Q3 2024 Results Conference Call

November 14, 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 third quarter 2024 financial 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 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.

I'd now like to hand over to Tibor to open the presentation.

Tibor Rékasi

Thank you, Dia. Good afternoon, everybody.

Let me first provide a brief summary of developments during the third quarter, along with our key strategic pillars as presented on **slide 3**.

Since our last update we have further progressed our network developments, allowing us to ensure seamless connectivity experiences for our customers and support the digitalization of Hungary. This is in line with our commitments set out in the Memorandum of Understanding signed just over a year ago. By the end of September, our gigabit capable fixed network was expanded to almost 3.8 million access points, putting us strongly on track towards the targeted 4.5 million access points to be reached by the end of 2027. In parallel to this network expansion, we continued to promote the use of gigabit technology, both among existing customers, by migrating them from the legacy network to fiber, and among new subscribers. Thanks to these efforts, by the end of September, we had roughly 1.5 million subscribers using our gigabit technology networks.

At the same time, we reached the final phase of the radio access network modernization program in Hungary, with 94% of our sites having undergone modernization by the end of the third quarter. In addition, the population-based outdoor coverage of our 5G network has reached 71.8%. These developments also made it possible to expand the 5G service, from offering it only within our high-end packages, to offering it as part of all our mobile data plans. We expect this measure to promote mobile data usage further, while also allowing for better network capacity utilization.

To enhance our sales processes, we have completed some further IT upgrades during the third quarter. Thanks to these, we could considerably shorten the time required for customer interactions and transactions. Furthermore, we were able to synchronize our different sales channels to become interchangeable within the same customer sales process, providing flexibility to our customers by enabling them to change the method they use to interact with us, even within the same transaction.

We believe, one of the most effective methods to satisfy fast changing customer needs is to provide as much flexibility as possible. Consequently, the recently introduced mobile and fixed packages aim to be even more easily customized to fit the different preferences of our customers. We are now not only offering 4 different fixed broadband bandwidths as well as 4 different size data plans, but users have a choice from different streaming options, home security solutions or multi SIM options.

Lastly, let me highlight a recent important milestone; with our employees being very much the cornerstone of the Company's long-term success, I am very happy that we have reached an agreement with the trade unions on employee remuneration. This includes a one-off bonus payment amounting to 4.5 billion forint, to reward our colleagues for the extraordinary job they have done in contributing to this year's positive results. A wage increase of 6% will also be introduced from March next year. At the same time, as part of the Company's sustained efforts to realize further efficiency improvements, the agreement includes the termination of circa 120 employee positions.

Our dedication to maintaining stable, efficient and reliable operations has again been rewarded by a triple-B-plus issuer rating from Scope, underlining our efforts to achieve a healthy financial risk profile.

Now turning to **slide 4** and the Hungarian mobile service market. As shown by the first chart, the key driver of SIM card growth continued to be the dynamic uptake of machine-to-machine solutions, specifically smart metering solutions and elderly care watches. Postpaid customer numbers growth was again impacted by the further decline in public sector subscribers. However, this does not have a significant effect on our profitability or average ARPU levels given the low value associated with these contracts. Furthermore, the quarter-on-quarter trend in mobile data users is also impacted by the churn within this customer group - excluding this impact, we see continued growth in underlying tendencies.

During the period, ARPU levels continued to develop favorably, benefitting from the increase in data usage as shown also on the bottom chart, whereas postpaid ARPU growth was also further amplified by the impact of the inflation-based fee adjustment.

Moving now to **slide 5** and the Hungarian fixed service market. Thanks to the continued uptake of our broadband and TV services, we have further increased our household base with 25 thousand users added during the last year, despite the further erosion of the fixed voice base. The most appealing service composition remains the double-play package, consisting of TV and broadband service, which represents circa 30% of our overall household base.

At the same time, we experienced some slowdown in the uptake of our services. This is partly due to approaching full penetration within some markets, such as TV, where the overall user base has been stable for quite some time now. However, this was also driven by some decline in customer willingness to sign up for additional services, given the rise in prices for telecommunication services throughout the market, following the implementation of the inflation-based fee adjustment. The new packages launched in September, which I mentioned earlier, also aim to address these developments, with some more favorable price levels introduced for certain services.

Nevertheless, similarly to mobile ARPUs, fixed ARPUs continued to expand during the period. With regards to voice ARPU, the fee adjustment fully compensated for usage decline, leading to a 9.1% year-on-year increase. TV ARPU rose by 12.5%, whilst broadband ARPU was up by 19.1%, reflecting the positive effect of the continued migration among customers to higher bandwidth packages, with only one-fifth of our customers now using packages with lower than 500 megabit speed.

With that, let me hand over to Darja, who will present our financial results in more detail.

Darja Dodonova

Thank you, Tibor. Good afternoon, everybody.

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

Mobile service revenues, up by 12.9% year-on-year, were again the major contributor to the overall 13.8% revenue growth seen in the third quarter. Mobile data continued to be the primary driver behind mobile services growth, with a year-on-year 21.5% increase, which reflects the higher average usage levels as well as the inflation-based adjustment on the subscription fees.

Fixed service revenue grew by 14.2% year-on-year, with fixed broadband adding 5.5 billion forint to growth, thanks to 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 2.5 billion forint or 13.7% higher TV revenue year-on-year for the third quarter, as higher subscription revenue was coupled with some further increases in customer numbers.

Increased equipment sales revenue again contributed to revenue development with a 5.6 billion forint increase in the third quarter. This increase is primarily attributable to higher third-party export sales volumes, and the lower present value discount related to instalment sales, parallel to a reduction in interest rates, whereas sales volumes from customer transactions increased moderately.

In the third quarter, a year-on-year increase of 14.5% 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, starting with EBITDA after leases on **slide 7**. The increases in revenues led to a rise of 15.6% in year-on-year gross profit for the third quarter which more than offset the higher supplementary tax charge that increased in parallel to revenues, and the rise in employee related expenses. The latter rose by 20.4% year-on-year in the third quarter as the combined result of salary increases for both the Hungarian and the North Macedonian operations, and accruals for the Hungarian one-time bonus payments. In addition, year-on-year savings in other operating expenses were primarily driven by favorable developments in energy costs which counterbalanced cost pressures stemming from continued high service cost inflation in the economy, and some one-off expenses booked in North Macedonia. Overall, this led to a 21.3% increase in third quarter EBITDA after leases.

These developments, coupled with the termination of the utility tax from January this year, positively impacted cost levels in the first nine months of the year, leading to an overall 32.7% increase in EBITDA after leases in the first nine months of 2024 against the same period last year.

EBITDA growth continued to be the primary driver of the significant growth in net income and adjusted net income, as exhibited on **slide 8.** In addition to higher EBITDA, growth was also attributable to more favorable financial results constituting of lower interest costs and more favorable FX-related developments in the third quarter of 2024 than a year earlier. These increases were coupled with some decline in D&A, driven by increases in the useful life of different asset classes. Although income tax expenses increased by 36.9% year-on-year, parallel to improvements in profitability, overall net income rose by 21.6 billion forint year-on-year to 44.5 billion forint, with adjusted net income increasing to 46 billion forint for the third quarter.

A strong third quarter performance contributed to the cumulative 121.5 billion forint net income, and 128 billion forint adjusted net income recorded for the first nine months of 2024. As shown on the lower chart on this slide, D&A expenses for the first nine months rose 1.9% year-on-year in relation to software licenses, while income tax also rose by 52.7% year-on-year, in parallel with the sharp rise in profit before tax. However, these increases were fully offset by the growth in EBITDA and the decline in financial expenses, the latter driven by more favorable interest expense levels compared to a year earlier.

Turning now to **slide 9**, let me provide an update on the capex and free cashflow developments in the first nine months of 2024. As shown on the right-hand chart, investments were at a moderately lower level in the first nine months of this year versus the prior year, reaching 69.8 billion forint. With regards to segmental breakdown, investment levels were lower by 1.6 billion forint in Hungary and by 1.8 billion forint in North Macedonia. In Hungary, network investment increased mostly in relation to fiber rollout with the mobile network investment remaining at the same level as last year. At the same time, investments in CPEs and provisioning were lower year-on-year, driven by differences between the yearly dynamics. The decline in North Macedonian capex was driven by year-on-year lower network investments and the lower value of TV content capitalization.

Looking now at free cashflow, the strong growth in EBITDA resulted in a significant uplift in cash generation. Higher working capital needs arose from higher outpayments to handset suppliers, however, these were offset by lower capex outpayments in relation to lower investment levels and different outpayment dynamics. Although income tax payments increased in line with the growth in profitability, and we recorded less favorable results in relation to FX movements during the first nine months of this year compared to a year ago, lower interest payments counterbalanced these increased cash outflows. This allowed for a year-on-year 60 billion forint improvement in cash generation, with free cashflow for the first nine months of 2024 reaching 108.5 billion forint overall.

Finally, let me highlight that as shown on **slide 10,** our results in the first nine months of the year position us well to meet our guidance across all KPIs. Our efforts to enhance customer service and to maximize operational efficiencies have resulted in strong revenue and profitability improvements in the first nine months of the year, meaning I am confident that we will deliver on our promises for full year 2024, as set out earlier in the year.

And 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.