



Q2 2024 Results Conference Call

August 8, 2024

Diana Várkonyi

Good afternoon, everyone. I am Diana Várkonyi, Head of Investor Relations at Magyar Telekom, and it is my pleasure to welcome you to our second quarter 2024 results conference call.

Please note that today's presentation is also available on the Investor Relations section of our website. This event is being recorded for internal purposes only and by joining the presentation, you consent to being recorded.

Throughout the presentation your lines will remain muted. Once we commence the Q&A session, you will be able to ask a question using the "raise hand" function, after which your microphone will be enabled, and you will be able to unmute yourself to ask a question.

Before we begin, I would like to draw your attention to the disclaimer on the second page of the presentation. The information in this presentation includes forward-looking statements about expected future events and financial results which are subject to risks and uncertainties.

I am pleased to welcome Ms. Darja Dodonova, our CFO who will take you through the presentation and answer any questions you may have.

Now, I would like to hand over to Darja to open the presentation.

Darja Dodonova

Thank you, Dia. Good afternoon, everybody.



Before I take you through the second quarter and first half-year 2024 operational and financial performance, let me start with an update on the progress we have made across our core strategic areas. Central to Magyar Telekom's success is our resilience, our customer-centric approach, and the ability to provide a gigabit-capable experience on our fixed and mobile networks.

As of mid-2024, we have reached 3.8 million households and businesses with gigabit capable technology, adding approximately 130-thousand new access points during the first half of the year. We also made further progress in the radio network modernization of our mobile network. In Hungary we have more than 3,200 modernized sites reaching 87% readiness across the network. With relation to our technological focus and ambition to provide a 5G experience to as many of our customers as possible, we are pleased to report that through the modernization of the radio network and expansion of our 5G network capabilities, we have further increased our outdoor population-based 5G coverage, which is now up to 70%.

Successful monetization of the network investments is central to our strategy. As such, I am happy to report that despite the higher and higher reach of our fiber network, we are still able to reach an around 25% penetration on the newly rolled-out points within already 12-months, which ratio progresses further with time.

We are deeply committed to providing state-of the-art digital experiences to our customers. In April we launched the new postpaid portfolio providing even more valuable services combined with a data focus that allows our customers to find the packages which are most relevant to them. Across our portfolio, we have also made new packages available, including providing our customers with access to Netflix entertainment alongside the pre-existing Max option. These efforts aim to further increase customer satisfaction.

Expanding our FMC customer base remains the focus. We have nearly 800,000 customers in the Magenta1 package which is our most important offer. We are always



looking for what we can use to further increase the range of services under the umbrella of digitization, providing digital services to our customers. For instance, at the beginning of August we launched a new service, Telekom Health. That is available only to Magenta 1 customers.

We are constantly striving to operate more efficiently to deliver sustainable growth and implement dedicated efforts to mitigate cost side pressures. Ensuring more efficient energy utilization is a big part of this, and as such we have signed a 10-year PPA agreement on energy procurement. With that we will be able to secure increasing portion of our energy consumption from renewable source. Nothing shows more that we are on the right track, that in the last decade the EBITDA margin has never been as high as in the second quarter of 2024, 40.4%

Finally, thanks to our strong performance during the first half of the year and a more favorable commercial outlook, we are upgrading our guidance, and I will elaborate further on this at the end of our presentation today.

Turning to **slide 4** and the Hungarian mobile service market. As shown by the first chart, the key driver of SIM card growth was again the dynamic uptake from the machine-to-machine segment, which saw 34% growth year-on-year. I would also like to highlight here that these SIMs typically have a much lower ARPU contribution and mobile data usage. At the same time, the postpaid customer base has expanded moderately, with a more than 20 thousand year-on-year increase in the residential customer base, mitigated by a reduction in public sector subscribers which also negatively impacted mobile data subscriber trends.

As illustrated on the central lower chart, year-on-year average mobile data usage increased by 12%, maintaining its growth path. During the period, postpaid ARPU was also further amplified thanks to the positive contribution from the newly introduced postpaid portfolio coupled with the impact of the inflation-based fee adjustment.



Moving now to **slide 5** and the Hungarian fixed service market. Similarly to mobile ARPUs, fixed ARPUs were positively impacted by the inflation-based adjustment of subscription fees. With regards to voice ARPU, the fee adjustment fully compensated for usage decline, leading to an 8.5% year-on-year increase. TV ARPU rose by 12.3%, whilst broadband ARPU was up by 18.6%, reflecting continued migration among customers to higher bandwidth packages, as well as the fee adjustment.

Although the continued erosion of our fixed voice customer base led to some decline among both single-play and triple-play households during the period, these were more than offset by the growth of the double-play base. The overall household base increased by close to 30 thousand during the last 12 months.

Let us now turn to the analysis of the financial results, starting with revenue developments on **slide 6**. The revenue increase for both the second quarter and first half of the year was again equally attributable to a favorable business performance, and the positive impact of the inflation-based fee adjustment applied to subscription fees in Hungary.

The most significant contributor to the revenue growth was mobile service sales, which witnessed a 17% or 15 billion forint year-on-year increase in the second quarter. The primary driver of this continued to be the year-on-year 24% growth in mobile data revenues, thanks to the expansion of the user base as well as higher average usage levels. Voice retail revenue also recorded an increase reflecting the impact of the fee adjustment on subscription revenues, whilst the decline in wholesale voice revenue stemmed from a reduction in Hungarian mobile termination rates effective from January 1, 2024.

Fixed service revenue growth of 16.5% or 8 billion forint year-on-year, was mostly due to the 23.5% growth in broadband retail revenue. This significant increase was the combined result of an expansion of the customer base, the increasing share of gigabit packages among the user base, and the fee adjustment. At the same time, we also



recorded 13.8% higher TV revenue year-on-year for the second quarter, as higher subscription revenue was coupled with increases in customer numbers.

Increased equipment sales revenue again contributed to revenue development with a 4.9 billion forint increase in the second quarter. This increase is equally attributable to both an increase in average equipment prices, higher third-party export sales volumes, and the lower present value discount related to instalment sales, parallel to a reduction in interest rates.

In the second quarter a year-on-year increase of 17.4% was recorded in system integration and IT revenue, reflecting favorable market demand as well as the delivery of some major projects in Hungary.

Moving on to profitability performance, we will start from **slide 7** with EBITDA after leases. The increases in revenues led to a rise of 20.9% in year-on-year gross profit for the second quarter, reflecting the strong contribution from the fee adjustment that was coupled with an improvement in SI/IT project related margins. This increase more than offset the higher supplementary tax charge, that increased parallel to revenues, and the rise in employee related expenses. The latter rose by 22.8% year-on-year or 4.6 billion forint in the second quarter as the combined result of salary increases for both the Hungarian and the North Macedonian operations, and some one-off severance costs in North Macedonia. Last but not least, let me highlight that we were able to achieve some year-on-year savings in other operating expenses, primarily thanks to more favorable energy costs coupled with operational optimization that counterbalanced the cost pressures stemming from continued high service cost inflation in the economy. These developments, coupled with the termination of the utility tax from January this year, positively impacted cost levels in the first half of the year, leading to an overall 39.6% increase in EBITDA after leases in the first six months of 2024, against the same period last year.



The strong EBITDA performance continued to lead to significant growth in net income and adjusted net income, as exhibited on slide 8. In the second quarter net income rose by 21.1 billion forint year-on-year to 43.3 billion forint, with adjusted net income increasing by 18.3 billion forint to 44 billion forint. This robust second quarter performance contributed to the cumulative 77 billion forint net income, and 82.1 billion forint adjusted net income recorded for the first half of 2024. As shown on the upper chart on this slide, there was a slight increase in D&A expenses in relation to software licenses whilst income tax also rose by 3.3 billion or 62.4% year-on-year in the second quarter. This tax increase was the result of the year-on-year 24 billion forint higher profit before tax, which led to increases in the corporate income tax expense, but also in the trade tax charge for the Company. However, these expense increases were fully offset by the decline in financial expenses, which improved by 4.1 billion forint year-on-year in the second quarter. The reduction in net interest expenses was primarily attributable to lower interest costs related to the loan portfolio, as well as a decline in instalment sales related interest costs. The favorable change in other finance costs reflects the different quarterly movements in the exchange rate and yield curves, leading to lower derivative measurement related losses in the second quarter of 2024 versus the same period in 2023.

Turning now to slide 9, let us look at the capex and free cashflow developments in the first half of 2024. As shown on the right-hand chart, investments were on a moderately lower level in the first six months this year, reaching 46.3 billion forint. With regards to product categories, while network investments in Hungary increased, capex related to CPEs and provisioning were lower year-on-year driven by differences between the yearly dynamics. Furthermore, we also booked some one-off increases in asset retirement obligations which was the driver behind the increasing share of the other category as shown on the graph. The decline in North Macedonian capex of 1.4 billion forint was driven by year-on-year lower network investments due to 5G coverage already being over 90%, and fiber reach was expanded to 330 thousand access points.



Looking now at free cashflow, the strong growth in EBITDA also resulted in a significant uplift in cash generation despite an increase in working capital. Higher working capital needs arose from higher outpayments to suppliers, especially in relation to handsets, as well as different dynamics for supplementary tax outpayments within the period. Further declines in operating cashflow resulted from higher income tax payments and less favorable FX movements during the first half, which resulted in higher FX losses compared to a year earlier. However, investing cashflow improved by 6.9 billion forint as lower capex was supplemented with seasonally lower capex creditor outpayments, which, together with the strong improvement in underlying profitability resulted in a 29.7 billion forint year-on-year improvement in cash generation, with free cashflow for the first half of 2024 reaching 36.7 billion forint overall.

Before concluding the presentation, let me provide a short summary on where we now stand against guidance at the mid-point of the year, and what we expect for the second half of 2024. As shown on slide 10, we have outperformed our original guidance ranges for both revenue and EBITDA after leases in the first half. With regards to revenues, this is very much driven by higher equipment sales related revenues, which are mostly driven by external factors. At the same time however, revenues from customers of telecommunication services were also showing more favorable trends compared to our initial forecasts. Although we do see increased awareness among customers regarding the services they are willing to sign up for, this is less pronounced than earlier expected. Consequently, we now expect revenues to grow by around 10% for the full year, with EBITDA after leases increasing by around 25% against 2023. Thanks to these upsides, coupled with the recorded favorable developments in financial expenses, we are also upgrading our guidance for adjusted net income to approximately 150 billion forint, with a projected free cashflow generation of around 140 billion forint.

With that let me conclude our presentation, and hand back to Dia.

Dia Várkonyi



Thank you very much Darja.

We are now happy to take any questions you may have. Please use the “raise hand” function, following which your microphone will be enabled and you can unmute yourself to ask a question.

(Take questions)

Thank you again for joining us today. Please note that a transcript of this conference call will be available on our website shortly. If you have any follow-up questions, please don't hesitate to contact us.