



Q1 2024 Results Conference Call

May 16, 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 first 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. 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 can 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, and Mr. Tibor Rékasi, our CEO, who will take you through the presentation and answer any questions you may have.

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



Tibor Rékasi

Thank you, Dia. Good afternoon everybody.

Before we talk through our operational and financial performance during the first quarter of the year, let me provide a brief update regarding the steady progress we made in our key core strategic areas, namely network, customers, and resilience.

As customer demand continues to be strongest for data products, we progressed our network upgrade process for both our fixed and mobile networks in Hungary. With close to 100 thousand new access points added during the quarter, we are now able to provide gigabit access on our Hungarian fixed infrastructure to over 3.7 million households and businesses. This represents approximately 82% of our footprint and around 70% of total Hungarian access points.

In parallel, the modernization of our mobile radio network also continued. We now have over 3,000 modernized sites across Hungary, allowing for higher data throughput across over 80% of our coverage area and supporting us to better serve the dynamically increasing data needs of our customers.

I would also like to highlight a recently launched initiative - the migration of our CRM systems to a new unified architectural platform. The complete migration of our residential customer base was successfully completed in March this year, and we plan to continue to migrate our business subscriber base as well. This will allow us to better serve individual customer needs, introduce tailor-made offers, accelerate product development, and at the same time achieve operational savings.

The first quarter also saw several favorable financial developments. This March we again implemented a 15% inflation-based fee adjustment on Hungarian subscription fees. We expect this to provide a strong boost to our financial performance and offset all cost side increases. We also saw the full year impact of the utility tax termination



materialize, as in line with accounting requirements, the utility tax for the full year used to be accounted for in the first quarter of the year. And finally, thanks to the more favorable energy price developments, we were able to reach a year-on-year saving of over 25% in electricity expenses in Hungary, despite the continuous increase in the electricity consumption of our networks in parallel with the ongoing rise in generated data traffic.

With this, let me move onto slide 4, and operational developments in the Hungarian mobile market. As shown by the charts at the bottom of the slide, the increase of mobile data users as well as usage continued into the first quarter of 2024. The 18% year-on-year growth of average monthly mobile data usage among our customers could compensate for further declines in voice usage, allowing for organic growth in both postpaid and prepaid ARPUs. The implementation of the inflation-based fee adjustment last year and this March also further amplified postpaid ARPU development; subscription revenues benefitted from a year-on-year increase of 14.5% in the first two months of the year and 15% in March 2024.

As can be seen in the upper chart, the key driver of SIM card growth was again the dynamic uptake of machine-to-machine SIMs, driven by the increasing use of solutions such as smart meters used by utility companies and alert watches for the elderly. Although these SIMs typically have a much lower ARPU contribution, thanks to the strong postpaid segment performance and continued migration from pre-to-postpaid packages, blended ARPU in Q1 2024 rose by over 10% year-on-year.

Building on the continued increase in mobile data demand, we decided to renew our mobile packages, with an increasing focus on customers requiring the flexibility of unlimited monthly data allowance. At the beginning of April, we introduced an upgraded portfolio with 5 different unlimited data plans to meet different needs. On top of the unlimited data allowance, we provide additional services such as multiSim, cyber security, Netflix or HBO as embedded options in the package. At the same time, we continue to include 5G access only in these unlimited data packages.



Moving now to **slide 5** and the Hungarian fixed service market, the favorable trends seen in recent years have continued. Our overall household base increased by 43 thousand in the past 12 months, with expansion again driven by the strong demand for our broadband services, and the highest growth seen amongst those households that subscribe for broadband and TV services. 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.

Similarly to mobile ARPUs, fixed ARPUs were positively impacted by the inflation-based fee adjustment of the subscription fees. With regards to voice ARPU, the fee adjustment fully compensated for usage decline, leading to a 4.6% year-on-year increase. TV ARPU rose by 11.6%, whilst broadband ARPU was up by 17.3%, reflecting that on top of the fee adjustment, migration among customers to higher bandwidth packages continued. The number of residential customers who opted to sign up to our gigabit speed broadband package grew by over 20% in the past year, while those who still use the entry level plan shrank by a similar rate.

Going forward, supported by the continued expansion of our gigabit network, we will strive to grow our broadband subscriber base and encourage customers to use our gigabit packages.

With that, I'd like to hand over to Darja who will provide a more detailed overview of our financial results.

Darja Dodonova

Thank you, Tibor. Good afternoon, everybody.

Let me start with our first quarter revenue performance on **slide 6**. Magyar Telekom Group revenue increased by more than 28 billion forints in the first quarter of this year.



This was due to the growth in our underlying performance, coupled with the positive impact of the Hungarian inflation-based fee adjustment which led to higher subscription fee revenues across all service lines.

The continuous growth in mobile data demand and consequent increase in mobile data revenue was the key driver of mobile service revenue growth in the first quarter of this year. Out of the almost 13 billion forints, just over 10 billion forints came from increased mobile data revenue. Mobile retail voice and SMS revenues delivered an additional 3.4 billion forints year-on-year growth. These increases were moderately hit by the negative impact of the reduction in Hungarian mobile termination rates which came into effect on January 1, 2024. Rates were cut by more than 50% to HUF 0.7678/minute in accordance with EU regulations. However, I would highlight that as fees were cut in a symmetrical way for all operators, our related costs declined proportionally, resulting in no profitability impact.

Our fixed broadband and TV customer base grew further, a manifestation of our efforts to progress our key strategic initiative - digitization of Hungary. These customer base expansions, coupled with higher ARPU levels, delivered 7-billion-forint revenue growth year-on-year.

Increased sales volumes, the lower present value discount impact on instalment sales, and close to 3 billion forints higher third-party export sales combined to result in 19% higher equipment revenue year-on-year. The close to flat system integration and IT revenue numbers reflect stable customer demand in that segment.

Moving on to slide 7, increased EBITDA after leases was driven by the strong revenue performance and consequent strong gross profit performance, coupled with the positive impact of the repealed utility tax. As I previously said, Magyar Telekom's positive underlying operational trends were a key driver of our revenue and gross profit growth, together with the positive impact of last year and this year's fee adjustments. Alongside our revenue growth, the supplementary telecommunication tax also



increased. In the first quarter of 2024 it was almost 23 percent higher than the same period in 2023. The higher employee-related expenses reflect the wage increases from July 1, 2023 in the Hungarian operation. Other operating expenses decreased by more than 1 billion forints, or by approximately 4 percent, driven by lower energy costs. As Tibor said earlier, we recorded a year-on-year saving in electricity expenses of more than 25%. This offset cost side inflationary pressures and the increase in other expenses.

EBITDA growth was the driver of the sharp rise in first quarter net income, as you can see on **slide 8**. During the first quarter of this year, thanks to the more favorable liquidity positions and the positive change on derivative positions, net financial expenses were lower compared to the base period. As well as the business-as-usual financing in the first quarter, we refinanced one part of our loan portfolio. Our aim was to have a more balanced mid-term maturity profile in the coming years. Higher depreciation and amortization expenses reflect increases in IFRS 16 right-of-use asset related depreciation and temporarily higher depreciation related to software licenses. Income tax expenses were up by 62.3% year-on-year, reflecting the year-on-year higher profit levels.

Adjustments to reported net income for 2024 of 4.4 billion forints were driven by unrealized FX losses, coupled with some realized gains on those cross currency interest rate swap positions that related to those loans which were refinanced during the first quarter of this year.

Turning to **slide 9** and free cashflow and capital expenditure. As illustrated on the left-hand side chart, our free cashflow amounted to minus 900 million forint in Q1 2024, an increase of almost 10-billion-forint year-on-year due to profitability improvements. Because of the higher receivable balances and higher handset supplier-related outpayments, our working capital deteriorated by almost 15 billion forints compared to the base period and halved the positive impact coming from EBITDA growth. The weakening Hungarian forint led to higher FX losses in the first quarter of this year.



Turning now to our investments. Magyar Telekom Group booked temporarily lower capex year-on-year. As the chart on the right-hand side illustrates, the 16 percent lower investment level is the combined result of the higher network-related investment, offset by the temporarily lower CPE capex and lower capex in North Macedonia. The latter is a result of the completion of our radio access network modernization project and lower TV content capitalization.

Looking ahead, we remain committed to maintaining our solid market positions and operational momentum, allowing us to meet our stated targets for Revenue and EBITDA AL as shown on **slide 10**. Regarding adjusted net income, we are upgrading the target to circa 140 billion forint thanks to the more favorable yield environment resulting in lower interest expenses than previously anticipated. With regards to free cashflow, we are now targeting circa 130 billion forints as the expected level of working capital deterioration incorporated in our estimates has been revised downwards due to more positive external developments.

That concludes our presentation, I will now 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.