing to increased profit contribution and the expectation of further real estate sales. Free Cash Flow is expected to remain broadly stable for 2021, reflecting an absence of real estate sales.

I will now hand over to János to provide you with further details on the performance of our business segments

János Szabó

Thank you, Tibor. Good evening.

Turning first to the performance of our business in **Hungary** on **Slide 7**. **Total revenues** increased by 3.6%, in the fourth quarter, primarily due to higher mobile and fixed service revenues, but also helped by the recovery in SI/IT revenues in Q4.



As reported in recent quarters, **mobile** service revenues continued to grow thanks to continued strong customer demand for data and changes to our mobile portfolio pricing. This year, we renewed both our postpaid voice and data packages in line with our 'more-for-more' strategy, offering higher value packages to customers at a higher price point. In the fourth quarter mobile equipment revenues also exhibited marginal growth thanks to a strong performance at the end of the year, as we leveraged the Cyber November and Holiday season sales as well as growth in our export sales.

Meanwhile, **fixed** revenues continued to grow both on the service revenue and equipment revenue lines. This is primarily due to growth in fixed service revenue in the broadband segment where, like the mobile segment, we are still encountering growing customer interest in data-related products. To ensure we can take full advantage of this opportunity, we continue to implement our copper-free initiative, aiming to expand fiber connections to more and more households, providing our customers with the option to upgrade to our fastest packages. Equipment sales revenue in the fixed segment also continued to grow in the quarter.

In the **System Integration and IT** segment, we saw a return to growth following declines in the previous two quarters. These declines were due to changes in seasonality and as a result we witnessed stronger than usual volumes of hardware and software projects in the fourth quarter.

EBITDA, excluding the impact of IFRS 16 adoption, increased by 13.9%. Including the impact of IFRS 16, EBITDA increased 25.7%.

The increase in gross profit reflects the higher revenues delivered in the Hungarian business both in the telecommunication and SI/IT segment. We have achieved considerable savings in our employee related expense thanks to a lower headcount year-on-year, as well as a revised remuneration structure. This was coupled also with lower operating expenses as we achieved savings in marketing, maintenance and HR-related costs.



Slide 8 illustrates the key developments within our **Hungarian mobile operations**. Our efforts to convert our customers from pre- to postpaid packages are ongoing and we have now reached a point where 69.5% of our customers subscribe to post-paid packages. This trend is supported by favourable customer demand dynamics, as prepaid customers' increasing desire for bigger data packages continues to make our post-paid offering more attractive. In addition to the benefits from a more favourable portfolio mix, in 2019 we managed to grow the total number of SIM cards compared to the prior year.

In 2019, in addition to focusing on the aforementioned pre-to postpaid migration and growing our SIM cards we also took the opportunity to review our mobile portfolio. This initiative commenced in Q1 with the introduction of new pre-paid packages, followed by a restructuring of the voice portfolio in Q2 and updates to our mobile data portfolio in Q3. Thanks to these portfolio changes, we grew our blended mobile ARPU by 2% year-on-year in the final quarter.

In the fourth quarter we witnessed continued growth in customer data usage and a strong increase in the number of 4G customers using our networks – these customers now account for 89% of our data subscribers. We also see 4G customers using more data per month. The total data usage of our customers has grown by 74.1% compared to the same period of last year, while average data usage has grown from 3.3 to 5 gigabytes per month.

Slide 9 shows the progression of the **fixed segment** in the fourth quarter. Looking at the fixed customer base you can see that while the structural decline in the fixed voice customer base continues, we have grown both our TV and fixed broadband customer bases. Within the TV segment, growth came from the IPTV customer base, reflecting our continued efforts to encourage customers to adopt this technology, enabling us to leverage our ever-growing fixed network and offer the best products to our customers.

The next chart illustrates the distribution of our multiplay subscriber base. In Q4, we recorded a decline in 1Play customers, as an increasing number of our subscribers discovered the benefits of having 2 or 3 fixed services with us. Despite competitive challenges, we have managed to grow our ARPU in fixed broadband due to our ability to offer higher speed



connectivity to our customers. This in turn is thanks to our ongoing fiber rollout programme, in line with our efforts to upgrade our fixed network to be able to offer gigabit internet in every household in Hungary. The validity of this strategy is clearly reflected in the aforementioned fixed broadband ARPU figures, where we find that many of our customers opt for a higher data package if possible.

The final chart illustrates the advantages of customers having more than one service. In Q4, we successfully grew the blended ARPU of our fixed products, while also growing customer ARPU figures across the 1Play and 2Play product lines. There was a slight decline in the 3Play customer ARPU due to the discounts provided to this customer group, but the overall effect is reflected in the 2% growth of blended ARPU.

On Slide 10 you can see the developments in the **Hungarian System Integration and IT segment**. As per our previously communicated strategy, our product mix has changed, as we focus less on low margin hardware and software projects and more on higher value-added services. Due to the mid-year decline of SI/IT projects we experienced a slight decrease in annual revenue for the segment.

Turning to our performance of **North Macedonia on Slide 11**. Please note that our results are presented in local currency to better reflect our underlying performance without the impact of foreign exchange translations. I am pleased to report a further year-on-year increase in revenues and EBITDA despite intensifying competition in both the fixed and mobile markets.

In the **mobile segment**, revenue growth was again attributable to higher data revenues and a rise in equipment sales. Demand for mobile data remained strong with both customer base expansion and increased data usage contributing to the improved performance. Meanwhile, our favourable smart equipment offers continued to be positively received by customers, supporting postpaid sales. Overall, increased mobile data usage, combined with a higher ratio



of postpaid subscribers in the customer base, led to a 3% increase in the blended ARPU year-on-year.

In the **fixed segment**, TV and retail broadband revenues continued to grow thanks to customer base expansion. However, this growth was not enough to offset the decline in voice and wholesale revenues resulting in moderate decline overall.

On the other hand, system integration and IT revenues witnessed strong growth in the last quarter of 2019, attributable to a notable increase in equipment delivery projects.

improvement in EBITDA, excluding the impact of IFRS 16 implementation, was driven by increased gross profit attributable to higher revenues, while indirect costs remained broadly stable year-on-year.

Looking ahead, we believe that our strong customer focus, coupled with our efforts to increase operational efficiency, will mitigate the negative impacts stemming from intensifying competition and support us in maintaining the positive financial performance delivered in 2019.

János Szabó continues

That concludes the formal part of the conference call.

As you know, this is my final results call as I'll be leaving the business at the end of this month. It has been a pleasure to work for Magyar Telekom for the past 17 years, and a privilege to help to lead the business during my 7 years as CFO. It has been an exciting journey, during a period of great innovation and change, and I'm very grateful for the support and friendship of my colleagues and associates along the way.

It has also been a real pleasure to engage with all of you in the analyst and investor community and I wish you all the very best for the future.

I leave the role of CFO in Darja's capable hands and wish her and everyone at Magyar Telekom, every success in the years to come. With that, I'll hand over to Darja...



Darja Dodonova remarks

Thank you János for your kind words. Good afternoon ladies and gentlemen. I'm Darja Dodonova and as you know from the announcement in December, I will be joining Magyar Telekom as Chief Financial Officer as of 1 March. It is a great pleasure for me to be here and I very much look forward to my new role. I am aware of the challenges on the Hungarian telecommunications market and I am confident that together with my team we will be able to help Magyar Telekom grow further as the industry continues to evolve. I look forward to getting to know you all in the coming weeks and months, but for now I will pass the call back to Tibor...

Tibor Rékasi remarks

Thank you very much, János, Darja.

On behalf of everyone at Magyar Telekom I'd like to thank János for your long and dedicated service to the company. You have played a vital part in our success in that time and we wish you well.

We are excited to welcome Darja to the business and I look forward to working with you to drive Magyar Telekom forward.

Now, 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 Department. 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.