



# BEZEQ INVESTOR PRESENTATION Q1 2020



**Bezeq**

May 21, 2020

# Forward-Looking Information and Statement

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# COVID-19 Impact

Bezeq Fixed-Line and the key Group companies are defined as a "vital enterprise".  
The companies are ready to provide continuous service to customers and are prepared for emergency situations.  
There is no change to the Group's strategy.

## Adjustments made by the group companies

- ▶ ~ 1,600 employees were furloughed/vacation days utilized/reduced to 70% capacity in sectors where activity declined
- ▶ Increased scope of employees working remotely  
- Full call center response while ~80% of call center employees working from home
- ▶ Technicians working at full capacity while protected in accordance with the State's health directives

## Liquidity

- ▶ Cash and equivalent balances on March 31, 2020 - NIS 2 billion
- ▶ Debt service (principal and interest) for the next 12 months – NIS 1.3 billion
- ▶ Strong free cash flow; expect further decrease in net debt

# COVID-19 Impact

## Risks

- ▶ Significant decrease in roaming revenues due to cancellation of air travel
- ▶ Decrease in retail sales of end-user equipment due to closing of sales points
- ▶ Cancellation/freezing of business lines in sectors hurt by the pandemic (mainly tourism, aviation and retail). Recently, there has been a return to activity in some of these sectors
- ▶ Real estate sales may be postponed based on market conditions
- ▶ Potential rise in doubtful debts and collection issues

## Opportunities

- ▶ Significant slowdown in retail broadband Internet churn as well as increase in traffic
- ▶ Increase in fixed telephony usage
- ▶ TV – higher demand for content services
- ▶ Increase in business sector demand for remote access
- ▶ Increase in demand for new projects in business sector
- ▶ Decrease in operating expenses – salaries, fuel, electricity and terminal equipment

As of the end of Q1 2020, the total impact of the COVID-19 pandemic on the financial condition of the Group companies was immaterial. The magnitude of the impact in 2020 will depend on the duration of the pandemic and the extent of restrictions on the opening of businesses and traffic



# Financial Results

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# Bezeq Group - Revenues | NIS Million

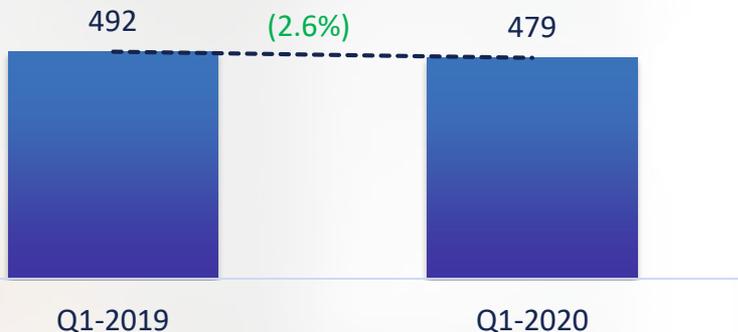


## 3.1% y-o-y decrease

- ▶ Bezeq Fixed-Line – primarily due to a decrease in revenues from telephony services further to the ongoing trend
- ▶ Bezeq International – decrease in revenues from the sale of communications equipment to businesses, Internet services and international calls (Hubbing)

# Bezeq Group - Salary and Operating Expenses | NIS Million

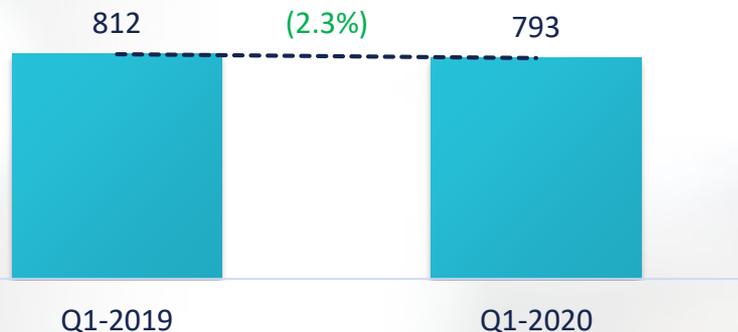
## Salary Expenses, Net



### 2.6% y-o-y decrease

Decrease in head count in all key Group segments further to the comprehensive streamlining plan which we continue to execute over the last few quarters

## Operating Expenses

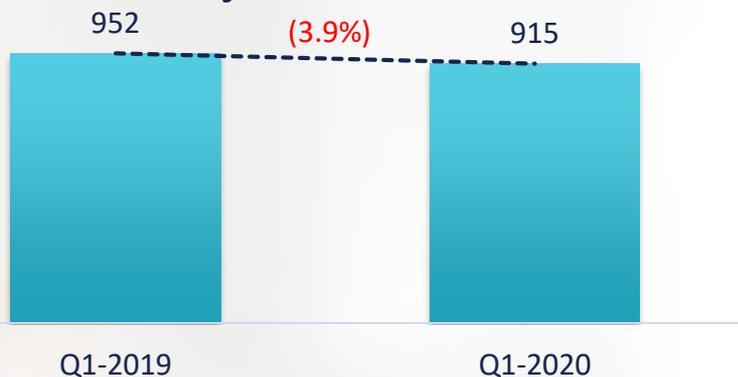


### 2.3% y-o-y decrease

Bezeq International - lower equipment and procurement expenses for businesses as well as international call expenses, in line with reduction in revenues

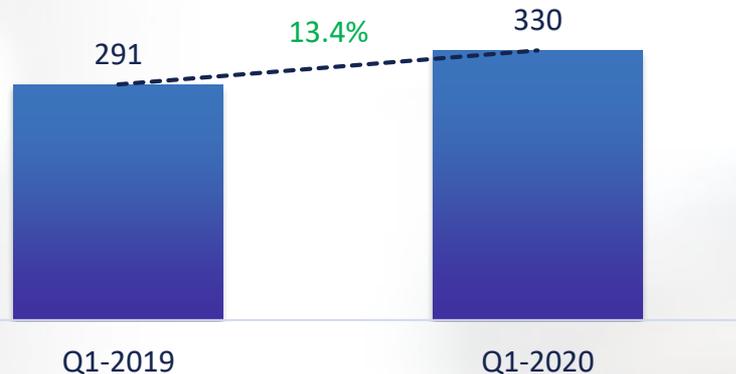
# Bezeq Group - Adjusted EBITDA and Adjusted Net Profit \* | NIS Million

## Adjusted EBITDA



**3.9% y-o-y decrease** primarily in Bezeq Fixed-Line and Telephone

## Adjusted Net Profit

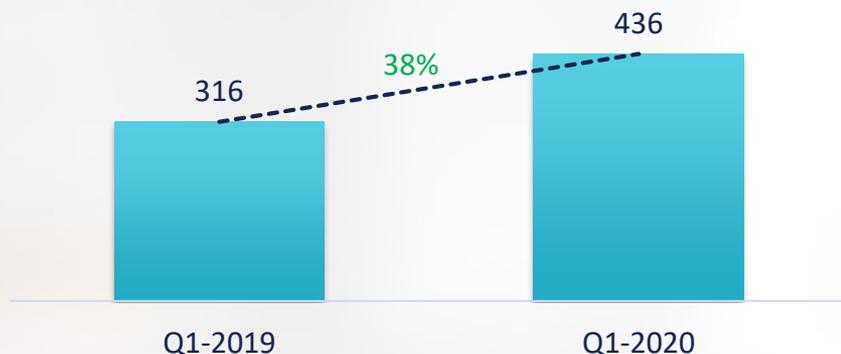


**13.4% y-o-y increase** due to a decrease in financing expenses

\* After adjusting for other operating expenses/income, net and one-time losses from impairment of assets

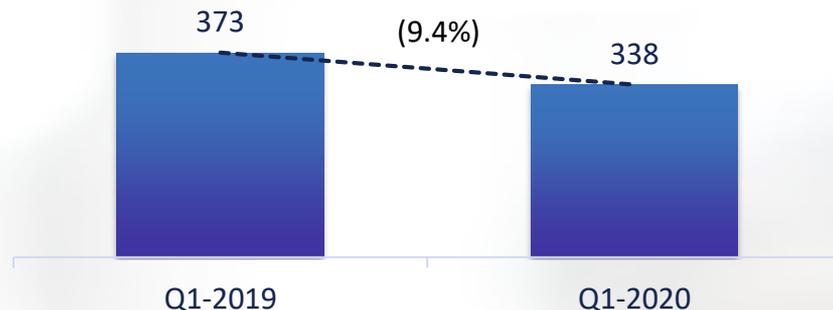
# Bezeq Group - Gross CAPEX\* and Free Cash Flow | NIS million

## Free Cash Flow



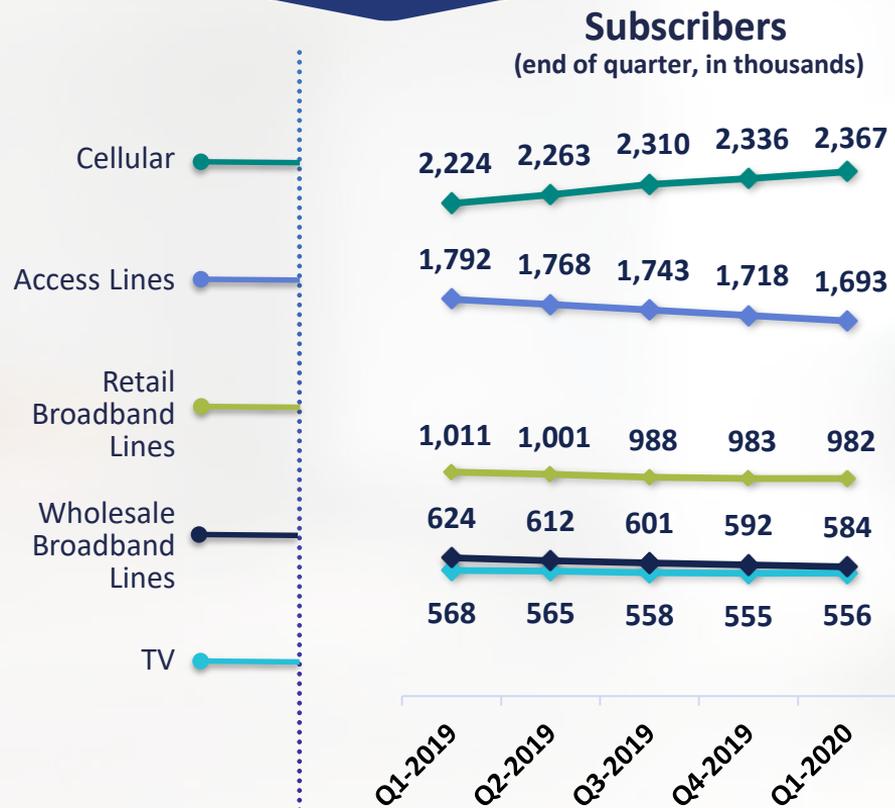
**38% y-o-y increase** primarily in Bezeq Fixed-Line due to changes in working capital and tax refund received

## Gross Capex



**9.4% y-o-y decrease** primarily in yes and Bezeq Fixed-Line due to timing differences in payments for equipment

# Bezeq Group - KPIs



\* In Q1 2020, yes updated its ARPU definition so that ARPU does not include revenue from content sales to external broadcasters. As a result, ARPU data for the previous periods was adjusted retroactively.

# Bezeq Group - Financial Debt | NIS million



## ► Publication of shelf **prospectus**

► Increase in Company's financial flexibility

► Reduction in financing costs due to decrease of 0.4% in coupon of Series 11 and 12 debentures

► Significant reduction in **debt service** (principal and interest) for next 12 months - NIS 1.3 billion (down from NIS 1.9 billion a year ago)

► **Net debt/EBITDA ratio** decreased to 2.3 (from 2.5 in Q1 2019)

## ► Debt ratings:

► S&P Global Maalot: **iIAA-, Stable**

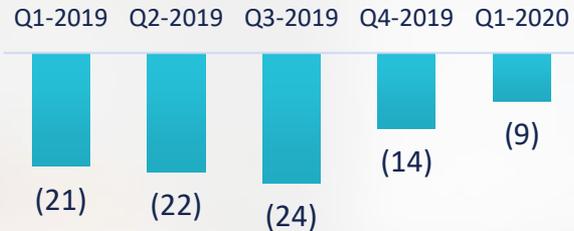
► Midroog: **Aa3.il, Stable**



**Bezeq Fixed Line**

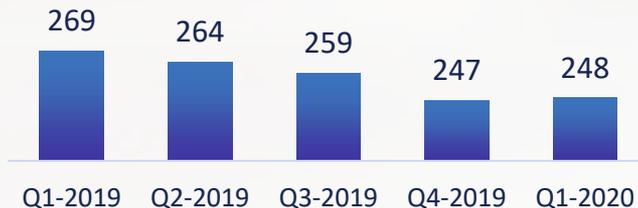
# Bezeq Fixed-Line Q1-2020

## Change in total Bezeq Internet Lines (In thousands)



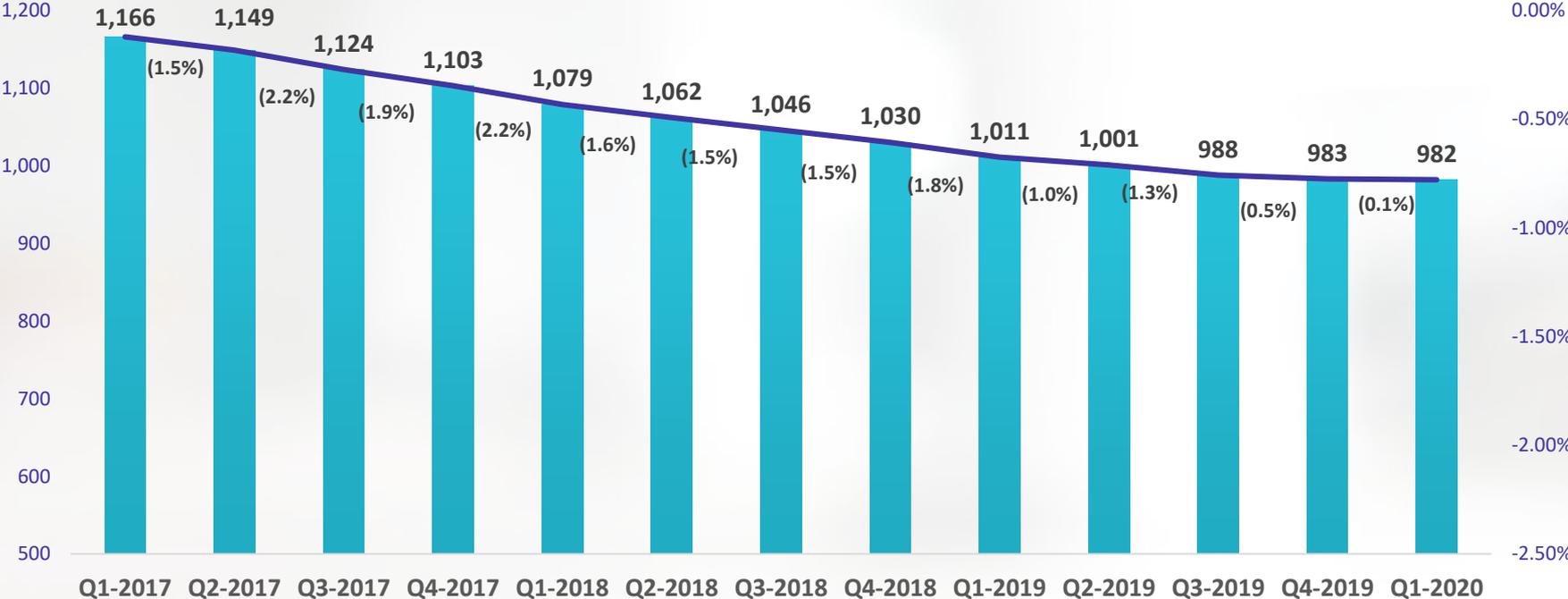
- ▶ **Stability in broadband retail lines** for the first time in 5 years
- ▶ Decrease of 9,000 **Bezeq Internet lines** compared to decrease of 21,000 in Q1 2019
- ▶ Successful launch of Be Mesh service

## Telephony revenues NIS millions



- ▶ Telephony services – **significant increase in traffic** during COVID-19 pandemic period. Increase in revenues of NIS 1 million compared to the previous quarter

# Bezeq Fixed-Line – Significant Slowdown in Retail Customer Churn (000'S)

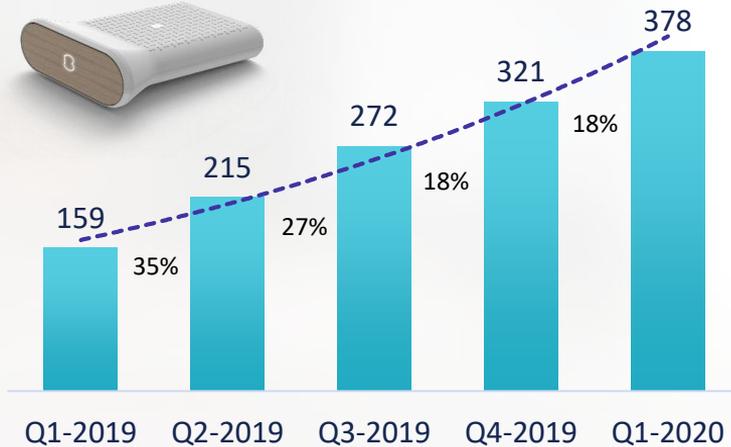


# Bezeq Fixed-Line - Full WiFi Differentiation

with High Quality Broadband Internet at Home

Improved broadband experience and customer retention through BE router and Bspot/Be Mesh services

**Customers with BE router**  
(in thousands)



**Customers with BSPOT and MESH**  
(in thousands)



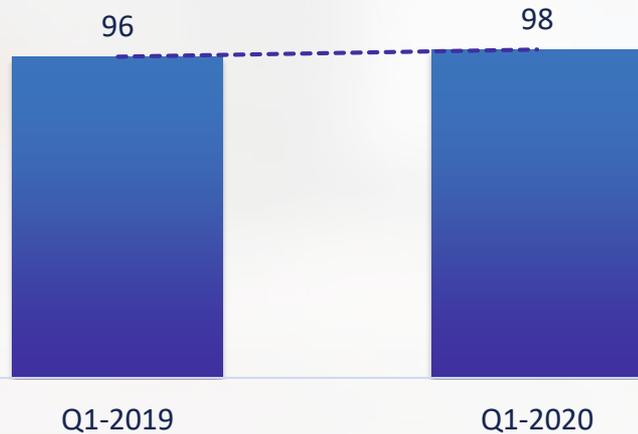
~38% of the Company's retail customers chose to connect via the BE router

# Bezeq Fixed-Line - Average Revenue Per User (ARPU), NIS

ARPU increase due to

the expansion and deepening of penetration into customer premises as well as value-added services

## Retail ARPU



# COVID – 19 Offerings for the Business Sector

## Remote Access and IT Solutions



**Secure Video Conferencing for Businesses**

Bezeq Business 

Secure video conferencing from CISCO WEBEX  
3 Months Free with Free Installation

-  Virtual and secure work environment for meetings with multiple participants
-  Record and document meetings in cloud
-  Schedule meetings directly from Microsoft Outlook
-  Share presentations and documents
-  Conference calls from computer or mobile phones
-  Manage participant authorization in video conference

**Installation, support and guidance from Bezeq Business experts**



**Remote Access Solutions**

At Bezeq Business we are thinking about our customers and offering solutions in remote access in order to manage your business during this crisis period

**Connecting to your business or office from anywhere and at any time**

- 

**Video Conferencing Rooms**  
Digital cloud platform for video conferencing and remote learning with access from any computer or cellphone; file sharing, voice or video calls  
Three Months Free
- 

**Remote Access Solutions**  
Encrypted access from any location to computers and applications at your business or office, including remote extension for incoming and outgoing calls with switchboard ID  
At Special Rates

- ▶ Launch of IPC Remote office service
- ▶ Benefits offered for SMS solutions
- ▶ Virtual exchanges for PRI customers
- ▶ Launch of virtual conference rooms



## Bezeq's Data Center Service for the Business Sector

We invite you to move to Bezeq's Data Center service for the Business Sector and to enjoy data hosting solutions with high quality and secure IT systems



Advanced telecommunication solutions and IT support



24/7 security and protection by National Control System and Security Center



Facilities at TIER3 redundancy level supported by Bezeq only, independent of external companies



High quality facilities using TIA942/UTI international standards

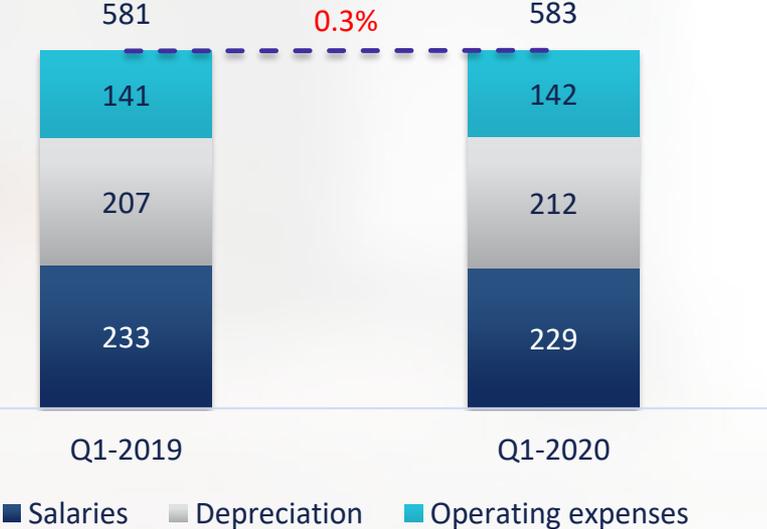
**Installation, support and guidance from Bezeq Business experts**



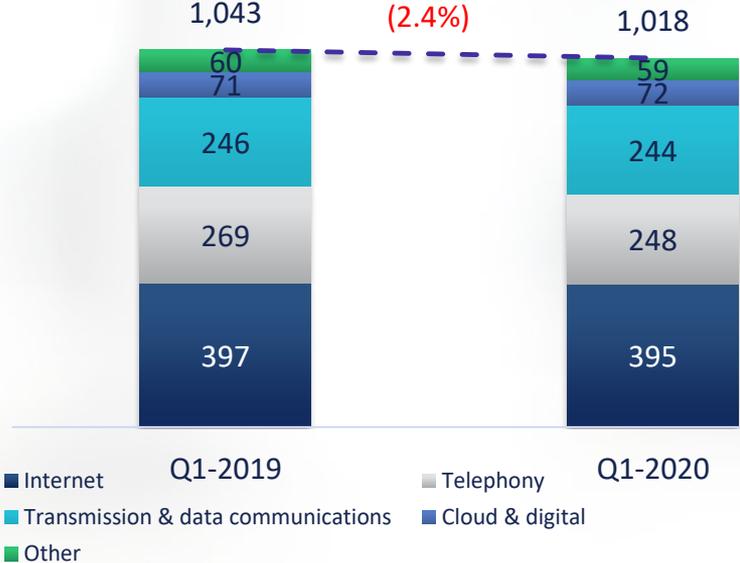
- 2 advanced centers in Jerusalem & Tel Aviv
- 10 boutique centers for business customers

# Bezeq Fixed-Line – Key Financial Metrics | NIS million

## Expenses



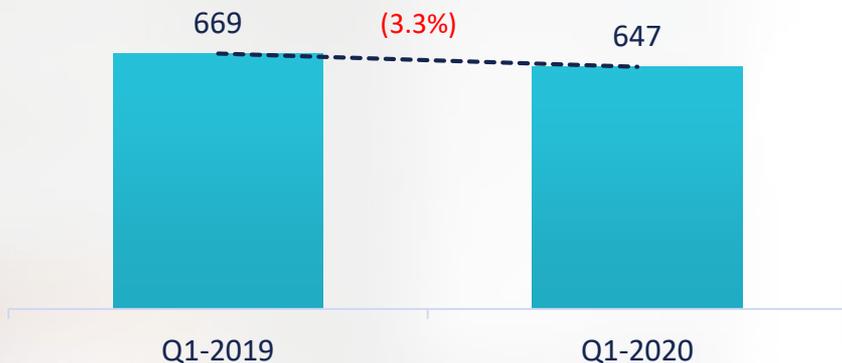
## Revenues



# Bezeq Fixed-Line - Adjusted EBITDA and Adjusted Net Profit \* |

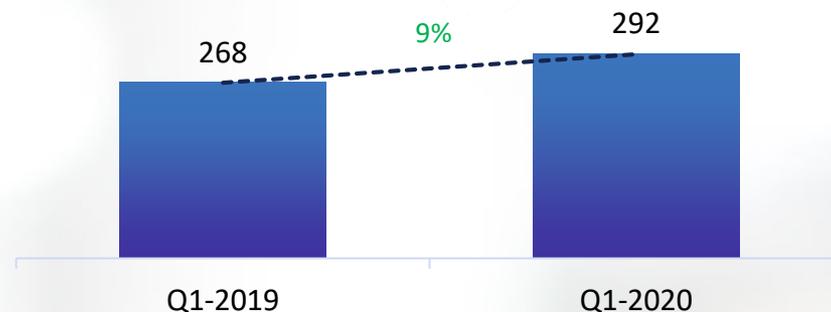
NIS Million

## Adjusted EBITDA



**Adjusted EBITDA** – moderate 3.3% y-o-y decrease primarily due to a decrease in telephony revenues

## Adjusted Net Profit



**Adjusted Net profit** – 9% y-o-y increase primarily due to a decrease in financing expenses

- ▶ Actuarial adjustments for employee benefits resulting in financing income in Q1 20 compared to expenses in Q1 19
- ▶ Decrease in interest expenses due to repayment of debt in 2019

\*After adjusting for other operating expenses/income, net

# Subsidiaries



Pelephone



Bezeq  
International



# yes. Progress in IP Migration



- ▶ Advanced streaming service with widest selection of contents in Israel
- ▶ **yes+.** - Android platform launch as well as Apple TV
- ▶ Easy and convenient access to international apps alongside collaboration with Netflix, Google, Amazon and IMDB whose ratings are integrated into the user interface

# yes. Change in Subscriber Trend – Increase in Total Subscribers

## Total Subscribers

(in thousands)



- ▶ Improved financial and operating metrics
- ▶ Increase in total subscribers in Q1 2020 for the first time in one and half years due to increase in STING subs and launch of yes+.

\*Q4 2018 includes a retroactive adjustment of 7,000 subscribers due to a change in the definition of a business subscriber



Telephone

# Telephone - Ongoing Subscriber Growth



Growth in subscribers for four consecutive years offset lower prices and contributed to significant slowdown in revenue decrease

\*After adjusting for disconnection of CDMA subscribers in Q2 2017

# Increase in Demand and Leader in Business Solutions



- ▶ COVID-19 pandemic led to a significant increase in corporate demand for larger bandwidth based on Bezeq International's Internet infrastructure
- ▶ Increase in demand for data and voice by international telecommunication companies

## Wide range of business solutions as a response to the COVID-19 pandemic

- ▶ Significant growth in expansion of Microsoft cloud licensing packages
- ▶ Increase in demand for advanced telephony and call center solutions, including remote connection to workplace and use of video conferencing platforms
- ▶ Increase in demand for data center services from international companies
- ▶ Recently awarded significant tenders in government, industry and high-tech sectors



**בזק בינלאומי**  
BUSINESS

**גם בימים אלו, בזק בינלאומי אתכם.**  
בעקבות המצב, נשמח להגדיל לכם **חודש ראשון חינם** בהצטרפות לאחד ממגוון השירותים לעסק. על מנת שחובל לא להמשיך לחלוף את העסק מרדוק, עם האינטרנט והכיסויים הטובים ביותר

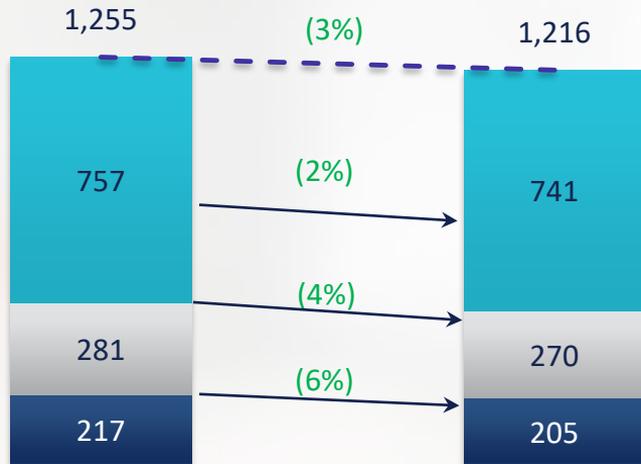
**לפרטים התקשרו 9914**  
או שאגידו פרטים

<p><b>OFFICE 365</b> השירותים הכוללים המחשבים לעסק שלכם וחינם <b>מחודש ראשון חינם</b></p> <p><b>לפרטים והצטרפות</b></p>	<p><b>מסלולי אינטרנט לעסקים</b> באז' לבחור באחד ממגוון מסלולי האינטרנט המתאימים לעסק שלכם וחינם <b>מחודש ראשון חינם</b></p> <p><b>לפרטים והצטרפות</b></p>
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מתחילים בריאות וחזרה מהירה לשגרה

**Bezeq International is a significant player in a growing market**

## Expenses

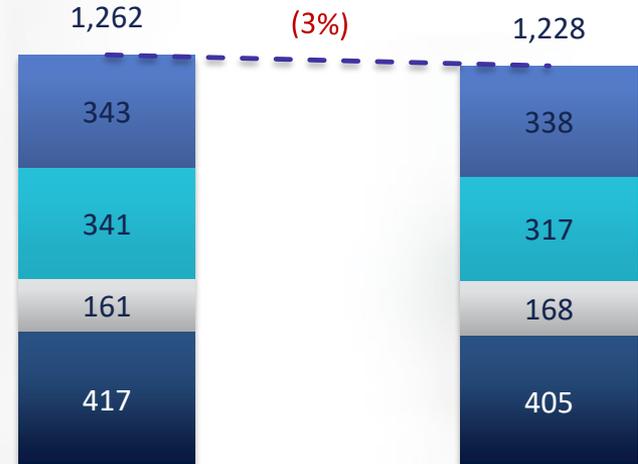


Q1-2019

Q1-2020

■ Salaries   ■ Depreciation   ■ Operating expenses

## Revenues



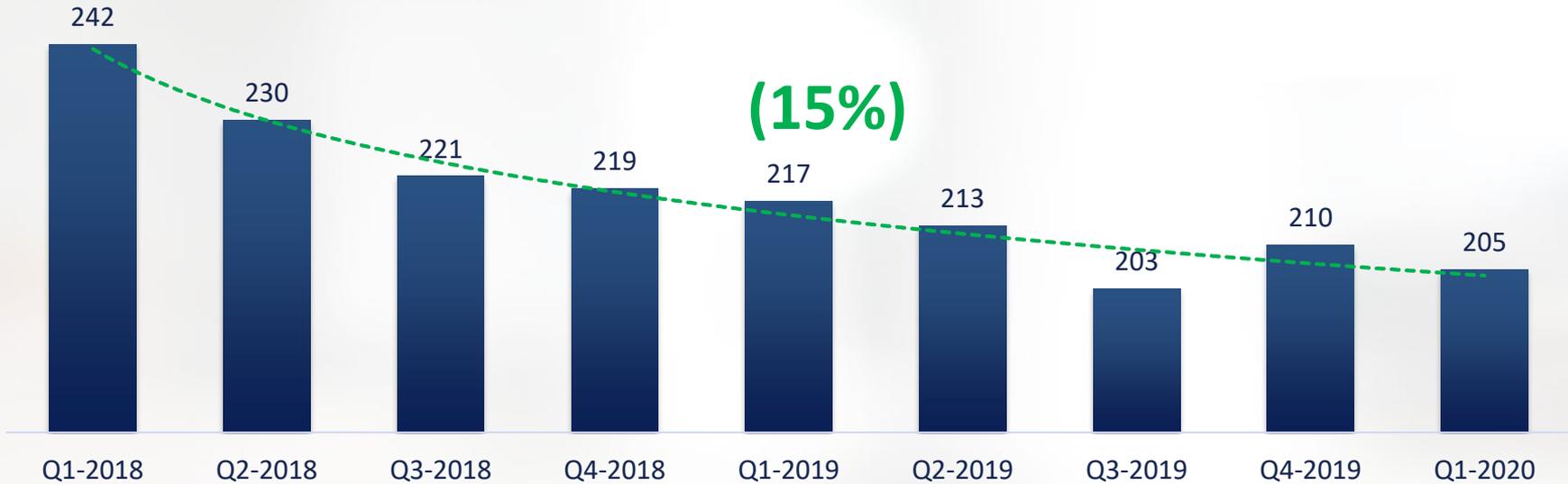
Q1-2019

Q1-2020

■ Telephone - Services   ■ Bezeq International   ■ Telephone - Equipment   ■ yes

\*After adjusting for provision for early retirement of yes employees in Q1 2019; Includes yes pro forma numbers

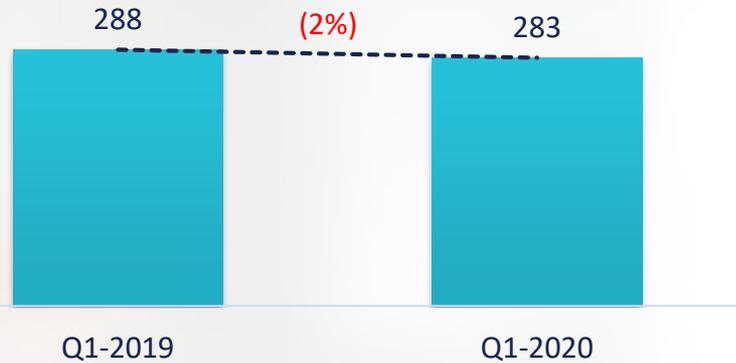
# Subsidiary Companies\* - Decrease in Salary Expenses | NIS million



15% decrease in salary expenses since Q1 2018

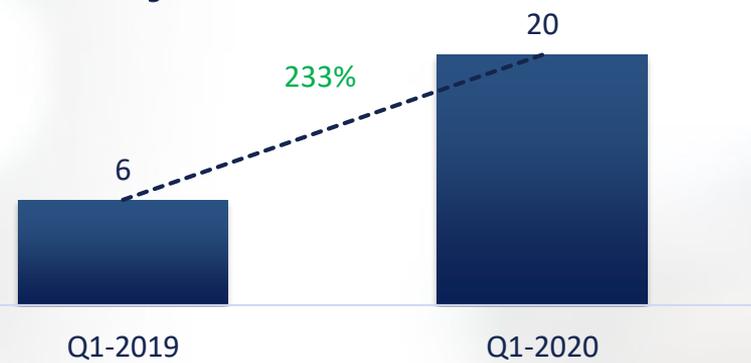
\*yes – includes pro forma numbers

## Adjusted EBITDA



**EBITDA** - Moderate y-o-y decrease of 2%

## Adjusted Net Profit



Improved **net profit** due to an increase in subscribers and ongoing reduction in expenses which offset revenue decrease

# Bezeq Group - 2020 Outlook

Given the continuous impact of the COVID-19 pandemic and the limitations on traffic and activity as well as the resulting uncertainty in the global and local economy, at this stage, the Company is unable to publish an accurate outlook for the Group's results for 2020.

The Company considers it important to continue to provide guidance, and will therefore continue to closely monitor developments in the coming months, and will consider, depending on the situation, the appropriate date for publishing guidance for the Group results

# Thank you



For more information please visit  
[ir.bezeq.co.il](http://ir.bezeq.co.il)

