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Welcome

Operator

Good afternoon, ladies and gentlemen, and welcome to Proximus Q1 2020 Results conference call. For your information, this conference is being recorded. At this time, I would like to turn the call over to Mrs Nancy Goossens, Director of Group Investor Relations. Madam, please go ahead.

Nancy Goossens

Thank you. Good afternoon, ladies and gentlemen and thank you for calling in. I trust that everyone has seen the Q1 results and the presentation that we published this morning. We will not go through the results in detail, but we will keep the usual format. So, most of the available time will be spent on your questions.

So, let me just quickly introduce the participants from our side. We have here the CEO, Guillaume Boutin on the call, and we have some members of the Executive Committee. I regret to say that for two of them this is the very last Proximus results call for this year for Sandrine Dufour and Bart Van Den Meersche, the Chief of the Enterprise segment; this, after many quarterly iterations, I would say, 21 for Sandrine, 37 for Bart, if I am not mistaken. Okay, so, furthermore, we have on the call Jim Castelee, the Chief of Consumer segment, Geert Standaert, the CTO, and Dirk Lybaert, the Chief of Corporate Affairs and Daniel Kurgan, the CEO of BICS. They will all be very happy to take your questions in a moment. But, before we get to that part, we start with the introduction of the CEO, Guillaume, please go ahead.

Presentation

Guillaume Boutin

Welcome to the Proximus First Quarter 2020 Results conference call. I hope that everyone is getting through the pandemic in good health and in good spirits. The virus crisis is no doubt impacting us all personally and professionally. For the telecoms sector, these are crucial times to prove its huge value to society and to take up responsibility to support our stakeholders in this difficult period.

At Proximus we have taken up that role to the best of our abilities and I am truly proud on how well our networks have been able to sustain the boost in traffic since the confinement. Today, we benefit from the significant investments done over the past years to keep high quality networks and we continue to invest.

As we announced at our Capital Markets Day, end of March, the first pillar of our Inspire 2022 strategy is to build the Belgium Gigabit network of tomorrow, deploying both Fiber and 5G and to be the undisputed Belgium leader in terms of networks. The recent events have even reinforced our belief that investing in the networks of the future is essential for the connective society of tomorrow.

At the same time, we have closely followed up on the needs of our customers and launched mid-March several pro-active commercial measures to support our customers through these times of lockdown. In this view, we have also very recently, increased the internet upload speeds for the vast majority of our residential customers and professional customers.

The protection of our employees is obviously the top priority as well. Therefore, we decided, even before any government obligation, to close all of our shops and to limit our customer installations and repairs. Especially, the limitation in customer installations is reflected in a lower net customer growth for TV and Internet in the first quarter. Including nearly 7,000 internet customers that could not be connected in March, but that will be connected in April, our net internet customer growth would have been around 8,000 for the first quarter of 2020; so, very much in line with first quarter of last year.

Overall Proximus is showing a good level of resilience in these very exceptional circumstances, and from a financial point of view, the effects of the COVID-19 sanitary crisis were very limited so far, with only two weeks of impact in the first quarter. We closed the first quarter of 2020 for our domestic operations with minus 1% in revenues and achieved a stable underlying EBITDA, including a strong reduction in costs compared to the same period of 2019.

Within the mix, our customer segment benefitted once more from our convergent and segmentation strategy, further growing our convergent customer base. This was supported by the Mobile Data Boost we have given to our 3-Play Minimus packages, while epic combo continues to address successfully the Millennials segment.

I am also pleased by the results of our revamped Mobile portfolio, leading to solid decrease in Mobile postpaid churn and a good customer growth in this first quarter.

Our Enterprise segment posted a solid increase too for its mobile customer base, in spite of its already strong position. At the same time the further erosion in legacy services notably affected our B2B margin, underlining the necessity of the major transformation that we have set up for this segment in the coming years. Transformation that we announced with our Inspire 2022 plan.

While the limited COVID effects so far are reassuring, it is clear we are not fully immune to the crisis and we expect the impact to become more visible over the next quarter. The economic recovery for Belgium remains uncertain and especially Roaming and ICT projects are exposed to further negative effects. It is very difficult to have a clear view on what the overall impact will be. So far, there are no signs the financial effect will be worse than what we have anticipated, and we expect that the EBITDA impact will be largely offset by a lower CAPEX. We therefore reiterate our 2020 full-year guidance of Group EBITDA minus CAPEX landing between €780 and 800 million.

So, before opening the lines for questions I would like also to thank Sandrine and Bart attending today their last quarterly results for Proximus. So, thank you, Bart and thank you, Sandrine.

Q&A

Nancy Goossens

May we open the lines for questions please?

Operator

Yes, ladies and gentlemen, if you wish to ask a question you may press 01 on your telephone keypad.

We have one first question from Mr Nicolas Cote-Colisson from HSBC. Sir, please go ahead.

Nicolas Cote-Colisson

Thank you. I will start with the Mobile market, two things please. First, you had a good run in Q1 in terms of postpaid net adds but ARPU has dropped massively despite only two weeks of COVID. So, could you explain a bit more what is happening there beyond the e-Press effect?

Secondly, still on the Mobile market, Orange Belgium has launched the offers that are quite attractively priced; I can see some promotions on your website matching Orange Belgium prices. So, I wonder, what is the end game there? How can you differentiate on other criteria than prices in a context of network-sharing eventually?

And, if I may, just before saying goodbye and all the best to Sandrine and Bart, I was wondering if you could share the process for the succession plans? Thank you.

Jim Castele

So, good afternoon. This is Jim Castele speaking. So, on the first question, linked to the good results from postpaid net adds, and the impact on ARPU with only two weeks of COVID. So, indeed Mobile ARPU is impacted by three big elements. The first one is international regulation, that continues to put pressure on our Mobile ARPU year-over-year. The second one is linked to the good performance that we had commercially with the Data Boost that we did on 1st January, which had an impact of course on our out of bundle revenues. And we all know that it takes some time before customers adapt to new volume limits. And so, we expect to ease out at this effect in the coming quarters. And, on top of that, but, indeed only for two weeks, we gave an additional 10 GB of data to our customers during the COVID-19 confinement period. And then, the third element that impacts the Mobile ARPU are the internal accounting allocations that are linked to three big elements: first of all, the e-Press; but secondly, also the continued push to convergence; and also the impact our joint offers have on the Mobile ARPU. So, I think these three elements together explain why Mobile ARPU continues to be under pressure.

Bart Van Den Meersche

And then, this is Bart for Enterprise, the good news is that we have been able to grow our park again; so, we have 8,000 mobile cards sold, even increasing our market share that was already very strong. The other good news is that we were able to keep our churn pretty stable. But indeed, there is pressure on ARPU, actually for three reasons. The first reason is competitive pressure. It is not a secret that as well Telenet as Orange tried to take a stake in the Enterprise Mobile market, so that puts pressure on the prices. But, next to that, it is also that customers are moving more and more to bundles, including more and more data allowance at competitive prices. And so, traditional, out-of-bundle revenues are decreasing and have a negative impact on ARPU. And then,

last but not least, indeed, there is much lower roaming revenues due to COVID-19. So, those are the elements.

Jim Castele

So, on the second question, so this is Jim speaking again; so, on the Orange offer and how do we see ourselves differentiating going forward. So, for the moment we don't really see a big impact of Orange GO on our commercials. As you know, our strategy – our commercial strategy is to boost convergence, where we bundle different products into one and the same offer towards the consumer; and so that gives you additional opportunities to differentiate when you bring a proposition to the customer. And, even if you are doing network sharing with Orange, even then we still have capabilities to differentiate our Mobile experience towards the customer. So, I think these elements for us help us to continue to differentiate in the market, even if we are sharing the network with Orange.

Guillaume Boutin

And for the succession plan, Guillaume speaking; so, the process has only been ongoing since, for a few weeks now, so, we are actively screening the market and I hope I will be able to give you more news on that front during the next quarter of both positions.

Nicolas Cote-Colisson

I got it, thank you very much.

Operator

Thank you, sir. Next question is from Mr David Vagman from ING. Sir, please go ahead.

David Vagman

Yes, hello, good afternoon everyone. Can you hear me properly? Yes. So, yes, so, I've got two questions on my side. The first on the wholesale cable regulations, so what is your view and how do you think this will impact the commercial dynamic in Belgium? And, secondly, what would be your wholesale commercial strategy for Fiber? So, I think Orange Belgium has been quite vocal about their desire to have passive access; what is your view on this? And, maybe a last question on broadband net adds, could you come back on the performance, which was a bit weaker than consensus was expected? Thank you.

Guillaume Boutin

Can you repeat the last question?

Nancy Goossens

Broadband. Broadband.

David Vagman

Yes, the last questions was on broadband net adds. If you could just explain us a bit what was explaining – sorry, the weaker performance in net adds in Q1, thank you.

Guillaume Boutin

So, on the cable wholesale pricing, so the formal notification showed that the BIPT, indeed, has taken good note of all the comment that we did at Proximus, but also that others did. You know, the depreciated assets valuation, the link with Fiber, that Fiber cannot be ignored in that depiction of the wholesale cable pricing, and also the importance of tiering. So, it was just for you to know that the [inaudible] for the European Commission to react. So, we should have more news by the end of Q2. What is the takeaway for us, I think rather good news and those pricing are in the right direction. I think also putting more balance the South & the North of the country. So, you know, I think that that is pretty much what I can say at that time. We have to have the confirmation and we will see how it goes but it was a good news for us. In terms of commercial strategy for Fiber, and as mentioned during the Capital Markets Day of end of March, we want to build a Fiber network, which is an open network, open to wholesale activities, to wholesale partners and confirming that we want to – pursuing the directions that we want to be a network that will be open to strategic partners, commercial partners, but also partners to co-invest with that network. There are discussions that could happen and that will happen, specifically with Orange, on both sides of the equation. So, when we can have more advanced discussions with Orange we will get back to you.

David Vagman

Thank you.

Guillaume Boutin

Yeah, go ahead. You have a new question?

Jim Castele

So, on the, maybe first, on the third question, on the broadband net adds. So, indeed as we mentioned, the lockdown has impacted our operational results and the closing of the shops have impacted the sales. But, more importantly, the onboarding of new customers Internet and TV were impacted by our strict application of limiting the field technician activities to urgent interventions, which have significantly reduced the installation capacity.

As you know, to protect our employees, we have applied the guidance of government very strictly; more strictly I would even say. We closed our shops sooner than competition and, at the same time, we have also limited, over the period, broadband installations to urgent installations only; and, of course, we continue to do full repair services to our customers. We expect, indeed that these customers will be installed in the next quarter. But, keep into account, of course, that we try to project it the next quarter, that in April we were still in a strong confinement period as well. And, on top of that, we, of course, have limitations on our production capacity. But I would say that the customers that we didn't install over the last weeks, they will be installed, like Guillaume said, or are being installed already today as we speak.

David Vagman

Okay, thanks very much. And, a quick follow up, on the wholesale table, and, sorry, on the co-investments; we do see a rising appetite from the local players in Flanders & Wallonia to co-invest together with you in Fiber, can you already tell us a bit on that, on potential partners for the Fiber roll out?

Guillaume Boutin

I will not comment on the evolution of all the discussions we do have as we speak with different types of partners; so, it is too soon to comment on that question, but I hope I will be able to comment later this year on that front.

David Vagman

Okay, thank you.

Operator

The next question is from Madam Maya Ranjet from Citi. Madam, please go ahead.

Maya Ranjet

Hi, thank you very much for taking my question. First of all, can you quantify some of the COVID impacts seen so far, in particular impact in churn and savings and also on [inaudible]? And have you seen an impact in marketing costs?

Then, my second question is on football subscriptions that have been paused and customers are trying to get a rebate on this; can you help us quantify how much would be the revenue impact and also, how much you expect to recover in costs?

And, thirdly, do you have an update on the spectrum auction if any? The BIPT has granted Proximus and four other companies temporary 5G licenses to date. Do you still foresee it as risk for new entrants?

Sandrine Dufour

So, Maya, I am not sure I understood all your questions. I understand that you wanted some quantification of the COVID impact but I did not get all the details of your question. But I must say that in Q1 there is a limited financial impact of COVID. We have said that it may have an impact in the measures that we have taken and also – so the benefits that we give to our customers, granting some more data and Fixed Voice, so that has had an impact on out-of-bundle. It also had an impact on our roaming revenue, where we saw the decrease in traffic, so this has had an impact.

There have been a couple of savings as well, of course, this is true for Proximus, this is true for BICS as well and this has helped a bit, but net it is limited to a couple of million for the first 15 days – for the last 15 days of March.

Dirk Lybaert

So, on the update of the 5G, the spectrum auction. First of all, on the temporary licenses, we think that the agenda, which is currently foreseen or published by the regulators will be respected. That is to say that these temporary licenses would become

available as from 1st July and operators have to activate the licence then between 1st July and the end of the year. On the real option, there we have to wait for a government in full power, for the moment we don't have a government in full power, but we have to wait for a government in full power and so we don't expect this auction anymore in 2020; it will be for next year somewhere.

Guillaume Boutin

Jim wanted to add...

Jim Castele

So, on the churn impact related to COVID, so, indeed we have seen, as all the other operators, the reduced commercial activity in the last two weeks of March. So, this has positively impacted the churn on the Fixed part. On the Mobile part we have very good churn results in the first quarter, but these are driven more thanks to the commercial changes we did on the portfolio on 1st January, where we boosted the data for customers, which has really given a very good impact on churn and this is more important on Mobile churn impact than the COVID of the last two weeks.

So, I would say on Fixed, the churn reduction is thanks to this. Due to, I would more say, COVID on Mobile, it is mainly the changes on the commercial portfolio that have driven churn and also impacted by COVID reduce in churn as well.

Operator

Thank you, madam. The next question is from Mr Emmanuel Carlier from Kempen. Sir, please go ahead.

Emmanuel Carlier

Yes, hi, good afternoon. Three questions from my side; the first one is coming back on the Fixed subscriber additions. I think it is since a couple of quarters that they were quite weak. You mention the COVID-19 impact but given that that only started to take place by mid-March that cannot just be the only reason, I think. But I would love to get a little bit more explanation on what is resulting in these weak Fixed subscriber additions and how you intend to turn that around?

Secondly, on cost savings; so, I have seen quite solid cost savings, is that base sustainable and is that mainly driven by the recently announced layoffs and how should that evolve in the coming quarters?

And then, lastly, on the fourth entrant, do you believe that politicians have generally less appetite for a fourth entrant because of the importance of good networks in a COVID-19 environment? Thank you.

Jim Castele

So, I am going to start on the Fixed part; so, I understand your question and the hesitation that two weeks of COVID can have such an impact on the net adds. But, as you know, the broadband market is a very saturated market, where we do quite some acquisitions to compensate quite some churn at the same time. So, if you calculate the churn rates on the installed base, and you look on the volumes that it drives over a quarter, you will quickly realise that indeed, in two weeks' time, if your production machine is nearly stopped, that it can have quite an impact on the net adds on the quarter.

Sandrine Dufour

Then on your question on cost savings, so it is true that we had indeed a very good year-over-year cost reduction in Q1 and that was mainly the result of the lower headcount. Of course, we continue to take actions everywhere in the company to focus on our costs. But Q1 decrease should not be taken as a run rate for the rest of the year. We certainly expect further savings by end of year, but not at the same rate.

And, I can give maybe a bit more colour on that. First, we had, versus Q1 last year, it is a higher comparable basis in 2019; you should look at the Q2, Q3, they are about 20 million lower versus Q1, so we have worked on the costs at the next quarters in 2019. So, that is one element.

There are also some tightening effects through commercial means where some media campaigns have been postponed. And, remember, as of 1st April we have wage indexation in Belgium, so the year-over-year for the next quarters will be impacted by this element. And, as part of our FFP plan, we had many employees which departed 1st March and we have always said that there were some specific skills that we needed to re-hire and this has not really – has had an impact in the month of March yet, but this is ahead of us. So, I think that's a series of explanations to guide you not to multiply by four the performance of Q1 in cost decrease.

Guillaume Boutin

On the fourth entrant question, it is for sure there will be world post COVID, that will be fully different from the world before COVID; this is one element, because we proved the importance of network, as you mentioned, as being crucial for the economy. That is the first element.

The second element, you know that we announced a massive investment plan to upgrade the network provisioning, and to roll out Fiber, which you know will be instrumental to make sure that the recovery of the economy will be accelerated. Without good connectivity, without this Fiber network, these fast networks, there will be no speed – fast recovery of the economy. So, we are going to be a central element, also with our investments, to create a good momentum for the economy of Belgium. This is a second element.

And the third element, the more we wait, the less attractive is the Belgium market for a fourth entrant.

So, you know, all of those three elements together, I think that probably lowers the risk of adding the fourth entrant into the market. That said, we never know, but for sure, I think, the risk is a bit lowered compared to the risk we had a few quarters ago.

Emmanuel Carlier

Does that mean that the government kind of gave their word that they appreciate that if you do Fiber to the home investments that, yeah, that makes it quite tough there would be a fourth entrance, or is that a step too far?

Guillaume Boutin

Not for the moment. Not yet.

Emmanuel Carlier

Okay. Thank you.

Operator

Thank you, sir. The next question is from Mr Ruben Devos from KBC Securities. Sir, please go ahead.

Ruben Devos

Yes, good afternoon, thank you. Two questions just; the first one on potential additional lockdowns. I can imagine, you don't take it into account in your current outlook, but, of course, I am curious whether you could expand a bit on a scenario where there would be additional lockdowns. How much of a strain that could be for your business do you think? Some businesses say such scenario may be very disruptive, but I was curious, for Telco, would it be much different from what we have already seen in your view?

Secondly, just on 5G and the, you know, the press reports or the concerns by citizens around health and environmental issues. I mean, much has been written on the topic refuting the arguments that the roll out of 5G would be harmful; but still, how do you think the development could hinder the roll out of 5G technology, the granting of Mobile permits? So, how have discussions been with policymakers really and communities in general on this topic? Thank you.

Sandrine Dufour

So, on your first question of the potential lockdown and the impact on the business; we are, of course, as are all companies, working on various scenarios of how this will evolve. What is going to be the length; what is going to be the depth of the impact over our business; and how should we best prepare to make sure that we can minimizing the impact? And, of course, beyond what we have seen so far, we can expect to be impacted in the businesses that are most exposed to the crisis. And so, on the B2B front, we are closely monitoring the evolution it can have from the various customer base. But also, in the ICT domain, we certainly expect that some decisions will be postponed and that there will be an impact on the traction on the pipe and our ability to execute some of our potential projects there. Travel, certainly, will not be the same. So, for sure, our roaming business part is going to be impacted for a certain period of time as well. So, that is certainly part of the scenario. And so, at the same time, what we are doing is that we are very closely looking at how we can best absorb this and see how we can manage and better manage our cost to make sure that we can minimise the impact on our EBITDA, on our global cash expectations. So, that is the type of very close monitoring that the company has put in place on a very regular basis; and also, of course, on the cash aspect.

Geert Standaert

Okay. With respect to your second question, it was devastating. First of all, when we launched the 5G I would say there was very good press coverage. But, of course, afterwards, we got many negative reactions, both on social media, and mostly driven by fake news. The other observations there, this is a **growth [inaudible]** of course in Belgium, that is one. But the second observation, a very big difference with respect to the reaction between the North of the country and the South of the country. With respect to our reaction, we have chosen to decide in effect to softly react with bringing more information and we are now preparing, because, clearly in the South, there is a request for more information, so we are now preparing that with all the different stakeholders.

The next steps that are scheduled is we continue with 5G, but the first roll outs that we will now do will be in the North; so, that

is one step. The other step is that we will do the tour with the stakeholders in Wallonia to bring the necessary information so there we can bring comfort with respect to 5G and the further roll outs that we want to do.

Ruben Devos

Okay. Thank you.

Operator

Thank you, sir. Ladies and gentlemen, I would like to remind you that if you wish to ask a question, you may press 01 on your telephone keypad. We have the next question from Mr Stefaan Genoe from Degroof Petercam. Sir, go ahead.

Stefaan Genoe

Yes, thank you. Stefaan Genoe, Degroof Petercam. Two questions; overall you have seen a limited COVID impact on the results in the first quarter, but could you give a bit more colour what you have seen on the different cost levels of the company and the cost layers of the company in terms of impact. And could you draw, I would say, lessons from this going forward that could benefit you in terms of savings going forward?

And then, second question, has there been a sell up from clients having lower broadband connection, lower capacity broadband connections? So, the Scarlet customers, that have requested for higher bandwidth offers in view of the homeworking that we have seen in the country? Thank you.

Sandrine Dufour

So, well, on the cost side there are the obvious one, because everyone is working from home, so you can expect to see that anything, which is linked to supporting the business, the travel, the fuel, the events, all this has stopped and so that is immediate impact in some of our parts of the company.

As we said, we stopped as well, some installations and the provisioning; so, these are elements, which have had an impact as well on our OPEX and part of our CAPEX as well, where we stopped deploying. And, of course, when you see that there is less traffic going on, sometimes there is less costs associated to this. And now, what does that mean for the future? Of course, the question is how digital will continue to grow. There will be a portion of this, which might be leveraged that will go back at some point to its physical interaction and team meetings and connecting with customers. So, I think it's certainly lessons to be taken; a bit early to say, but we will look at this and see how we can leverage the experience, and maybe it has been an accelerated journey to digitalise the way we work. And we have certainly learned from this for the future, but hopefully, not to the magnitude of what we have been living over the past weeks.

Jim Castele

So, then on the second question, linked to up-tiering on broadband; so, we haven't seen a lot of short-term impacts on the broadband tiering due to the COVID crisis. Of course, I think we all agree that this crisis has shown the importance of a good performing connectivity for both consumers and businesses. What we do – have seen, however, on the consumer side is, I would say an increase in the TV options. So, the Netflix, BTV, or Family buckets and the VOD consumption, there we have seen some traction over the last weeks.

Bart Van Den Meersche

And then for Enterprise we have indeed several customers who asked us to increase their bandwidth because of employees working from home, which we have been able to accommodate all of them.

Stefaan Genoe

Okay. Thank you.

Operator

Thank you, sir. We have no other questions.

Nancy Goossens

Thank you. Then I think we can leave it at this. Should there be any follow-up questions we can obviously address these through the Investor Relations team. Thank you very much and have a nice day.

Operator

Ladies and gentlemen, this concludes the conference call. Thank you all for your participation. You may now disconnect.