



# Q2 2023 Results Conference Call

August 10, 2023

Good afternoon, everyone. I am Diana Várkonyi, Head of Investor Relations at Magyar Telekom. It is my pleasure to welcome you to our second quarter 2023 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 give your consent to being recorded.

Throughout the presentation your lines will remain muted and once we have commenced 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 start, I would like to draw your attention to the disclaimer on the second page of the presentation. Information in this presentation contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties.

It is my pleasure to welcome Ms. Darja Dodonova, our CFO, who will take you through the presentation and answer any questions you may have.

## ***Darja Dodonova***

Thank you, Dia. Good afternoon, everybody.

Let me start by providing an overview on the progress we have been making against our strategic objectives, presented on **Slide 3**.

We believe that one of the key elements in reaching continuous improvement in business results relies on the ability to provide a superior customer experience and outstanding customer satisfaction. It is in this context that we strive to provide



seamless connectivity and outstanding service. To this end, we remained committed to network developments. We progressed our multi-year mobile network modernization program, aimed at upgrading and improving service quality while increasing capacity to meet escalating data demands, which are growing at a rate of 26% per annum. Furthermore, as the next phase in this program, from June 1, 2023, we expanded population-based outdoor 5G coverage to 60%, bringing the latest generation of mobile technology available to a broader customer base. We also decided to make 5G access automatically available to our customers as part of a summer promotion, enabling almost 1 million customers with 5G capable devices to experience the benefits of 5G.

At the same time, demand for gigabit access remained strong, with over 1.3 million customers now connected to our gigabit network, an increase of 18% year-on-year. It is clear that networks enabling high-quality and high-capacity data are the most in demand and, as such, these investments are essential to future success.

To position ourselves as a truly future-proof, digital telecommunications company, it is essential not only to establish advanced networks but also to transform our internal and external operations, transitioning them into efficient, digitized and automated processes. Our efforts in this regard have already realized several tangible results. For instance, our call center AI, 'Vanda' by now handles over 20% of customer calls and chat messages. During the past quarter, we have also completed the review of our sales processes and implemented changes to improve and simplify our digital servicing solutions and shorten transaction times.

Furthermore, we have progressed the digitalization of our internal operations, automating several internal processes through the integration of AI-supported solutions in areas such as data management and analysis.

Finally, we have further enhanced our financial strength which, in the current macroeconomic environment, is especially important. As previously reported, from March we implemented an inflation-based fee adjustment across the Hungarian



subscription fees, helping us to mitigate cost pressure stemming from the sharp rise in input prices. We also undertook a thorough analysis of the businesses cost structure and cost transformation by rationalizing processes and using new, alternative solutions. Recent achievements in this respect include the further rationalization of our real estate portfolio, including the utilization of our headquarters, automating several internal processes via AI solutions, and capitalizing on positive developments in global energy prices by around 40% of next year's electricity needs.

Now, turning to the developments in our operational performance on **Slide 4**. In the Hungarian mobile market, customer base expansion continued, with growth stemming primarily from postpaid customer additions and a sharp rise in demand for M2M SIM cards. In parallel, the number of customers opting for our mobile data services continued to grow, along with average data usage. This underscores the importance of the ongoing mobile network modernization process and the 5G developments that enable increased capacities and enhanced user experience. As illustrated by the bottom right chart, voice usage continued to decline. This was particularly noticeable among business and prepaid customers, where optimization efforts are starting to take effect.

These developments combined, led to year-on-year ARPU increases, with particularly notable growth in the postpaid category. ARPU levels in this segment have also been supported by the impact of the 14.5% inflation-based fee adjustment applied to subscription fees.

In the Hungarian fixed service market, presented on **Slide 5**, we continued to witness strong demand for our services delivered through our gigabit network, particularly in the high bandwidth broadband and IPTV products. Consequently, the number and ratio of double-play customers among our residential user base continued to increase, driving the overall household base up by 3.6% year-on-year, despite the continued



decline in the voice-only subscribers. The increase in the ratio of customers on the gigabit network with higher value subscriptions, coupled with the implementation of inflation-based fee adjustments contributing to underlying trends, resulted in year-on-year improvements in all ARPU categories.

Turning to the financials, I will begin with our revenue performance, as shown on **Slide 6**. As mentioned earlier, strong commercial momentum, increased demand for mobile data and further expansion of the fixed broadband and TV customer base continued through the second quarter. This resulted in a 47.4 billion Forint increase in revenues for the first half of the year, in comparison to the base period. In addition to the increased service revenues, our system integration and IT revenue grew by 5.8 billion Forint, reflecting more favorable within year project distribution and revenues from high value projects. The 4.7 billion Forint increase in the other revenue category was driven by both higher visitor revenue and higher interest revenue in relation to the equipment installment sales related present value discount.

Turning to **Slide 7** and our profitability. I am pleased to report 11.4% year-on-year growth in EBITDA AL for the first half of 2023. This achievement is primarily due to the sustained gross profit increase in the second quarter, resulting in a 16% increase in the first half of 2023 compared to the base period. This growth has been largely driven by positive developments in our underlying telecommunication services, including the impact of inflation-based fee adjustments.

However, we continued to navigate in a challenging macroeconomic environment throughout the quarter which put pressure on other indirect costs. We experienced substantial increases in electricity costs and pressure from other inflation-driven costs, while employee-related expenses grew due to wage increases implemented on 1 January in the Hungarian operation.



During the first half, we recorded year-on-year 2.3 billion Forint higher supplementary telecommunication tax charges, in line with the higher Hungarian revenue generation, whilst the 3.3 billion Forint subsidiary sale gain booked in the base period also had a negative effect on the year-on-year comparison.

**Slide 8** shows the trend in our Net Income and adjusted Net Income. In the first half of the year, reported Net Income grew by 13%, primarily thanks to EBITDA growth of 13.9 billion Forint coupled with slightly lower depreciation and amortization expenses. The latter is a combined result of our efforts to optimize IT infrastructure which led to lower software-related depreciation expenses in Hungary, as well as the absence of one-off increases related to the shortened useful life of equipment and accelerated depreciation in relation to the RAN modernization program in North-Macedonia. The positive year-on-year EBITDA and D&A impacts were partially offset by higher net financial expenses. The latter is driven by higher interest expenses related to lease liabilities, installment sales and higher average interest costs. In addition, unfavorable changes in the other finance expense - due to different shifts in relevant yield curves - and different euro-forint currency movements together resulted in a year-on-year deterioration in the fair value of derivatives.

Adjusted net income amounted to 37.8 billion Forint in the first half, an increase of 12.1 billion Forint compared to the base period, owing to the improvement in profitability. Adjustments totaling 5 billion Forint were mostly related to non-realized losses associated with measuring derivatives at fair value and FX-related changes.

**Slide 9** presents the Group's free cash flow generation and capital expenditure developments in the first half of 2023 compared to the corresponding period in 2022. Free cash flow generation without spectrum-related payments was lower by 25.1 billion Forint, due to the deterioration in working capital. The decline in working capital was due to supplementary tax payments of 26.4 billion Forint, which comprised a 2022



tax settlement and a 2023 advance payment which were both missing from the base period.

Meanwhile, strong operational performance was offset by higher lease liability outpayments and higher interest on loans and lease components.

Regarding our investments during the first half of this year, capex after leases excluding spectrum licenses was down 6.8% year-on-year, amounting to 49.0 billion Forint in 2023. As the chart on the right-hand side illustrates, the make-up of our investments was a bit different compared to last year. Due to the continuous uptake of the gigabit service in Hungary, we invested almost one-third more capex to fiber provisioning and CPE, while our network investments were lower in both countries as in Hungary almost 80% of our fixed network is already gigabit capable and the mobile network modernization in North Macedonia was already completed last year.

Finally, turning to **Slide 10** and our progress against our 2023 guidance. Revenues recorded a 13.3% year-on-year increase in the first half of 2023, thanks to the combined effects of strong underlying telecommunication performance, the impact of inflation-based fee adjustments, and higher SI/IT revenues. Looking to the second half of the year, we expect revenues to continue to benefit from customer base expansion and the inflation-based fee adjustment, however, we also expect the economic environment to exert pressure on both household and business spending.

The development of EBITDA after leases will reflect positive gross profit trends partly offset by increases in indirect costs due to the prevailing inflationary environment, which is expected to persist throughout the year and the further increases in employee related expense with the additional salary increase effective from July 1.

Furthermore, given Hungarian interest rates have started to decline, adjusted net income is predicted to perform better than previously forecasted. We expect adjusted net income to grow by a double-digit rate year-on-year.



Finally, with regards to free cashflow, seasonal differences are expected to be eliminated by the year-end, with EBITDA development also driving annual improvement in cashflow performance.

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 shortly be available on our website. If you have any follow up questions, please don't hesitate to contact us.