



Q4 2022 Results Conference Call

February 23, 2023

Good afternoon, everyone. I am Diana Várkonyi, Head of Investor Relations at Magyar Telekom. It is my pleasure to welcome you to our fourth quarter 2022 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 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 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.

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

Tibor Rékasi

Thank you, Dia. Good afternoon, everybody.

On **slide 3** I am pleased to report the progress we made against our strategic priorities and the proactive steps we took to mitigate the risks arising from our external environment. Starting with our network. In 2022 we continued to invest into our fixed



and mobile network to provide gigabit capability and seamless connectivity to our customers.

Thanks to the fixed network roll-out we expanded our access points by 370 thousand and we now provide gigabit speed to 3.4 million access points. This means that almost 77% of our fixed infrastructure is now gigabit capable and more than 1.2 million of our residential fixed customers are connected to the gigabit capable network, an increase of approximately 20% compared to 2021.

The key engine of our growth is still mobile data. In 2022, the average monthly mobile data usage was almost 10 gigabit, an increase of over 25% year-on-year. This is why we have remained focused on progressing our RAN modernization project, a key initiative to maintain the quality and reliability of our services, despite the increasing demand for data. We also continued the radio access network modernization program in both countries of operation. This is now complete in North Macedonia, and at 60% in Hungary.

To tackle the increase in global energy prices, particularly in the price of electricity, we have increased our focus on more efficient energy consumption. This allowed us to deliver a 6% decline in electricity consumption in 2022.

Alongside decreasing consumption, we have also started to diversify our energy sources by securing both traditional and renewable energy contracts on a short- and long-term basis. This is something we touched on during our previous calls and we continue to take further steps in this regard.

We also provided an update on the implementation of the inflation-based fee adjustment clause in our General Terms and Conditions earlier this year. As we announced, Magyar Telekom will implement a 14.5% inflation-based fee adjustment across its customer contracts with effect from March 1, 2023.

Last not but least I am happy to share with you that our sustainability efforts were recognized by MSCI and CDP, which awarded the Group triple A and A minus ratings respectively, the highest ratings Magyar Telekom has ever received.



Turning to **slide 4**. Let me elaborate on our strategic objectives for 2023. Our most important goal is to ensure Hungary's digital transformation is successful. Magyar Telekom contributes to this by developing fixed and mobile infrastructure and providing outstanding customer experience and services. Innovation and the digitalization of businesses are at the center of our efforts, which together contribute to the digital economic development of our country.

Within this overarching objective, we have four key strategic priorities. The first is to be the '#1 choice for our customers'. We are focused on providing outstanding customer experience and customer satisfaction to ensure that Magyar Telekom remains the leading digital service provider in Hungary.

The second pillar of our strategy for 2023, and a continuation of what we have focused on in previous years, is to be a 'Digitally Native Business'. Through digitalization, we will become a faster, more efficient, precise, and user-friendly business.

The third area is 'Undisruptable Telekom', rooted in resilience and sustainability. We have already carried out a lot of work in this area to make our business resilient and we will remain focused on this as a key priority to provide stability, transparency and predictability for our partners, investors and colleagues.

And this leads into the fourth pillar, to be the 'Most admired community'. We have already made great progress in this area and this is reflected in the significant improvement in our employee satisfaction scores over the last few years. Our inclusive culture and agile way of working has a positive impact on our employees' happiness, the performance of our business and the experience for our customers.

Turning to **slide 5**, I would like to highlight some of the most important drivers of our operational performance in Hungary. In a highly penetrated mobile market, we were able to maintain the positive momentum in the fourth quarter and further expand our



SIM base by 5.6% year-on-year. Growth in our postpaid customer base by 185 thousand was driven by successful pre-to-post migration and new customer acquisition efforts. The postpaid customer base expansion, coupled with the increasing machine-to-machine subscriptions, resulted in the total mobile customer base growing by 174 thousand. At the same time, the number of customers opting for mobile data packages continued to grow.

Voice usage was 8% lower year-on-year as more and more voice traffic was conducted via mobile applications, while usage among business customers showed signs of decline. Average monthly data usage continued to increase, up 27% year-on-year in the fourth quarter, with an increasing number of our customers opting for unlimited data packages. This, coupled with the high penetration of flat-rate or partial flat-rate packages, resulted in an ARPU increase across all our customer groups.

The favorable trends in the Hungarian fixed market also continued, as shown on **slide 6**. Our efforts to provide a gigabit capable network with outstanding customer experience allowed us to maintain the pace of customer growth both in fixed broadband and TV, leading to further increases in our residential home base, with the share of double-play packages increasing steadily.

We also witnessed a positive trend in service ARPUs in the fourth quarter. Customer migration to higher bandwidth broadband packages and the successful more-for-more pricing strategy led to an uplift in the broadband ARPU of close to 6.1% year-on-year.

TV ARPU also continued to grow, up 2.8% year-on-year, again reflecting the success of our more-for-more pricing strategy, along with the price increases we implemented throughout 2022.

Finally, our fixed voice service. Given the high ratio of flat-rate package subscriptions among residential customers, lower voice usage in this segment has only minor implications for our financial performance.



With that, I'd like to hand over to Darja to take us through the financials results in more detail.

Darja Dodonova

Thank you, Tibor. Good afternoon, everyone.

Let me continue with the main drivers of our revenue performance, as shown on **Slide 7**. The primary contributor to revenue growth both in the last quarter and the full year was the strong increase in mobile data revenue, driven by the continued growth in our subscriber base as well as higher usage levels in both Hungary and North Macedonia. This increase offset the moderate decline in mobile voice revenue, caused by the decline in the related usage levels, particularly among Hungarian business customers.

The increase in fixed service revenue continued to be driven by growth in broadband and pay TV services as the customer base expansion in both countries continued. This positive underlying trend, as Tibor mentioned, was amplified by the further increase in the share of high bandwidth packages among Hungarian broadband subscribers, as well as by the price increase which had the biggest impact on Hungarian TV and North Macedonian broadband revenues.

With regards to equipment revenue, despite the continued growth in customer sale transaction revenues, as a result of higher average handset prices in both countries of operation, fourth quarter revenues showed a year-on-year decline. This was due to an increase in the installment sales-related present value discount driven by the sharp increase in the Hungarian base rate as well as by lower revenue from third party export sales in Hungary.

Our SI/IT revenue decreased year-on-year as a result of fiscal tightening in both countries of operation, which resulted in fewer public sector project deliveries, as well as the absence of revenues formerly generated by the Hungarian healthcare business unit including Pan-Inform LLC.

Turning to **slide 8** and our profitability. The improvement in gross profit was driven by positive underlying telecommunication service developments, however the increase in indirect costs, coupled with the supplementary telecommunication tax, resulted in a decline in EBITDA after leases for the fourth quarter. Indirect cost increases in the last quarter were mainly driven by higher employee related expenses, however these were mostly temporary and on a full-year basis were on a much lower scale, as well as the weakening of the forint and the strong inflationary pressure, most heavily impacting energy expenses, in particular heating costs in Hungary and electricity in North Macedonia.

On a full year basis, thanks to the gain on the sale of the Pan-Inform subsidiary as well as lower increases in both employee-related and other operating expenses, EBITDA After Leases was 2.4% higher year-on-year.

Slide 9 shows the year-on-year changes in net income where we witnessed similar developments on a quarterly and year-to-date basis. Namely, while the net income for the quarter declined by almost 10% year-on-year, driven by lower EBITDA contribution and deterioration in net financial results due to higher interest expenses, on a full year basis net income grew by 6.7% thanks to higher EBITDA coupled with lower D&A expenses, that more than offset the increases in net financial expenses.

Adjusted net income for the full year 2022 amounted to 63 billion forint, with minor adjustments versus reported net income in the period as non-realized losses booked on FX-based leased liabilities mostly offset gains on measuring derivatives at fair value.

Slide 10 presents the development of the Group's capital expenditure, which amounted to 126.7 billion forint without spectrum licenses for the full year. The vast



majority of the investment related to meeting the strong demand for gigabit connections, which was also reflected in a year-on-year 3 billion forint increase in fiber provisioning and CPE costs, and providing the required capacity for sharply rising data usage by progressing both the mobile radio network modernization process and investing into transport capacity upgrades. At the same time, given that roughly half of the Hungarian capital expenditures are FX-based, we faced negative FX impact of around 5 billion forint from the weakening of the forint throughout the year.

In North Macedonia, capital expenditure after leases, excluding the successfully secured spectrum licenses, rose by over 7 billion forint year-on-year, driven by the fully completed RAN modernization and temporarily higher TV content capitalization costs, that are to level out next year.

Slide 11 summarizes the free cash flow development in 2022 compared to 2021. The positive underlying impact from the improvement in EBITDA, coupled with overall favorable working capital changes, was counterbalanced by higher capex outpayments that also reflect the weakening of the forint and strong inflationary pressure. Furthermore, we reported a year-on-year increase in rental payments that was driven by the acquisition of a leased fiber network.

Free cash flow in 2022 was also impacted by the payment of spectrum fees related to the acquisition of 900 and 1800 megahertz spectrum licenses in the amount of 44.3 billion forint in Hungary and 3.1 billion forint for the secured frequencies in North Macedonia.

Now let me provide a summary of our delivery against our targets. As shown on **Slide 12**, thanks to the continued efforts to meet the needs of our customers, provide them with outstanding service experience and at the same time efficiently monetize our quality networks and improve operational efficiency, we managed to outperform both our revenue and EBITDA After Leases guidance.



At the same time, demand for gigabit connections and the surge in data consumption continued to require heavy investments on the network side which, coupled with the significant weakening of the forint against the euro and particularly the US dollar, resulted in higher than targeted capex after lease levels in 2022.

With regards to free cash flow, we were not able to offset all headwinds here, however we are very much committed to delivering growth in our cash generation going forward – which brings us to our next topic, how do we envision our next 1-2 years from a financial perspective.

Slide 13 provides a summary of our 2023 targets and our outlook for 2024. First, let me say a few words on the modifications we have made to the set of KPIs we are providing guidance for, such as removing capex and adding adjusted net income. As we have previously highlighted, the majority of capex spending is very much demand driven, such as the need for gigabit connections and capacity in both the fixed and mobile networks. Strong levels of demand in past years have led to elevated capex levels in 2021 and 2022, and we intend to adjust our investment plans and strategy to meet this demand going forward. Consequently, while we remain committed to delivering improvements in cash generation going forward, we will not communicate a fixed level of investment but keep it as a demand driven variable in our operation. As for the newly introduced guidance KPI, adjusted net income, we decided to include it to provide further support in understanding the Company's shareholder remuneration strategy and plans.

Now turning to the guidance for 2023. Thanks to our constant efforts to deliver seamless connectivity and superior customer experience, we expect to maintain our positive commercial momentum which, coupled with the positive contribution of the inflation based fee adjustment effective from March 2023, is expected to lead to revenue growth of 5 to 10%.



With regards to EBITDA after leases, it is also anticipated to grow by 5 to 10%, as some of the revenue growth is expected to be offset by increasing costs. We expect the most pronounced increase in energy expenses, in particular electricity costs which, despite our efforts to further reduce our overall consumption, we expect will triple in 2023. Additionally, subcontractor costs and vendor prices are also increasing given the current inflationary environment.

The increase in interest expenses is expected to weigh on profitability going forward. Consequently, we expect adjusted net income to grow moderately year-on-year in 2023, whilst free cash flow, excluding spectrum license payments, is forecasted to increase to around HUF 60 billion in 2023, thanks to positive trends in EBITDA after leases.

Looking further ahead, there are a number of external factors that are outside our control, such as inflation, energy prices and household spending power. Nevertheless, we remain committed to delivering further growth in the underlying performance of the Company, allowing us to generate mid-single digit annual revenue growth, which, coupled with the expiry of the supplementary telecommunication tax in 2023, will result in dynamic profitability growth for 2024.

Finally, let me say a few words on the Board of Directors shareholder remuneration proposal, presented on slide 14. A year ago, to improve transparency and visibility with regards to the Company's shareholder remuneration, the Board of Directors decided to set a new shareholder remuneration policy for the 2022-2024 period. This policy envisages growth in annual shareholder remuneration as a combination of dividend payments and share buybacks in line with improvements in the Company's financial performance and also states that the total value of annual shareholder remuneration is expected to be between 60% and 80% of the Company's annual consolidated adjusted net income, generated during the preceding financial year.



Having reviewed the 2022 financial performance of the Company, given the improvement in profitability, taking into account the current business environment and outlook, and based on the shareholder remuneration policy, the Board of Directors believes that a year-on-year increase in total shareholder remuneration is justified.

It also believes that the Company's strong financial position and expected outlook allows Magyar Telekom to propose an even higher increase in the total shareholder remuneration than what was delivered in adjusted net income – and increase the total annual shareholder remuneration, constituting of a dividend payment and share buybacks, to up to 44.06 billion forint, corresponding to approximately 70% of the Group's adjusted net income.

Consequently, it proposes for approval at the Annual General Meeting a total dividend payment of 29.46 billion forint for the 2022 financial year. Based on the number of outstanding shares, i.e. excluding treasury shares, as of today, the dividend will amount to an equivalent of 30.6 forint per share.

In addition, the Board intends to supplement the dividend again with share buybacks with a value of up to 14.6 billion forint. At this point, the execution of the buyback is subject to necessary authorization of the General Meeting scheduled for April 19, 2023.

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.