



# Q4 2023 Results Conference Call

February 23, 2024

## ***Diana Várkonyi***

Good afternoon, everyone. I am Diana Várkonyi, Head of Investor Relations at Magyar Telekom, and it is my pleasure to welcome you to our fourth quarter 2023 results conference call.

Please note that today's presentation is also available on the Investor Relations section of our website. This event is being recorded, for internal purposes only. By joining the presentation, you consent to being recorded.

Throughout the presentation, your lines will remain muted. Once we commence 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 begin, I would like to draw your attention to the disclaimer on the second page of the presentation. The information in this presentation includes forward-looking statements about expected future events and financial results, which are subject to risks and uncertainties.

I am pleased to welcome Ms. Darja Dodonova, our CFO, and Mr. Tibor Rékasi, our CEO, 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.

First, I'd like to provide you with a summary of our progress in 2023 against the key strategic priorities and our directions going forward, as outlined on **slide 3**.

During 2023, we continued to upgrade both our fixed and mobile networks in Hungary to meet the growing data demand of our customers. We made progress in the radio network modernization of our mobile network, reaching an 80% readiness by year-end, and expanded the population-based outdoor 5G coverage to 65%.

At the same time, we added 200 thousand new gigabit-capable access points to our fixed network throughout the year, reaching over 3.6 million households and businesses with this technology. The demand for these services is evidenced by the dynamic increase in network penetration, reaching an average usage rate of around 25% in just under a year.

As communicated earlier, we are committed to continuing our network investments. In 2024, we plan to expand our gigabit network with at least a further 200 hundred thousand access points, while striving to get closer to the completion of our RAN modernization process.

These developments are essential to support the spread of digital solutions in the Hungarian economy, which is one of our top priorities. To foster this process, we offer products and services that support our customers in enjoying or benefitting from the digital solutions. These range from higher bandwidth broadband packages to enable households to seamlessly use their multiple connected devices, to thematical advisory series supporting small and medium-sized businesses in their digital transformation, or campus network solutions for industrial sites. We strongly believe that if we are able



to provide customers with tools and services that enhance their user experience, this will ensure that we can create value for them and the Company equally.

In parallel, we are transforming our internal processes to benefit from enhanced digital solutions, data analysis tools, or automation, both in customer service and back-office functions. Our goal is to achieve superior customer satisfaction by providing outstanding experience in all our customer interactions and make this a key differentiator in the future.

Additionally, besides efficient networks and stable market positions, the third pillar of our strategy is resilient operation to provide a foundation of sustainable growth. In recent years, we have faced many external challenges, and I am very proud that our efforts to mitigate these have been successful. One of the most important steps we took was introducing the inflation-based fee adjustment clause to our customer contracts, resulting in a subscription fee increase of 14.5% in March 2023 and an additional 15% increase from 1<sup>st</sup> March 2024.

Another significant challenge we addressed was the sharp rise and strong fluctuations in energy prices. To mitigate our exposure to this volatility, we have been proactively seeking opportunities to limit the energy consumption of our operations. For example, we have introduced an energy mapping system and a series of IT and network optimization initiatives. As a result of these efforts in 2023, I am pleased to report that we reduced our electricity consumption by 9% year-on-year. Additionally, we have implemented a diversified electricity procurement strategy, including renewable energy sources based on a PPA contract. These renewable sources will increasingly contribute within our overall consumption in the future.

With this, let me move onto our next slide, presenting our 2023 financial achievements.



Thanks to the success of our outlined initiatives, we met our guidance for 2023 on all metrics, as shown **on Slide 4**. Revenue in 2023 grew by 13.8%, equally attributable to the effects of the inflation-based fee adjustment and the organic growth of the operation. The latter was driven by the expansion of our fixed and mobile customer base, the continued appeal of our value propositions, some increases in equipment sales and higher System Integration and IT revenues.

Thanks to the favorable revenue performance, which fully offset increases in indirect costs on the back of significant inflationary pressures, our EBITDA After Leases rose by 16.4%, while our adjusted net income increased by 48.7% to 93.6 billion forint for the full year 2023.

I am pleased to add that we also recorded strong growth in free cash flow, up by over 70% year-on-year at 86.8 billion forint, reflecting the growth in underlying profitability as well as lower year-on-year investment spending levels.

Now turning to the operational developments in more detail, as presented on **slide 5**. In the Hungarian mobile market, the fourth quarter saw the continuation of earlier underlying tendencies, namely further expansion of mobile data services, both in terms of customer levels and usage.

Although with higher portion of our customers already using mobile data services, the growth potential in this customer segment is lower, we continued to witness significant expansion in the number of Machine-to-Machine SIM cards, with an increasing range of the services available via this technology.

In parallel, mobile data usage of our customers advanced further, reaching an average of almost 13 gigabit per month in the last quarter, even though we decided not to provide the usual unlimited data promotion for the Holiday period but gave voice minutes this time. The latter is visible in the fourth quarter's voice usage data, stabilizing on the previous quarter's level, while the significant increase in prepaid ARPU is also attributable to the absence of the promotional data offers.



At the same time, postpaid ARPU continued to increase by close to 20% rate year-on-year, reflecting the impacts of the inflation-based fee adjustment and the growing data consumption of our users. These favorable tendencies combined led to blended ARPU increasing by 14.5% year-on-year in the fourth quarter and with that significantly contributing to the overall revenue growth recorded in 2023.

Moving to slide 6, we see developments in the Hungarian fixed service market. Our household base increased further year-on-year, and in line with our strategy, we were able to increase the ratio of those households that are subscribing for more than just one service from us.

As demonstrated by the lower charts, this growth is primarily driven by the uptake of our broadband service, with TV subscribers also steadily expanding. Both of these increases are strongly supported by the progress of the gigabit network rollout as we see continued strong demand for services on these technologies.

I am particularly proud that despite the lower number of new access points added to our gigabit network, we managed to connect similar number of customers to this network in 2023 as a year earlier.

In parallel, the growth in the broadband ARPU outpaced the level of the inflation-based fee adjustment by 5 percentage points, driven by customers' increasing preference for higher bandwidth packages when signing up for gigabit technology. Additionally, we successfully capitalized on the inflation-based fee adjustment among TV subscribers, underscoring the attractiveness of our TV services. Moreover, the implementation of this adjustment helped to ease voice revenue erosion, despite ongoing declines in customer base and usage levels.

Going forward, we remain committed to consolidating our strong positions among Hungarian households while simultaneously enhancing the value of services we offer to our customers.



With that, I'd like to hand over to Darja who will provide a more detailed overview of our financial results.

***Darja Dodonova***

Thank you, Tibor. Good afternoon, everybody.

Let me delve deeper into the main drivers of our revenue performance, as shown on **Slide 7**. The primary factor contributing to revenue growth, both in the last quarter and throughout the full year, was the strong increase in mobile data revenue. This surge was driven by the continued expansion of our subscriber base as well as higher usage levels in both Hungary and North Macedonia.

The increase in fixed service revenue continued to be driven by growth across all service categories, particularly in broadband and pay TV services, as our customer base continued to expand in both countries.

The Hungarian fee adjustment also played a significant role in sustaining this dynamic growth.

Regarding equipment revenue, the continued growth in customer sales transactions and seasonal promotional offers in our Hungarian operations resulted in higher sales volumes both for mobile and fixed equipment revenue.

Our SI/IT revenue witnessed a year-on-year increase due to higher revenue at our Hungarian operations, attributed to increased revenue from major projects.

Turning to **slide 8** and our profitability, I am pleased to report a 17.4% year-on-year growth in EBITDA after leases in the fourth quarter of this year and 16.4% in 2023 compared to the base period. Our gross profit increased by 15.8% in Q4, primarily due to the strong and sustained commercial momentum in telecommunication services,



coupled with the Hungarian inflation-based fee adjustment. The year-on-year growth was 16.7%, amounting to a bit more than 70 billion Hungarian forints in 2023.

The increased revenue resulted in a higher supplementary telecommunication tax, leading to more than 5 billion forint additional expenses in 2023. Our indirect cost increases were also driven by higher employee-related expenses, energy costs and inflation-driven cost pressures, with the latter being particularly evident in our Hungarian operation. The higher employee-related expenses were a combined result of wage increases in Hungary and the insourcing of certain maintenance functions in North Macedonia.

As Tibor mentioned earlier, we were exposed to very volatile energy price movements, and despite our efforts, we experienced a four-fold increase in electricity costs in 2023 compared to the base period.

**Slide 9** shows the year-on-year changes in net income, reflecting similar developments on a quarterly and annual basis. I am pleased to report that our adjusted net income grew by 48.7% year-on-year, amounting to HUF 93.6 billion for the full year 2023. The reported net income increase was 25.4%. As you can see from both charts, the main driver of our reported net income growth was the profitability. This growth in EBITDA was somewhat offset by net financial expenses due to higher interest expenses and less favorable derivative-related fair value changes.

While in the fourth quarter of 2023, net interest expenses decreased year-on-year due to a legal case-related provision reversal and lower interest related to installment sales transactions, other finance expenses increased primarily reflecting less favorable results related to derivatives, mostly attributable to shifts in relevant yield curves. We witnessed a 4.8% higher depreciation and amortization expense, reflecting differing dynamics of SW license in Hungary within the year and IFRS 16 lease liability-related depreciation expenses. Non-controlling interests reflect the performance of the North



Macedonian subsidiary, demonstrating improved profitability. Income tax expenses were up by 20.4% year-on-year at HUF 4.5 billion in the fourth quarter of 2023, reflecting the year-on-year increase in profit before tax, partly mitigated by a higher amount of tax credits.

Adjustments to reported net income for the full year 2023 of HUF 14.7 billion are primarily attributable to unrealized losses related to the measurement of derivatives at fair value.

Turning to **slide 10** and Group's free cash flow generation and capital expenditure developments. Free cash flow generation, excluding spectrum-related payments, was higher compared to the base period by 35.9 billion forints, representing a 70% increase. This was primarily due to the positive contribution from a strong operational performance, offset by increased interest and other financial charges of 8.3 billion forints, mainly due to higher interest payments on loans and bank charges, as well as an increased leasing interest component. The growth in working capital was driven by higher transaction volumes in equipment instalment sales, especially due to promotions in Hungary in the fourth quarter.

Regarding our investments during the year, capex after leases, excluding spectrum licenses, was down 17% year-on-year, amounting to 105.1 billion forints in 2023. As the chart on the right-hand side illustrates, the composition of our investments was somewhat different compared to the base period. In 2023, we continued our fiber roll-out investment at a slower pace, but due to the continued uptake of gigabit services in Hungary, we had stable investments in fiber connections. We also continued our mobile network modernization in Hungary, as Tibor mentioned at the beginning of our presentation, reaching 80% readiness. Overall, our network investments were slightly more than a quarter less in both countries.





**Slide 11** provides a summary of our 2024 targets. 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 2024, is expected to lead to revenue growth of 5 to 10%.

Regarding EBITDA after leases, we expect some further pressure on profitability stemming from the challenging economic landscape. We also expect a decrease in energy expenses, specifically electricity costs, as a result of reduced consumption and somewhat lower energy prices. Additionally, with the termination of the utility tax in 2024, we anticipate EBITDA after leases to grow. Our management guidance for EBITDA after leases in 2024 is 20 to 25%.

We expect that some external macro challenges will impact us during 2024. Consequently, we expect adjusted net income to grow to circa 130 billion forints in 2024, while free cash flow, excluding spectrum license payments, is forecasted to increase to circa 120 billion forints. The latter is thanks to the positive trends of EBITDA after leases, as well as the 2024 network rollout forecast, which is at least the same as the 2023 level.

In recent years there have been several major events that significantly altered the financial outlook of the company, therefore looking further ahead we decided to provide an outlook for mid-term period at later stage.

Finally, let me say a few words on the Board of Directors' shareholder remuneration proposal, presented on **slide 12**. Two years 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. It 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 Company's 2023 financial performance and noting the improvement in profitability, considering the prevailing business environment and outlook, and aligning with the shareholder remuneration policy, the Board of Directors deems a year-on-year increase in total shareholder remuneration to be justified.

Accordingly, the Board proposes a total annual shareholder remuneration of up to 65.56 billion forint, corresponding to approximately 70% of the 93.6 billion forint consolidated annual adjusted net income generated during 2023.

As a result, Magyar Telekom's Board of Directors recommends for approval at the Company's Annual General Meeting a total dividend payment of 41.56 billion forint for the 2023 financial year. Based on the number of outstanding shares as of today, the cash dividend amounts to an equivalent of 44.70 forint per share. Furthermore, the Board anticipates the value of the buyback to be up to 24.0 billion forint. The execution of the buyback is subject to the necessary authorization of the General Meeting scheduled for 16 April.

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