

18 February 2020

Conference call: HT Group - Results for the 12 months ended 31 December 2019

Speakers: Kostas Nebis, President of the Management Board and CEO
Daniel Daub, CFO
Sinisa Duranovic, Senior Vice President and General Counsel
Tomislav Bajic, Investor Relations Manager

Operator

Thank you for standing by and welcome to the Hrvatski Telekom Results conference call for the 12 months ended 31 December 2019.

At this time, all participants are in a listen-only mode. Today, there will be a presentation followed by a question and answer session at which time, should you wish to ask a question, you will need to press the <star> 1 on your telephone.

I must advise you that this conference is being recorded today Tuesday 18 February 2020. It is now my pleasure to hand you over to your first speaker today: Mr Tomislav Bajic

Mr Tomislav Bajic – please go ahead.

Mr Tomislav Bajic

Thank you

Ladies and gentlemen, good afternoon and welcome from Zagreb. Today our CEO Mr Kostas Nebis, our CFO Mr Daniel Daub, and our Senior Vice President and General Counsel Mr Siniša Đuranović, will talk you through the highlights of our business and financial performance for the 12 months ended 31 December 2019, using presentation slides which I hope you have in front of you.

If not, please visit our website, at www.t.ht.hr where you can access the slides from our Investor's page. After the presentation, we will be available for your questions.

Before we begin, allow me to draw your attention to the harbour statements on page 2 of our presentation.

Allow me to introduce you to Mr Kostas Nebis, our CEO. He will outline our company's performance during the 12 months ended 31 December 2019.

Mr Kostas Nebis

SLIDE 3

Thank you Tomislav.

Good afternoon ladies and gentlemen and thank you for joining us today.

It is my pleasure to present the results of the Hrvatski Telekom Group for the 12 months ended 31 December 2019.

I will start the presentation with slide 3, which outlines the business highlights for the period.

2019 was an important year for investments in our fixed and mobile networks. Hrvatski Telekom is working to deliver technology to every corner of Croatia, giving every citizen an equal opportunity to use and benefit from digitisation.

We successfully completed our radio access network modernization program by the end of the 2019. This means 98% of HT mobile locations have been equipped with LTE, which adds capacity and faster throughput, leading to increased speeds and a better level of service for our customers.

Across our fixed line network, we have more than doubled our fiber rollout compared to the previous year, and we have made significant progress with the penetration of fiber speeds in our base. Today over 60% of households can achieve speeds of greater than 30 megabits per second, and almost 24% of households have access to speeds of over 100 mbps. Our fiber optical-based access network (FTTx) is available to 438 thousand households.

We also participated and won 75% of the EU funded BB projects, committing to cover another 150K HH and businesses in semi urban and rural areas with the support of EU funds.

Our efforts to improve customer service have continued to pay off, with customer complaints down 22% and waste calls reduced by 14%, as a result of network modernisation, process improvements, and proactive customer base management

We also continue to drive the penetration of our converged propositions and digital touchpoints in our customer base, with Magenta 1 rising to 244,000 households, or 57% of total households, compared with 45% at the end of 2018.

Business users of Magenta 1 increased to 31,000, which equates to 31% of businesses, up from 20% at the end of 2018.

And our MyTelecom app has also grown over the year, boasting more than 370,000 users at the year end, exceeding the 30% penetration mark on our smartphone base.

Improving customer satisfaction has been a key driver of improving fixed operational trends reflected in retail BB and TV base growth.

At the same time, investments in our front line and IT employees, in combination with a number of transformation measures in the operating model, has contributed to scoring the best employee satisfaction in the last 3 years.

SLIDE 4

Our highlights continue on slide 4, where we focus on the financial performance of the business.

We are pleased to deliver full year results in line with our outlook.

Our revenue through the year showed growth in mobile, TV and system solutions, which was almost enough to offset the decline following our exit from the energy business and the negative fixed voice trend.

EBITDA AL, which is adjusted for the 'after lease' accounting change, decreased by 4.1% in 2019. This was mainly due to a change in revenue mix, which meant less profitable revenues dominated, as well as increased personnel costs.

Our capex to sales ratio was at the peak level of 25% of sales.

We launched our four-year share buyback program in June 2017, and in 2019, the Group bought back over 450,000 own shares, or 0.6%. Since the start of the programme we have bought back a total of 1.1 million own shares. This long-term initiative provides clear evidence of our intention to transfer value to our shareholders.

SLIDE 5

Please now turn to slide five which shows how our guidance compares with the results we delivered.

Revenue, which we anticipated slightly lower than in 2018, was down 1% at HRK 7.7 billion. EBITDA AL margins, which we expected to be around 38%, came in a shade under at 37.7%, 0.3 percentage points below the outlook.

In October we said we expected capex to be around the 2018 level, and at the year end capex was up 4.1% at HRK 1.9 billion.

In terms of regional expansion, we reiterated that we always monitor and evaluate potential acquisition opportunities, and during 2019 we completed the purchase of EVO TV.

SLIDE 6

Now turning to slide 6 we have the financial highlights for Hrvatski Telekom Group which show that while revenues are slightly lower we have broadly maintained our strong margin performance.

Total revenue fell 1% to HRK 7.70 billion, reflecting a 0.6% decline at HT Croatia to HRK 7.12 billion, and a 5.3% fall at Crnogorski Telekom to HRK 585 million.

The fall at HT Croatia was mainly due to our exit from the energy business and the continuing trend of fixed voice declines and despite growth in systems solutions and higher mobile revenue. At Crnogorski Telekom we saw growth in postpaid and TV, but this was not enough to offset declines in fixed voice and prepaid mobile revenue.

The decline in revenue, along with increased employee benefit costs, led to a 4.1% decline in EBITDA AL, which was only partially compensated by higher other operating income.

EBITDA AL fell to HRK 2.91 billion in 2019 from HRK 3.03 billion the prior year, reflecting a 3.9% fall at HT Croatia to HRK 2.69 billion, and a 5.7% fall at Crnogorski Telekom to HRK 216 million. The EBITDA AL margin fell by 1.2 percentage points to 37.7%

Net profit for 2019 was mostly impacted by the decline in EBITDA AL as well as higher depreciation and amortisation and increased exceptional costs. Increased depreciation in the amount of HRK 226 million was driven by higher amortisation due to new ECI contracts, amortisation of Evo TV as a result of acquisition and an increase in impairments.

Increased exceptional costs were due to a higher scope of redundancy and restructuring in 2019 and reserves for legal cases.

As a result, we have reported a net profit decline of 30.1% to HRK 740 million in 2019.

SLIDE 7

Slide 7 continues our financial highlights and shows an increase in operating cash flow and the continued investments we are making to improve our networks and the overall customer experience.

Net cash flow from operations rose 1.8% in 2019 to HRK 2.57 billion. This breaks down into a 1.2% rise at HT Croatia to HRK 2.38 billion, and an 8.8% jump in operating cash flow at Crnogorski Telekom to HRK 197 million. This was mainly due to favourable working capital developments, which benefitted from a positive contribution from trade receivables and payables.

Our capex position was higher in 2019 than the year before because of the significant investments we have made in our mobile and fixed broadband network. Capex rose 4.1% to HRK 1.9 billion, reflecting an 8.1% increase in HT Croatia to HRK 1.78 billion, while capex at Crnogorski Telekom decreased 33.5% to HRK 119 million.

The investment in HT Croatia during 2019 included the highest investments in mobile modernization in the last 10 years. We have completed our radio access network modernization program, also preparing our mobile network for the 5G era, and we doubled our fiber rollout rate compared to the previous year.

I would now like to hand over to our CFO Daniel Daub who will outline the highlights for both HT Croatia and Crnogorski Telekom's performance.

Mr Daniel Daub

SLIDE 8

Thank you Kostas and good afternoon everyone.

On slide 8 you will see that HT Croatia has delivered a good revenue performance in mobile and system solutions, which almost offset declines in fixed voice and the impact of our exit from the energy business. Overall revenue fell 0.6% to HRK 7.1 billion.

Mobile revenue rose 0.8% to HRK 3.2 billion, boosted by higher postpaid revenue as we attracted more customers and they spent more with us, along with an increase in handset sales. This strong performance was partially offset by the impact on revenue from cancellation of network access fees.

Fixed voice revenue continued its decline, falling 12.1% to HRK 648 million as mainline revenue, voice traffic and average revenue per user all fell.

Broadband and TV revenue increased by 2.3% to HRK 1.3 billion. This reflects growth in TV revenue underpinned by more customers who spent more with us, supported by our acquisition of Evo TV. Excluding Evo TV, organic revenue is still higher in our TV segment as numbers and revenue per user grew. Broadband revenue was down despite growth in customer numbers, as average revenue was impacted by tough market competition.

Fixed wholesale revenue rose 3.4% to HRK 312 million mainly due to higher transit traffic, while other fixed revenue fell 0.4% to HRK 824 million. This decline was due to lower data communication and value added services revenue, which was only partially offset by higher terminal equipment sales.

System solutions showed good growth, rising 10.7% to HRK 844 million, while miscellaneous revenue reduced significantly, down 86% to HRK 17 million reflecting our exit from the energy business in the third quarter of 2018.

SLIDE 9

On slide 9 we look in more detail at our mobile business, and I'm pleased to report that we have maintained our market and technology leadership in 2019.

We remain the leading mobile provider by subscribers, with 44.9% of the market at the end of the fourth quarter 2019, just a small decline from the 45.4% share at the previous year end.

Our total subscribers remained stable at 2.27 million, reflecting a 5.7% decline in prepaid customers that has been offset by a 4.2% rise in postpaid subscribers.

Average revenue per user in both segments showed growth. Prepaid ARPU rose 3.9% to HRK 45 in 2019 compared with the prior year. Meanwhile postpaid ARPU also increased to HRK 87 in 2019 from HRK 86 in 2018.

We completed the modernization of our radio access network in 2019, and have now established the prerequisite for successful introduction of 5G services. The modernization program has also expanded the capacity on our 4G network, which will support the continued growth of traffic on our mobile network.

HT Croatia's smartphone proportion of total handset sales is 91% in the postpaid segment, which is flat on the same period the previous year. Smartphone customers now account for 70% of HT Croatia's overall subscriber base.

Our efforts to ensure our customers get the best service were recognised during 2019 with an OOKLA certificate awarded to Hrvatski Telekom for delivering the fastest mobile network and best mobile coverage.

SLIDE 10

Please turn now to slide 10 which describes the fixed line and IP business at HT Croatia. In this part of the business, retail broadband customer numbers have started to grow again, while the Evo TV acquisition boosted TV customer numbers as well.

Fixed mainlines, which have been in decline for many years due to fixed to mobile substitution, regulation and enforced competition, declined 5.2% to 827,000 at the end of the fourth quarter.

Retail fixed mainlines were down 4.6% to 782,000 and wholesale fixed mainlines fell 15.3% to 45,000. We are not complacent about this trend and continue to work to mitigate these declines through proactive and reactive churn prevention offers and activities, like promotions and tailor-made propositions.

Fixed voice ARPU was down 6.8% to HRK 68 in line with the general trend of fixed to mobile substitution.

Broadband access lines declined 1.5% to 736,000 at the end of the fourth quarter. We were very pleased to see a 0.4% rise in retail lines to 621,000. However, wholesale broadband access lines fell 10.5% to 115,000.

The reversal of broadband retail customer declines is a result of a concerted effort to retain customers and encourage loyalty with strong offers like Magenta1. Still, strong competition and aggressively priced offers in the market meant that broadband retail ARPU was 5.6% lower at HRK 104 in the fourth quarter.

TV customers rose strongly, up 17.4% to 491,000 by the end of the fourth quarter. This boost mainly came from the acquisition of Evo TV. TV ARPU was also up 2% to HRK 85.

As a result of investments into the fixed infrastructure, Next Generation Access coverage for speeds above 30 Mbps reached the level of 60% whilst coverage for speeds above 100 Mbps reached 24% of Croatia's total 1.5 million households. Meanwhile customers in rural areas are being upgraded to higher speeds through hybrid access.

SLIDE 11

Slide 11 describes the performance of Crnogorski Telekom where revenue and profitability declined in 2019. Revenue at the business unit fell 4.9% to HRK 594 million in 2019, mainly due to lower fixed voice and mobile prepaid income. In its market though, Crnogorski Telekom retains its leadership in the mobile postpaid segment.

In 2019, EBITDA at Crnogorski Telekom was 6.0% lower than the previous year. The EBITDA decline was to a large extent due to the absence of positive one-off items reported in 2018, including real estate sales and changes to accounting standards, which had boosted the previous year's EBITDA.

On a longer-term view, therefore, when compared against 2017, Crnogorski Telekom's performance was flat.

I will now hand back to Kostas, who will provide our outlook for 2020.

Mr Kostas Nebis

SLIDE 12

Finally, our group outlook for 2020 is shown on slide 12.

We delivered HRK 7.70 billion of revenue in 2019 and we expect this to be stable or slightly lower in 2020.

Having reported an EBITDA AL margin of 37.7% in 2019, we continue to forecast a margin of around 38% for the forthcoming year.

Following the substantial network investment in 2019, when capex was HRK 1.9 billion, we expect 2020 capex to be lower at around HRK 1.7 billion.

And following the successful completion of the Evo TV acquisition, we will continue to monitor and evaluate potential M&A opportunities in our markets.

We are now ready to take any questions.