



proximus

Transcription Q3 2019 results

25.10.2019

Proximus Q3 2019 Results

Operator

Good afternoon ladies and gentlemen and welcome to the Proximus Q3 2019 results conference. For your information, this conference is being recorded. At this time I will now turn the call over to Ms Nancy Goossens, Director, Group Investor Relations. Madame, please go ahead.

Nancy Goossens

Thank you. So, good afternoon ladies and gentlemen, thank you for calling in. I trust you have all received the results release this morning and that you have been able to go through the numbers. So, for this call, we will keep the usual format with most of the time reserved to answer your questions. I have here with me Sandrine Dufour, CEO ad interim, as well as other members of the executive committee. They will be happy to take your questions in a moment but before we get to that, we will start with an introduction by Sandrine. Please go ahead.

Sandrine Dufour

Thank you, Nancy. Good afternoon everyone. Welcome to our third quarter conference call. As you could read in our announcement of this morning, we managed to keep a positive customer momentum with our customer bases, for internet, TV and mobile postpaid growing further in the third quarter.

We achieved this in a market which is increasingly challenging, from a competitive point of view. Our segmentation and convergence approach continued to provide good support. We have further built on this, for example by revamping our millennials offer, Epic Combo. Our second brand, Scarlet, maintained a strong position in the segment of price seekers and saw a good traction of its repriced internet-only offer, which now comes at €32. Through the no-frills offers from Scarlet, we answer the needs of customers that are looking for the cheapest offer in the market while preserving our premium brand. The convergence rate of our customer base, i.e. customers taking both fixed and mobile services, has further improved thanks to the traction of our triple and quad-play offers. This was driven by enticing more families and small enterprises to our all-in offers, Tuttimus and Bizz All In and also an increasing number of customers signing up for our triple-play offers, Minimus and Epic Combo, which are both having an average revenue per household largely above average.

On the Enterprise side, the competitive intensity remains very high. We also continue to face the erosion of legacy services, however softened by a growing point-to-point fibre park. We were once again able to further grow our mobile customer base, maintaining our strong position. The tough pricing environment in the enterprise mobile market is, however, reflected in the lower ARPU. We also managed to keep our internet base fairly stable in spite of the competitive activity in this area.

On the ICT front, the third quarter revenue was rather stable. In line with our strategic focus, we saw a favourable evolution in high-value professional services, while revenue from legacy infrastructure products decreased.

All in all, the domestic revenue was 1.8% down from the prior year, the low-margin terminal revenue excluded. About half of this was related to regulatory effects, with the international calling rates now having a full impact on the quarter. Thanks to the progress made on our digital journey, we realised further cost efficiencies in our domestic operations. The higher costs related to the ICT acquisitions we did in 2018 have now annualised and hence make our cost efficiencies more visible.

For the third quarter, our good cost control, thanks to our Shift to Digital strategy has led to a slight positive domestic EBITDA evolution compared to 2018.

BICS, the International Carrier Services segment, saw another strong increase in the A2P volumes supported by TeleSign. The direct margin of BICS was up year on year, with the progressive in-sourcing of services by MTN having so far only a limited impact. This is rather a timing effect, so we expect this to further build up over the next quarters.

The CAPEX level over the first nine months remained in line with our full-year expectations. Our investments included, amongst other things, the further development of digital platforms, the ongoing upgrade of our transport network, investments in mobile to continue to guarantee top quality for our mobile customers and includes, of course, also the ongoing deployment of our fibre network. For so-called brownfield fibre, we are today deploying in 12 Belgian cities, while we continue to deploy greenfield fibre

Transcription, Proximus, 25.10.2019

across the country. Our pace of fibre deployment has increased significantly compared to last year. It is going about three times as fast and our current fibre plan foresees an even faster rollout next year.

To ensure the operational capability to support this, we have now signed up a third consortium.

The free cash flow of the quarter came in strong, bringing us to a year-to-date free cash flow of €517 million, acquisition cash out excluded. And note that part is related to a positive timing element on tax payments, so the full year free cash flow should not be too far from our initial expectations.

Looking at the remainder of the year, we will continue to execute upon our Shift to Digital strategy. In this challenging market, we will keep focusing on further attracting new customers, driving convergence further in our customer base and continue to focus on improving our cost structure. We will finalise the mobile access network sharing agreement with Orange Belgium and regarding the company's transformation program, we have the intention to finalise the negotiations with the unions before the end of the year. With this, I have covered my introduction and propose we now start with your questions.

Q&A

Operator

Ladies and gentlemen, if you wish to ask a question, please 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 have two questions, one on business. I was wondering how concerned you are about the naked broadband bundles in the market. Obviously it is not going to attract 100% of the households long term but if you believe in the one-third addressable market, there might be some more headwinds to come against your TV base. So I wonder what is your view on this and given the EBITDA at risk, how do you see, or actually do you see extra new types of revenues to come in the medium term to offset this, rather than just the cost-cutting?

And my second question is about governance. Is there a deadline for the board to decide on the CEO role and also to you, Sandrine, has the board asked you anything different or on top of what Dominique was asked to delivery by – previously? Thank you.

Guillaume Boutin

Guillaume speaking. On your first question, Nicolas, I think that you might refer, as well, on the net add growth on TV we posted this quarter, that are indeed a little bit soft. It's, of course, an evolution that we are really clearly monitoring with strong attention with the team.

Maybe let me comment on the evolution of the quarter and then I'm going to comment on the long-term view. The main reasons for this performance this quarter, if you compare to Q2 performances, there is a seasonal effect, due to the intake, higher intake of student customers in our mix during the summer. Versus Q3 last year, there is also the success of our revamped 1P Scarlet offer that got very strong commercial focus after the launch this summer.

If I look at – going forwards, if I look at the remaining of the year, so it's not yet long term but we expect a better TV mix in Q4, supported by the strong commercial focus on conversion product during the Christmas period and this is both on Proximus and Scarlet brands. But for sure, all the strategic plans that we put in place, as we speak, aims to stay and to keep a relevant place on the video/TV/gaming space, as demonstrated with the successful launches of Pickx in June and Epic Combo in October. And you may know as well that this strategy will also be supported by our brand new set-top box at the beginning of next year.

So, for sure, we are putting a lot of strategic execution effort in making sure that we're going to stay relevant in a broader place than just the TV segment as we are also trying to extend our reach beyond TV and also touching upon the gaming space as we – as you saw on the – with the Epic Combo launch and the partnership with did with Shadow.

That's what I can say today but of course this is key for us, to stay relevant in that space.

Transcription, Proximus, 25.10.2019

Nicolas Cote-Colisson

Okay, thank you.

Sandrine Dufour

And Nicolas, on your question on governance, there is no deadline for the board to decide on the CEO role, even though they're very active in currently searching the market on that. And the board has given me a clear mandate, as CEO ad interim, to continue with the team on the execution of our Shift to Digital strategy, so I think we are in the continuity on that front.

Nicolas Cote-Colisson

Okay, that's very clear. Thank you both.

Operator

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

Emmanuel Carlier

Yes, hi, good afternoon; three questions, one on fibre to the home. So the decision to potentially accelerate fibre to the home rollout, will that still be taken at the full-year 2019 results or could that be delayed a little bit because the analysis from the regulator is also taking longer than initially expected? And could you give maybe already a bit more colour on what you intend to do?

Then, secondly, on pricing, so given your KPIs, your customer additions are softer the last three quarters, I would say. How does that make you think about pricing, mainly on fixed?

And then thirdly, so we have seen a lot of news on VOO being potentially for sale, yeah. That would obviously be very negative for Proximus. How are you thinking about defending the very dominant market position you have over there? Thank you.

Sandrine Dufour

So, on your first question, regarding the decision to potentially accelerate FTTH, indeed I – well, I confirm that I have in mind to come back in February on this. We are still, as you know, working on all the elements that we have mentioned. One of them, as you say, has to do with the regulatory elements. We are hearing, indeed, that it takes a bit more time on the cable but hopefully by that time we have more visibility and we'll see in February.

Pricing, Guillaume?

Guillaume Boutin

On pricing, I think today, as you know, we have this dual brand strategy and we are managing our pricing strategy in between those two brands, playing on promotional activities – by the way, the average. That is not the same for all the parts of the countries and all the parts of the – and all the different segments on the Proximus brand and playing on naked brand on Scarlet without additional promotion. And we are quite satisfactory with the operational result that we did in Q2. As you said and mentioned, it was a little bit softer in Q1 and Q2 but we were back on track in Q3, especially on customer numbers, both on mobile and internet. And in fact we have had very, very good back-to-school momentum. As you know, in internet, that will be partly materialised in your Q4 internet net growth, as there are still some delays in between the sales and the activation of the customers. And thanks to the promotional activity that you would – we have as we speak, we plan to sustain this momentum throughout the Christmas period.

And important to note, as well, so far, we do not see major changes in Proximus' performances following the recent competitor's announcement. So I think that we remain quite confident with the current pricing and the current promotional activity on our ability to deliver good commercial performances in Q4. Of course, this is also supported by the new communication plan that we launched, the new branding platform and as you can see also in the numbers, very, very accurate and performing churn management, especially on mobile.

Sandrine Dufour

And on your last question, regarding the VOO sale process, of course we are very vigilant on how this will evolve, in terms of which type of shareholders will end up owning VOO, which can have, depending on who it is, different impacts in terms of competition for Proximus. I think it's a bit early to comment on this. I can only say that the longer it takes, potentially, the better for us.

Transcription, Proximus, 25.10.2019

Operator

Thank you, sir. Our next question is from Ms Nayab Amjad from Citi. Madam, please go ahead.

Nayab Amjad

Thank you for taking my question. So, Proximus domestic revenue ex the terminal guidance is now at -1.5% , where it was previously stated nearly stable or growth in H2, depending on ICT revenues. What has changed since Q2 for Proximus to tweak the guidance down? Is this mainly ICT revenues or are there any other reasons for this?

And my second question is on free cash flow generation, which currently covers the guided dividend of €1.50. However, if Proximus was to raise the FTTH CAPEX, the dividend could be uncovered. How would you – how should we view shareholder returns going forward and what is your target on leverage? Thank you.

Sandrine Dufour

So, on your first question, regarding the revenue guidance, I think the overall message here to understand on our revenue guidance is that we don't expect big changes in the trends in the last quarter of the year. As we had indicated in Q2, some parts of our revenues are more volatile and that's indeed the ICT segment. There is, as we said, a time element to the ICT pipe of projects and we had said some revenue might slip into next year and some of it we're rather sure that it will be for next year. But there is also a link to mention, which is with the federal government formation, which as you know is not finalised in Belgium and that has an impact that leads to some softer public sector revenue. You know that Proximus' exposure to the public sector is quite high and I would also add that what we see is that the ICT infrastructure – I am not mentioning the ICT professional services, which are growing but the ICT infrastructure – is facing some pressure. And so that's how you can explain the fact that in Q2 we were expecting an H2 close to -1.4% . Now it's close to -1.5% .

On your questions regarding free cash flow generation, we are confirming our ambition to deliver a free cash flow for the year that will cover our dividend, as we had given in terms of guidance and despite the fact that we are accelerating, in this year, the FTTH CAPEX. We are not giving guidance beyond this. We will come back in February in terms of guiding towards the dividend. I can only say that what we have said is that if we were to decide on a fibre acceleration, we would use, certainly, as a priority, the very strong balance sheet that we have, the fact that we have a very low level of leverage.

Nayab Amjad

Thank you.

Operator

Thank you Madam. The next question is from Alexandre Roncier from Exane. Sir, please go ahead.

Alexandre Roncier

Hi, thanks for taking the question. I have a first one on fibre coverage. If you could just maybe tell us what's your current full fibre coverage in the country. Then the second one, on data usage, that I saw was quite down sequentially. Obviously it's still up, year-over-year but I was wondering if you could maybe give some colour on the sequential seasonal impact of data usage. And then lastly, I've seen in the press the recent interview of Mr De Backer, your Minister of Telecoms and I was wondering if you could give us more colour on the recent discussion you've had with the government. It does seem that for the upcoming five year auction they are willing to maybe use the same model as France used last year, meaning free spectrum against increased coverage obligation. Any colour on that and your sentiment on the fourth entrant will be much helpful.

Sandrine Dufour

Okay. So, on your first question of fibre coverage, we are not disclosing these elements. We are still in the first years of our rollout program, so we are still talking about small numbers but at some point we will come back to you to provide you with more visibility.

On your second question, I think we will come back to you on this because it's a trend that I have not seen, so I don't know if anyone... – Nancy can take this one.

Nancy Goossens

Maybe an element to add on this one is don't forget that our data usage that we are providing is national usage, so it doesn't include roaming, so there's probably some seasonality impact to it, as well, with the holiday period, where it moves more to roaming volume. So it's only national volume in there.

Transcription, Proximus, 25.10.2019

Sandrine Dufour

Okay, so on 5G what we can say is that we are, of course, eager to deploy 5G as soon as spectrum is available. Today we don't have full visibility on the timing, when the spectrum auction will be done. What we can say, as well is that – is there are opportunities to contribute in the forms of further investment in the exchange of the spectrum price. We are fully open to have such discussions with the government.

Alexandre Roncier

Thank you. And any change, perhaps, on what you are seeing the government position is at both the federal and the regional level regarding the fourth entrant?

Sandrine Dufour

Well, on the fourth entrant we don't have lots of information on this. We understand that the risk is still there, potentially, depending, of course, of who is going to be forming the future government. What we can say, however, is that, well, we are still very much claiming that there is no room for a fourth player in the Belgian market but since 18 months you've seen that there has been an abundance of new offers in the mobile space, with unlimited offers, with lower price and so we think that the economic space for a potential fourth entrant has decreased.

Alexandre Roncier

Thank you. That's very clear.

Operator

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

Ruben Devos

Yes, good afternoon. Regarding the transformation plans, I believe it was said that you would restart negotiations with the unions at the end of August and that the idea was to conclude talks before the end of the year. I'm just curious to hear whether anything has changed since August with respect to the timeline and respect to the objectives of the plan. And related to this, it would be great if we could get some guidance on whether we should be expecting some of the benefits already coming through when we look at next year's forecasts.

And then, you know, to come back on fibre, more of a general question. You said the potential acceleration in the fibre rollout would be funded with the balance sheet, potentially but I'm just wondering, you know, what are some of the arguments at this stage that would make you go ahead with an accelerated rollout or what sort of counter-arguments would hold you back, aside from regulation, of course, from ramping up? Thank you very much.

Sandrine Dufour

Okay. So, on the transformation plan what we said is that negotiations are ongoing and that we do have the intention to finalise the negotiation with the unions and with the mediators before the end of the year. We certainly want to remove the uncertainty that exists today on the employees within the company and be in a position to implement the various measures next year. I will not come back on the size and what we have said because I want to fully respect the current confidentiality which surrounds the discussion with the unions. It's of utmost importance that we do not breach this, considering the past events in September and I will give full chances to the current negotiations.

Sorry, the second question on fibre, yeah. I'm not used to have to answer all questions, so that's why. So, indeed I will maybe remind everyone the way we look at it and how we are structuring our thinking on the fibre acceleration. What we have consistently said in the past is that we were waiting to see the various KPIs that we are achieving with fibre on the NPS, the uptake, the win back, the ARPU uplift, customer satisfaction, churn, etcetera and to make sure that we have enough relevant indicators which would give us the comfort to make the decision to accelerate. I must say that, on these fronts, we observe a very satisfactory element, both on the consumer and the enterprise markets. That's one aspect.

The second aspect, we said, has to do with our ability to not only ramp up capacity but also make sure that we improve the effectiveness of our processes so that we decrease our cost to connect and our unit costs. We had announced a target in terms of achieving a certain unit cost and on this front we are making progress but there is still a lot to be done. But we are making good progress; at least we see some opportunities to further control and decrease our unit cost.

Transcription, Proximus, 25.10.2019

And the third element has to do with regulation, which is something I have already commented. And based on all these parameters, then we would make the decision.

Ruben Devos

Okay, thank you.

Operator

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

David Vagman

Yes, hi everyone, thanks for taking my question. First question, on the fibre rollout, again, sorry to come back on this. My question is the following: would the regulatory change, so the new wholesale cable regulation that we see, assuming it doesn't change would this make you more open to co-investments and what type of co-investment could we see, could you be ready to consider?

The second question, on cost savings: so you have been saying – let's say in the press release that you are somewhat faster on cost savings. What is actually driving the speed of these cost savings? Is it new initiatives? Is it faster execution and what is exactly going faster?

And then last question, so third question: could you comment on the ARPU trend for triple-play offers and dual play? Is it Scarlet impacting the mix? Is it lower rate of bundle exposure? Thank you.

Sandrine Dufour

Okay, so on your first question, I wouldn't link the wholesale cable regulations with the opportunities for co-investments. I would repeat what we said on the fact that, potentially, they are low wholesale cable prices. It's not a good signal that the regulator is sending. It's basically sending a message where you would tend to favour renting the network rather than investing and building in a new network. And this is where, as we consider the cable and the fibre space from the point of view of the customer, being the same broadband market, we don't think it's the right signal to send. However, I would link this with the co-investment question.

And on your second question, related to cost savings, what we have seen in Q3 are honestly very nice benefits from a series of measures that we've been taking over the past years on the customer experience, on migrating our customers on one single mass-market IT stack. We're close to finalising this on the deployment of some digital service interfaces to our various agents. And all of these initiatives have materialised into a quite strong decrease of the number of calls to our call centres, so a decrease of such, I would call them, physical interactions, so really materialising the benefits of our Shift to Digital strategy. And so, in that sense, combined with probably better discipline in terms of hiring in the current context, we've delivered a somewhat better OPEX saving. So, with this, we're confirming our global ambition for the full three-year plan that we had announced on the €240 million but, to your question, are they new initiatives? It's an ongoing process, they are always reflections in terms of finding what are going to be the new initiatives and I can just name the one of the mobile network sharing. As you know, the benefits of such initiatives will come beyond the horizon of the three-year plan.

Guillaume Boutin

On your question on ARPU at the consumer side, what is really important to note is that the average revenue per home is still growing quite nicely, growing by 1.7% year over year and this growth is supported by increased RGU per home but also an increased favourable tiering on our mobile customers. Indeed, what you can see, looking at the more precise evolution per play, you can see that 4P net customer growth is softer this quarter but largely compensated by the positive evolution of our 3P convergent customers, both generating very high average revenue per home, above €100 per month. So this is what we are really monitoring, this is this high-value mix within our customer that is generating the growth of our average revenue per home. If I come back also on the revenue evolution, which is today fully explained for Q3 by terminals, inbound and regulation. And the first two elements, i.e. terminals and inbound revenue, have no impact on margin. Regulation impact at the revenue level for consumers amounted to almost €5 million, which is twice the amount of the previous quarter. And if you go back to the direct margin level, at the direct margin level we managed to grow slightly our consumer business direct margin if you exclude this impact of regulation.

David Vagman

Okay, thanks very much.

Transcription, Proximus, 25.10.2019

Operator

Thank you sir. The next question is from Mr Michael Bishop from Goldman Sachs. Sir, please go ahead.

Michael Bishop

Yes, thanks, just two questions please. Firstly, actually, a similar question on ARPU to the previous question but on the mobile consumer postpaid ARPU. It's still declining, even if you strip out the impact from the international call regulation and I would have thought that, given you've potentially got a more accretive spin-up effect as people start to use higher-bundle tariffs, included Unlimited at just over €40, that the ARPU should have stabilised now or could stabilise going forwards, so it would be good to get some colour on that and how you see that progressing.

And then secondly, on free cash flow, could you just give us a sense of where you think the cash tax and the working capital will end up for the full year 2019? Thank you.

Guillaume Boutin

On mobile postpaid customer ARPU, first, one thing important to note is if you look at the 1P mobile postpaid ARPU, this one is growing thanks to higher tiering and then there you have the ARPU within the pack, which is a less difficult element to analyse. But if you look globally at the mobile postpaid ARPU, if you exclude regulation and if you exclude inbound, with no impact on margin, then you have an ARPU, mobile postpaid, which is evolving on the right directions, so growing.

On the question on the higher bundles, one year after the launch of our Unlimited offer, we have now fully recovered the effect that we had on the first months on the out-of-bundle decrease and now we are back to the trends of last year in terms of out-of-bundle growth for mobile customers. So we are being able to fully compensate it, thanks to higher tiering and the evolution of the behaviours of our customers, the impact of the launch of the Unlimited on out-of-bundle ARPU.

Sandrine Dufour

Okay, so on your question on free cash flow, we are not providing the detailed, granular components of free cash flow. I just want to reiterate that it's – for the full year it's still in line with our projection. We do not expect to see a lot of cash flow generation in Q4; there are timing elements with tax and that's all the elements that we can highlight.

Michael Bishop

Okay, thanks. Both very clear.

Operator

Thank you sir. The next question is from Mr Guy Peddy from Macquarie. Sir, please go ahead.

Guy Peddy

Yeah, hello team. Just going back to this fibre issue, you mentioned about trying to – sort of still targeting your unit cost for rollout. If memory serves me right, you were looking at about a €1,000 unit cost rollout and that was including connection costs. So, firstly, is that still the right number? And secondly, on the build process, I'm sure that, actually, the unit cost of building fibre will come down the greater you actually roll it out, so can you actually give any numbers: for example, what is your rollout rate at the moment and what you expect it to be in 2020 when you have a faster rollout target? Thank you.

Sandrine Dufour

So, on the unit cost for fibre, we recently said that we were not achieving yet this target and that this target was something which was over the next month, that we're working towards it.

I think it's important to understand that it's an average and actually this average can have very, very different levels depending on where you're building the key components that can have an impact on the unit cost. They have to do with the density. They have to do with how many – how you can deploy on the facades on the houses, versus trenching and these elements can have quite different impacts. So, to your point in terms of, you know, looking at the unit costs as we build up forward, there's certainly an element of scale and efficiency and learning curve, that's for sure and that's what we're working on, in terms of improving our processes but at some point in time there will be also a question of moving to lower-density areas where we know that we will have to face, potentially, more trenching than facade, so all these components are playing and having an impact on the unit costs. And just keep in mind that it's a constant effort to find the ways to decrease it and to industrialise it and here, there, we consider that we still have some space to do so.

Transcription, Proximus, 25.10.2019

Guy Peddy

Thank you.

Operator

Thank you. The next question is from Shavar Halberstadt from New Street Research. Sir, go ahead.

Shavar Halberstadt

Good afternoon, a quick question: how do you view the risk of your network share with Orange attracting anti-trust action, because the Czech Republic shares some characteristics, in the sense that it's a three-player market where the two sharing parties have the majority of the mobile market share? So your take, please, on how you evaluate that risk?

Sandrine Dufour

So, on the mobile network sharing, we are confident that it complies with regulation. I think we're well aware on the Czech Republic decision of – statement from the commission. I don't think it's a fully final decision, it might take time but I think every situation is very specific and we see that there are some differences in the current situations, such as the Czech Republic one, so still, you know, confident on the regulatory and – in light of that, thanks.

Shavar Halberstadt

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. Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypad.

We have no other questions.

Nancy Goossens

If there are no more questions, I think we can end the call with this. Should there be any follow-up questions, you can obviously contact the Investor Relations team. Thank you very much and have a very nice weekend.

Operator

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