



# Bezeq Group Investor Presentation Q3-2021



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# Q3-2021 Financial Results Highlights



- Revenues totaled NIS 2.1 billion, down 1.7%
- Adjusted EBITDA\* of NIS 938 million, up 2.6%; Adjusted EBITDA margin of 43.8%
- Adjusted net profit\* of NIS 295 million, up 1.7%
- Free cash flow of NIS 377 million, up 32.3%
- Net debt decreased by NIS 1.03 billion with improved liquidity ratios
- Publication of Bezeq's updated ESG report human rights policy

## Bezeq Fixed-Line

- Continued massive deployment of fiber which reached our target of 1m homes passed as of today
- Stable revenues in Q3 2021
- Continued improvement in key operating metrics
  - Increase in retail broadband Internet subscribers for a sixth consecutive quarter
  - 7.0% increase in retail broadband Internet ARPU
  - Continued growth in sales of BE router and wi-fi enhancers. Launch of new BE2 router

## Subsidiary Companies

- Pelephone posted strong financial results:
  - 5.3% increase in revenues from services and 38.3% increase in EBITDA
  - Continued growth in postpaid subscribers
  - Growth in 5G subscribers
- Improved results in yes
  - 16.0% increase in free cash flow
  - Stable number of yes subscribers with increase in IP subscribers to 37%
  - NIS 2 increase in ARPU

## Regulation

- Cancellation of infrastructure and ISP separation to begin at the end of March 2022.
- Hearing held on reduction in telephony tariffs. A decision has not yet been reached on the matter.
- MOC approved the merger of Bezeq International into yes

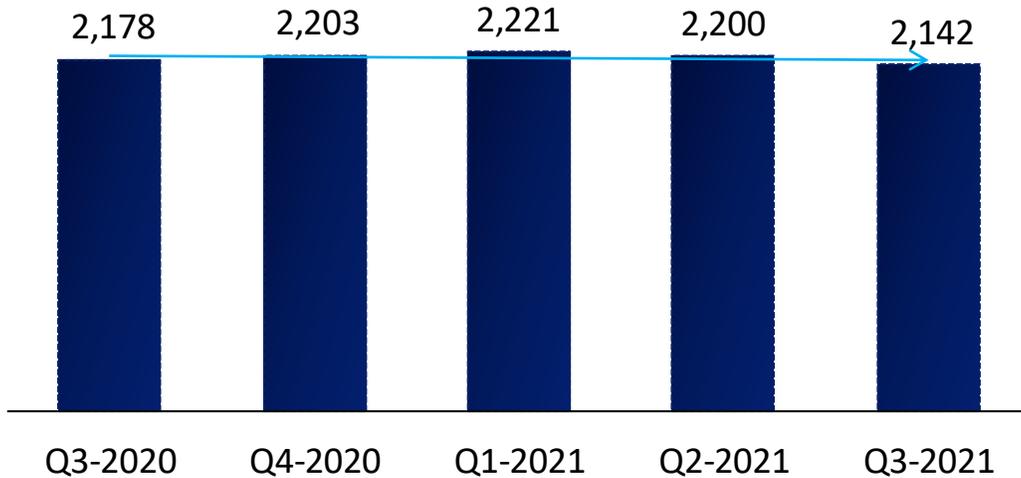
All results in this presentation are in comparison to the corresponding period or June 30, 2020



# Bezeq Group – Quarterly Key Financial Metrics | NIS Million

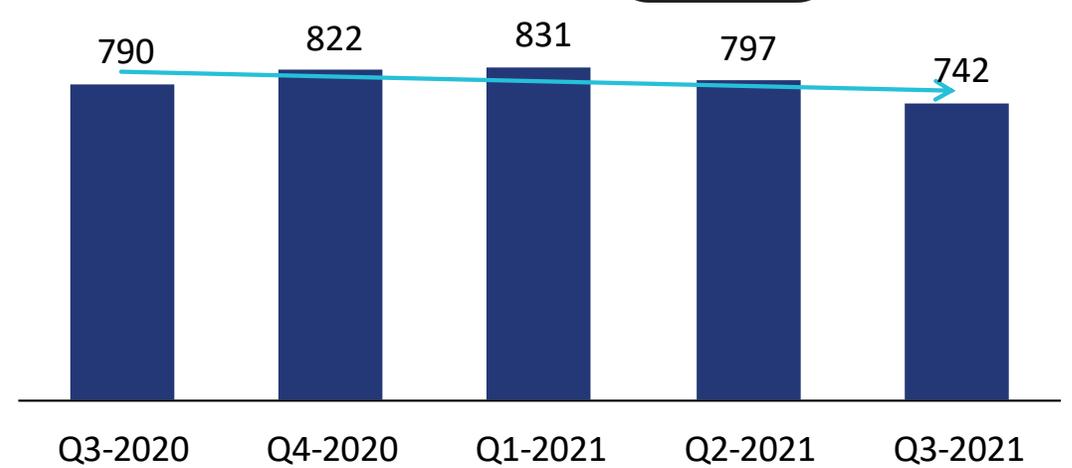
## Revenues

1.7%



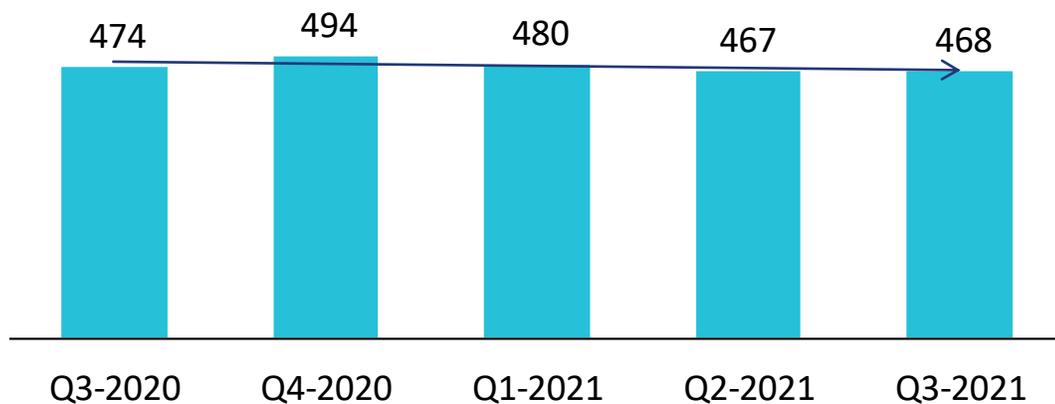
## Operating Expenses

6.1%



## Salary Expenses, Net

1.3%



- **Revenues** - decrease mainly in Bezeq International
- **Salary expenses** – continued decrease in headcount in subsidiary companies as part of the ongoing streamlining plan
- **Operating expenses** – decrease mainly in cost of terminal equipment in Telephone and interconnect fees to telecom operators in-line with the decrease in revenues

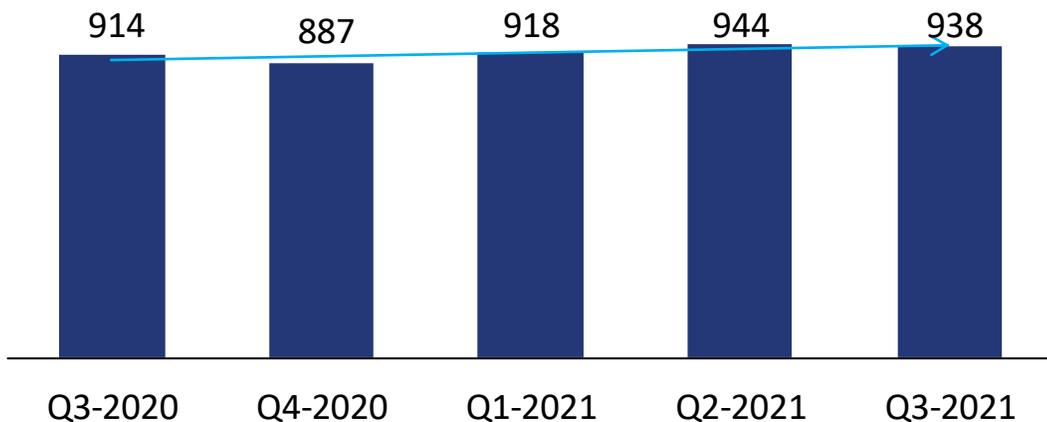


# Bezeq Group – Quarterly Key Financial Metrics | NIS Million

Increase in profitability despite decrease in revenues in Q3 2021

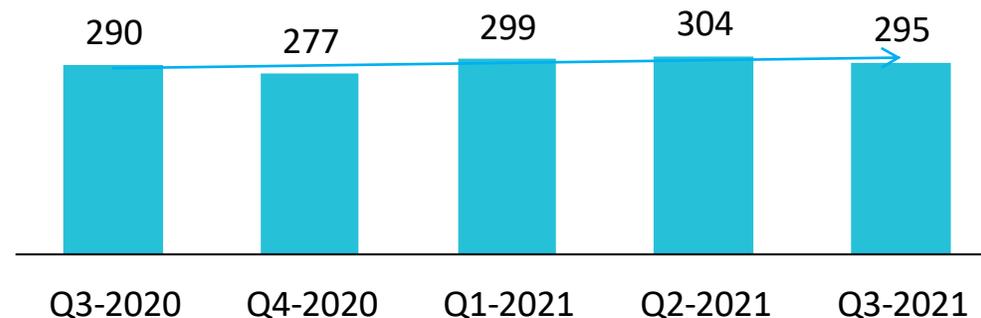
## \*Adjusted EBITDA

↑ 2.6%



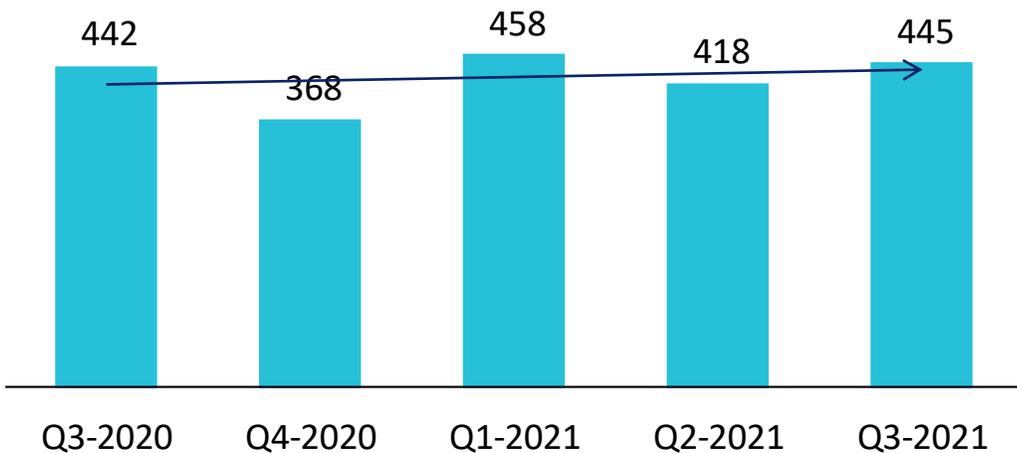
## Adjusted Net Profit\*

↑ 1.7%



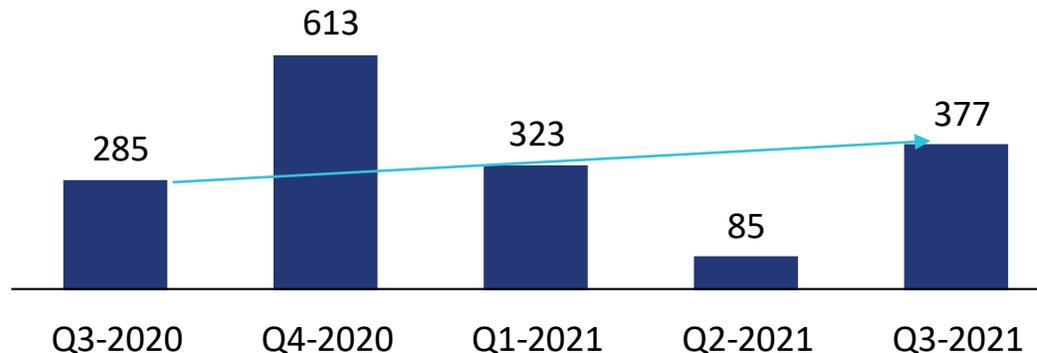
## Gross Capex

↑ 0.7%



## Free Cash Flow

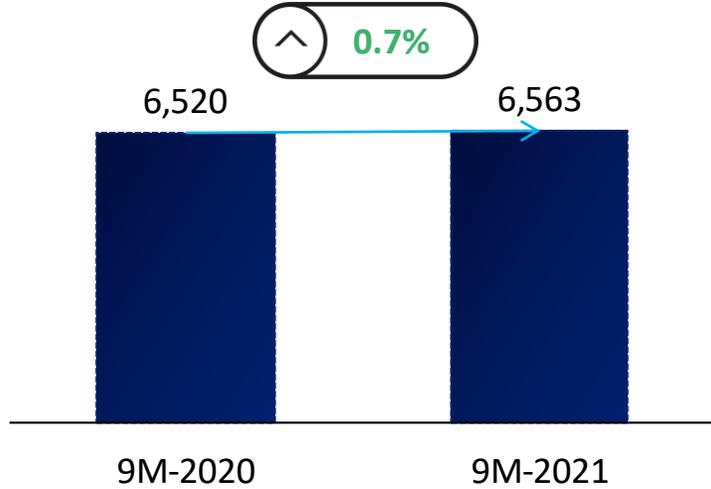
↑ 32.3%



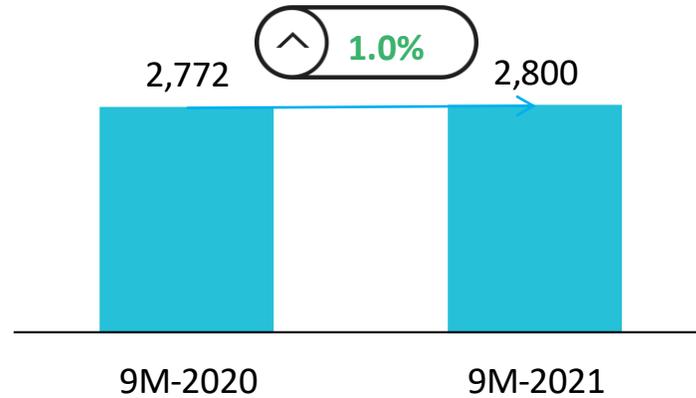


# Bezeq Group – Key Financial Metrics (9M-2021) | NIS Million

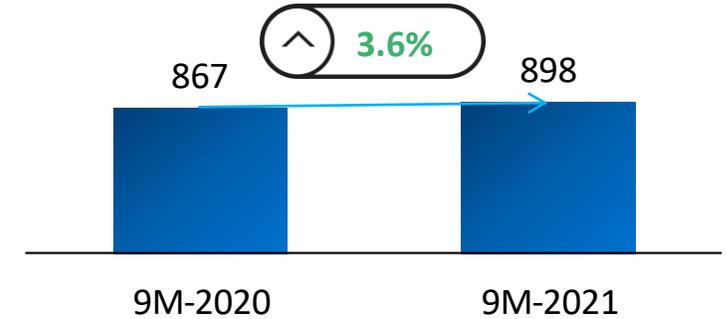
## Revenues



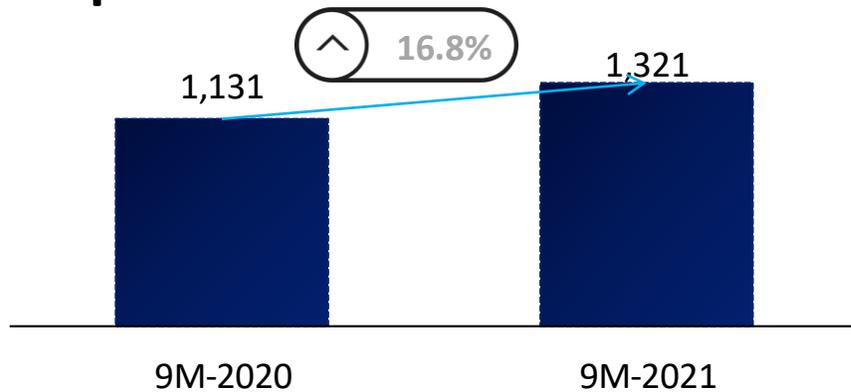
## \* Adjusted EBITDA



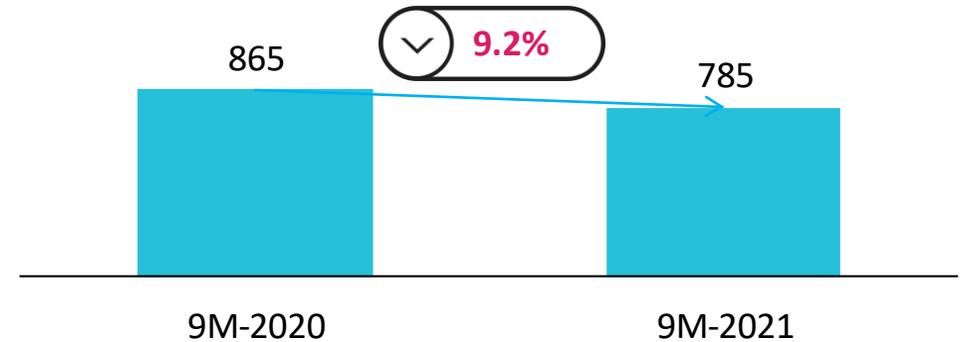
## Adjusted Net Profit\*



## Gross Capex



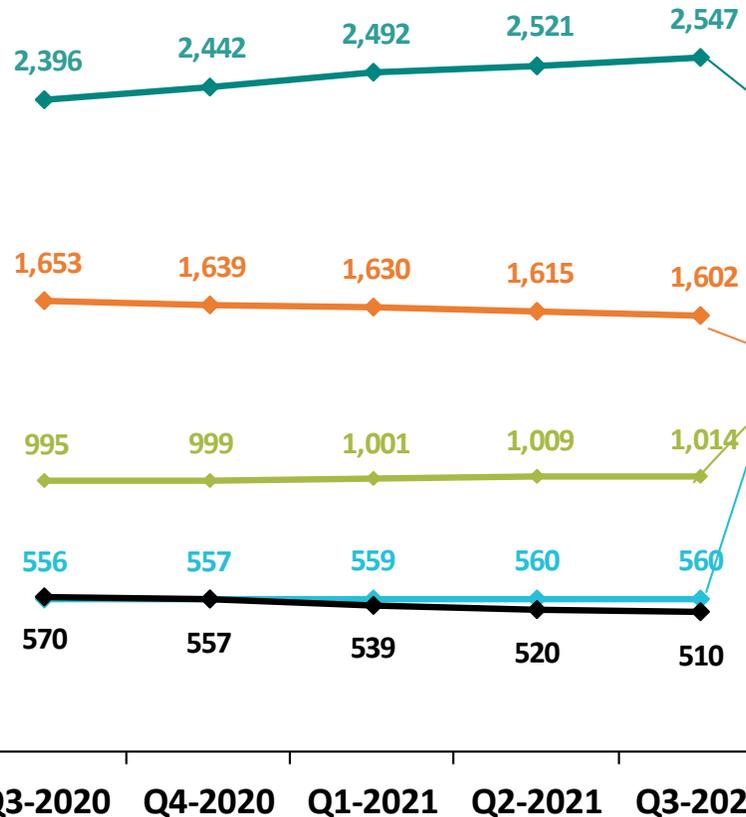
## Free Cash Flow





# Bezeq Group - KPIs

## Subscribers (end of quarter, in thousands)



## ARPU (NIS)

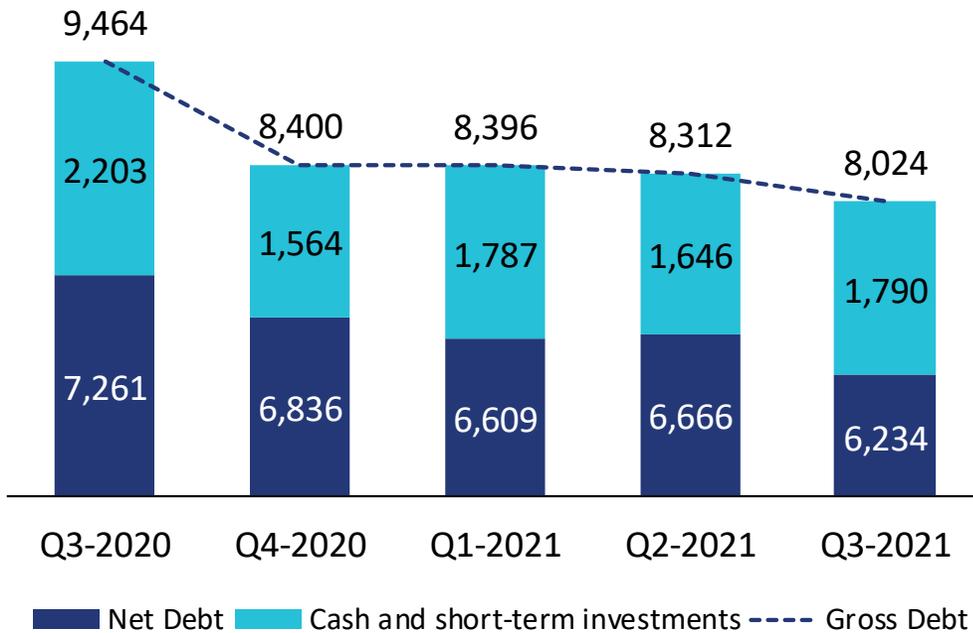


- Cellular
- Access Lines
- Retail Broadband Lines
- Wholesale Broadband Lines
- TV



# Bezeq Group - Financial Debt | NIS Million

14% y-o-y Decrease in Net Debt



## Continued decrease in net debt

- Decrease of NIS 1,030 million y-o-y, ~14%

## Further improvement in coverage ratio

- Net debt/EBITDA ratio decreased to 1.9 from 2.2 in 30.9.2020

## Israeli debt ratings

Rating Agency	Rating	Outlook
S&P Global Maalot	iIAA-	Stable
Midroog	Aa3.il	Stable

We have set ourselves the goal of maintaining a high credit rating in the AA group while adjusting our debt repayments to cash flow generation. We aim to maintain significant liquidity, while at the same time to return to dividend distributions to shareholders



# Bezeq Group - 2021 Outlook

Based on the information known to the Bezeq Group today, the Group's updated Outlook for 2021 is as follows:

	Updated Outlook	Previous Outlook
Adjusted net profit <sup>(1)</sup> attributable to shareholders	<b>NIS 1.1 billion</b>	NIS 1.0 billion
Adjusted EBITDA <sup>(1)</sup>	<b>NIS 3.65 billion</b>	NIS 3.5 billion
CAPEX <sup>(2)</sup>	<b>NIS 1.8 billion</b>	NIS 1.7 billion

The Company shall report, as required, deviations of more/less than 10% of the amounts stated in the outlook

- 1) Adjusted net profit and Adjusted EBITDA – after adjusting for other operating expenses/income, net, one-time losses/gains from impairment/increase in value of assets and stock-based compensation.
- 2) CAPEX - gross payments for investments in fixed and intangible assets.

The Company's forecasts in this section are forward-looking information, as defined in the Securities Law. The forecasts are based on the Company's estimates, assumptions and expectations.

The Group's forecasts are based, among other things, on its estimates regarding the structure of competition in the telecommunications market and regulation in this sector, the economic situation and accordingly, the Group's ability to implement its plans in 2021. Actual results may differ from these estimates taking note of changes that may occur in the foregoing, in business conditions, and the effects of regulatory decisions, technology changes and developments in the structure of the telecommunications market, and so forth, or the realization of one or more of the risk factors listed in the Periodic Report of 2020. In addition, there is no certainty that the outlook will be fully or partially fulfilled, among other things, due to the COVID-19 pandemic and the resulting uncertainty.

A young girl with long brown hair is wearing large, pink over-ear headphones and is smiling while looking at a tablet computer. She is wearing a blue and white patterned top. In the background, a man and a woman are sitting on a light-colored sofa, looking down at their own devices. The man is wearing a blue long-sleeved shirt and jeans, and the woman is wearing a grey and white striped long-sleeved shirt and blue jeans. The scene is set in a bright, indoor environment with light-colored walls and a window with white curtains in the background.

# Bezeq Fixed Line



# Bezeq Fixed-Line – Q3-2021 Highlights

- Stable revenues despite 13.4% decrease in telephony revenues
- Stable revenues from broadband Internet services due to growth in retail subscribers for the sixth consecutive quarter and retail ARPU offset by the decrease in wholesale tariffs and subscribers
- Continued **robust sales of equipment** led to increased retail broadband ARPU
- Increase in revenues from the **business sector** - 8.0% increase in revenues from transmission and data communications and 12.7% increase in revenues from cloud & digital services
- Continued massive **deployment of fiber** and customer connections. We reached our target of 1 million homes passed as of today (earlier than the target set for the end of the year)
- **Cancellation of infrastructure and ISP separation** - approval of the agreement regulating the main performance indicators and the beginning of the "calibration period" for three months. Eliminating the split between Internet infrastructure and ISP services is expected to strengthen the company's value proposition in the field and improve its market positioning

# 8 Fiber Deployment Proceeding at Record Pace

40% of households in Israel

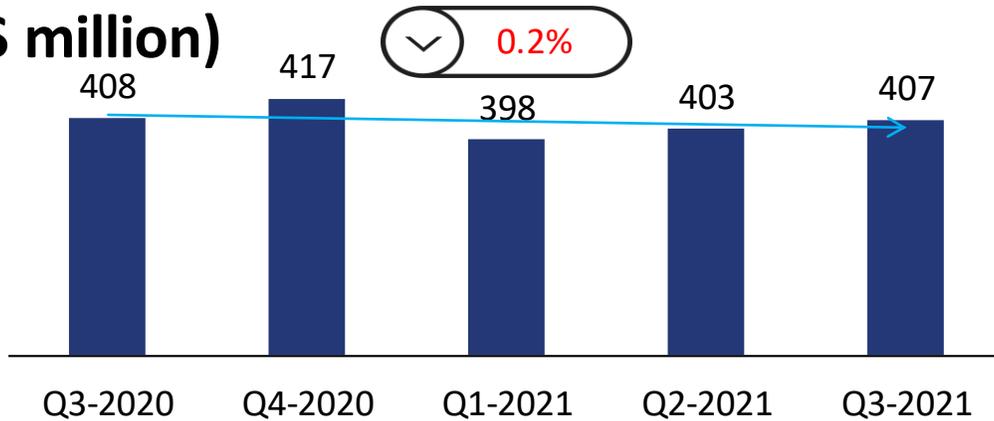
Homes Passed  
(Ready for subscriber connections)  
(In thousands)



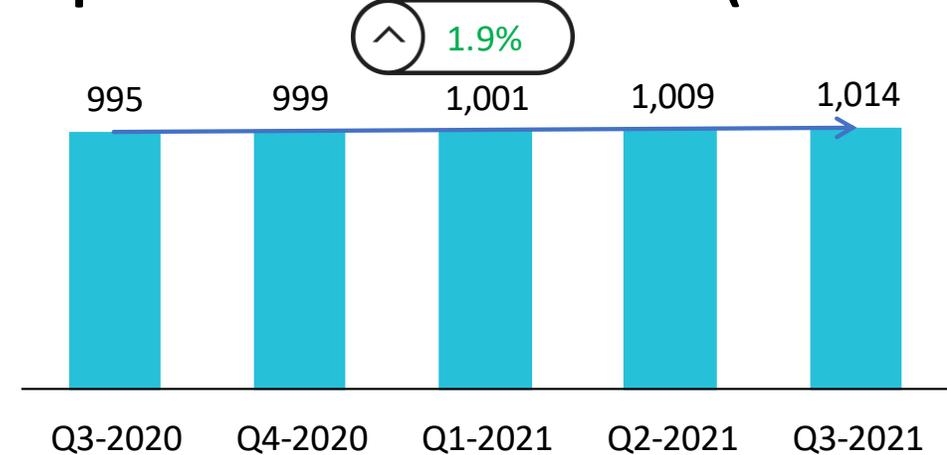


# Bezeq Fixed-Line - Broadband Internet Services

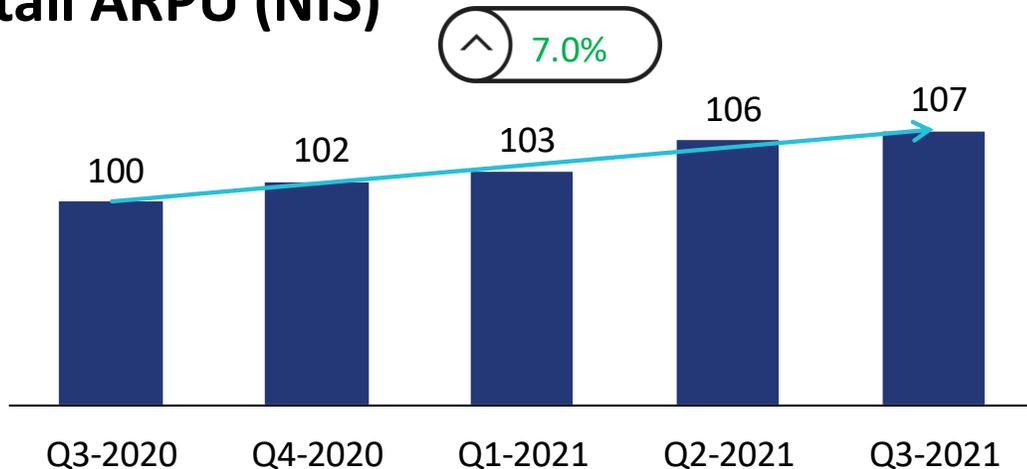
## Revenues from Broadband - Internet Services (NIS million)



## Bezeq Retail Broadband Lines (Thousands)



## Retail ARPU (NIS)



- **Stable revenues** from broadband Internet services despite the sharp decrease in wholesale tariffs in 2021
- Continued **growth in broadband Internet retail lines** for the sixth consecutive quarter
- Continued **growth** in broadband Internet retail **ARPU**, positively impacted by the deployment of fiber
- Accelerated sales of equipment (BE router, Bspot, Be Mesh) as well as installation fees for fiber service also contributed to ARPU growth

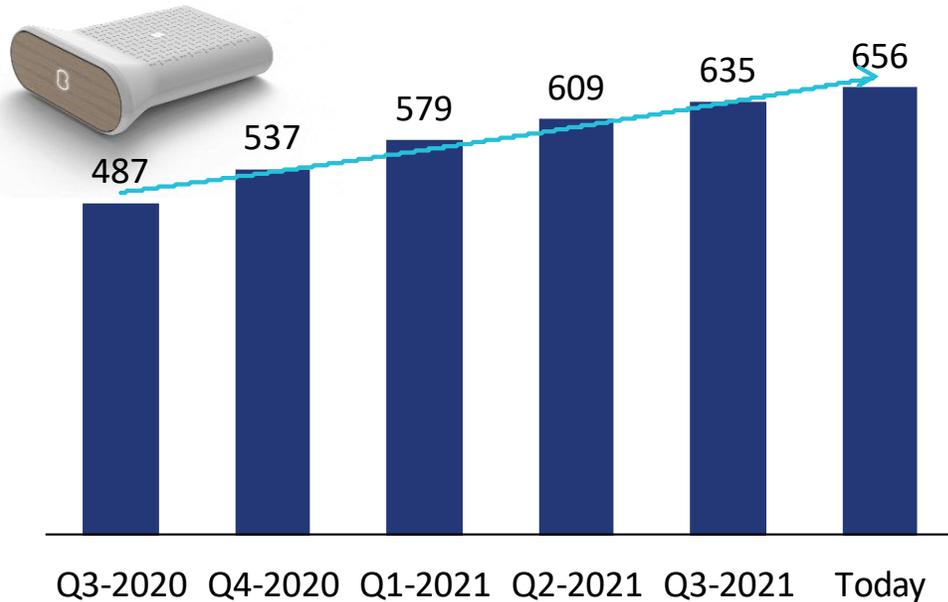


# Bezeq Fixed-Line - Full WiFi Differentiation

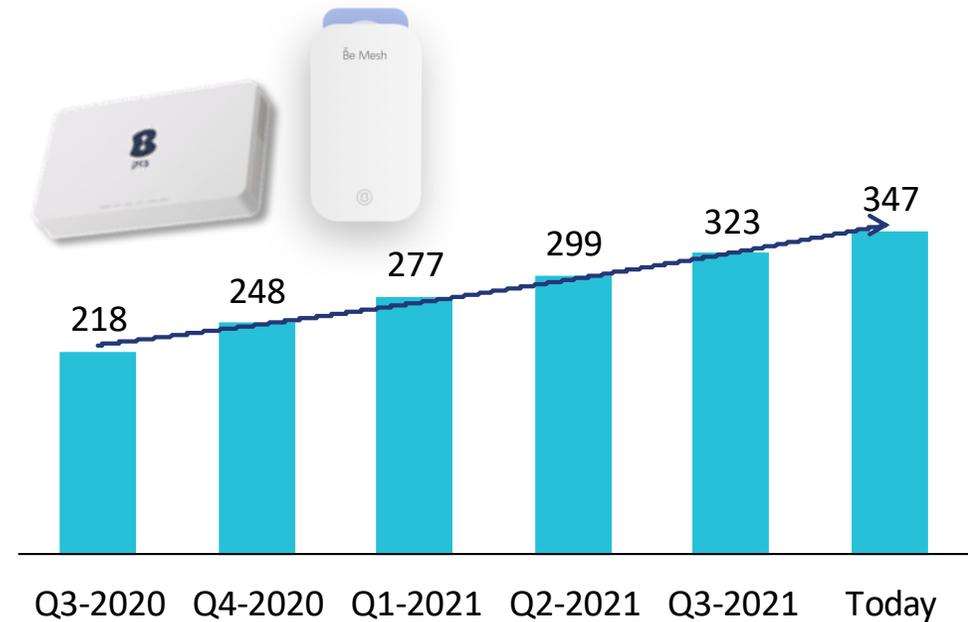
with High Quality Broadband Internet at Home

“Fixed broadband operators around the world should take note of the success that Bezeq has had with its strategy of focusing on home Wi-Fi and developing services based around its CPE” *analysys mason, Nov 2021*

### Customers with BE router (in thousands)



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

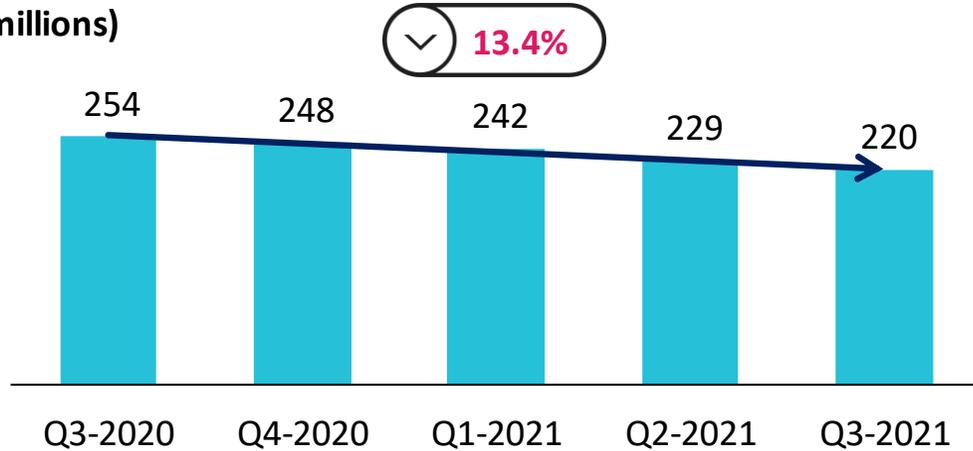


~64% of the Company's retail customers choose to connect via the BE router

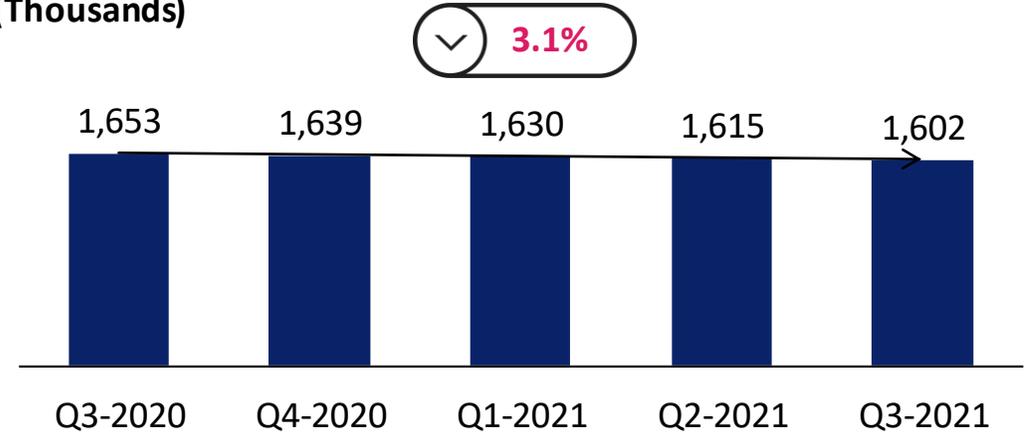


# Bezeq Fixed-Line - Telephony Services

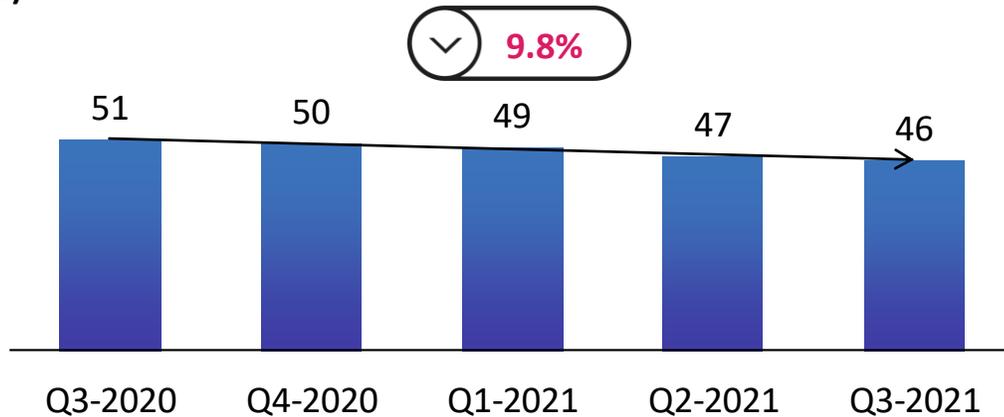
**Telephony Revenues**  
(NIS millions)



**Access Lines**  
(Thousands)



**Telephony ARPL**  
(NIS)

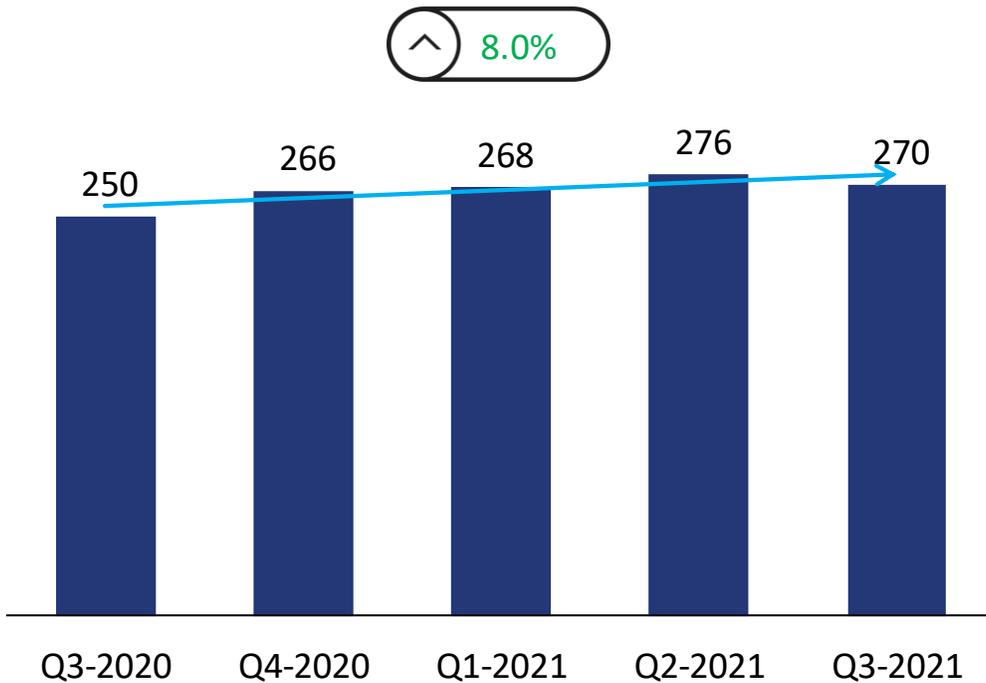


- Decrease in telephony revenues in Q2-2021 due to lower impact of COVID-19
- Moderated rate of decline in telephony lines compared to pre-COVID years



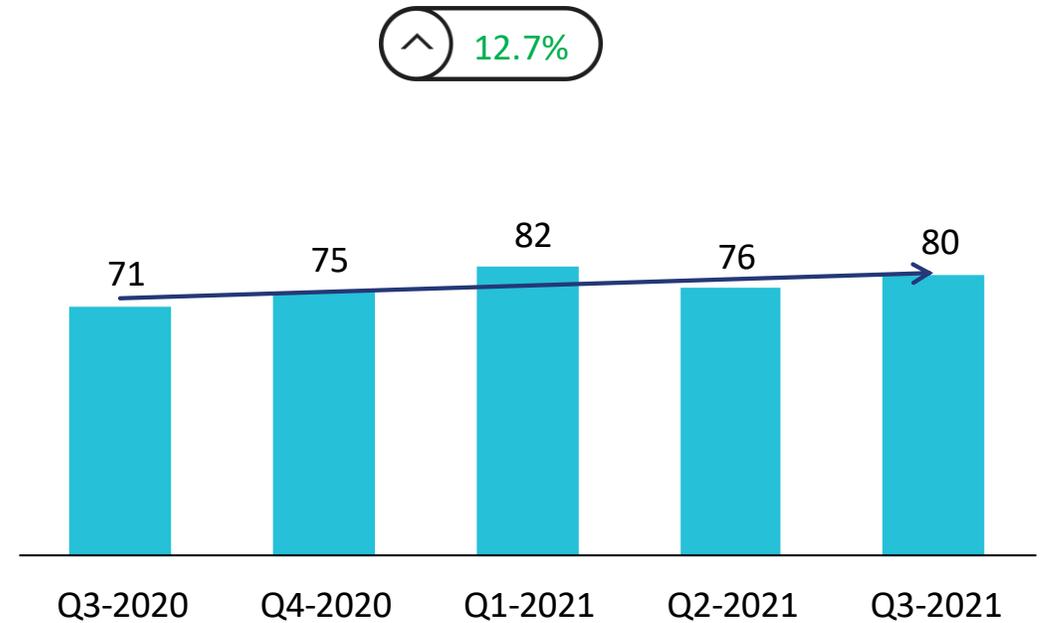
# Bezeq Fixed-Line - Revenues from Data | NIS Million

## Transmission & Data



- Increase in revenues from transmission services for ISPs and business customers

## Cloud & Digital Services

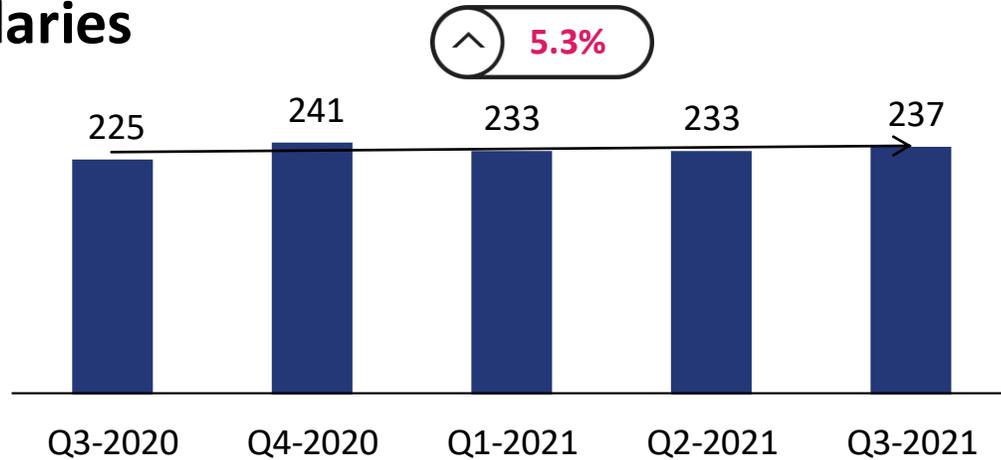


- Increase in revenues from virtual exchanges and business directory services

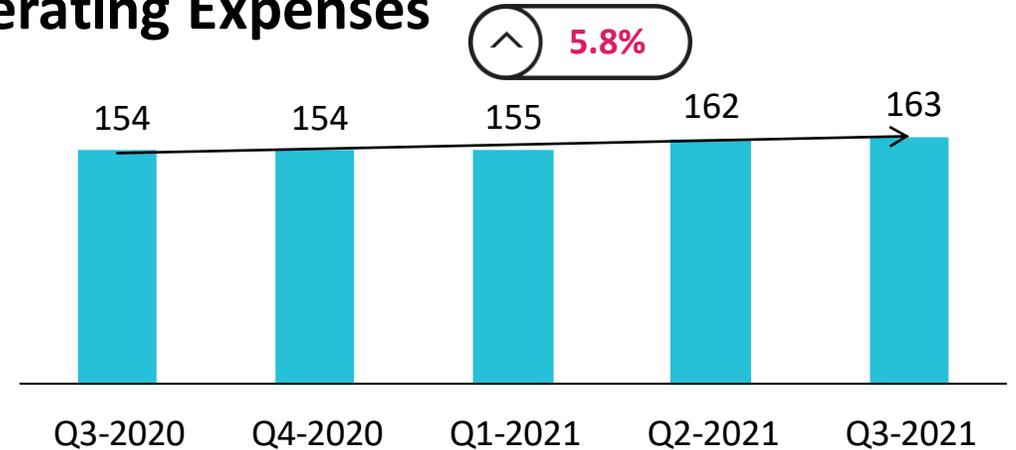


# Bezeq Fixed-Line – Key Financial Metrics | NIS million

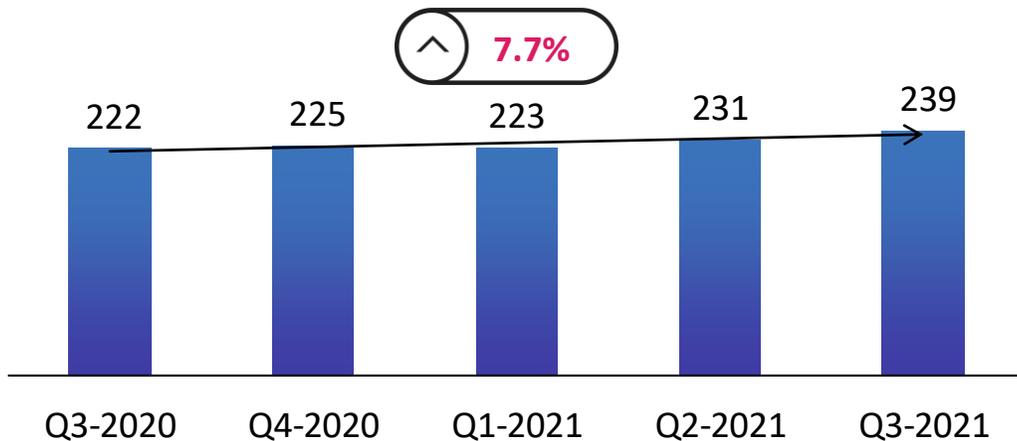
## Salaries



## Operating Expenses



## Depreciation

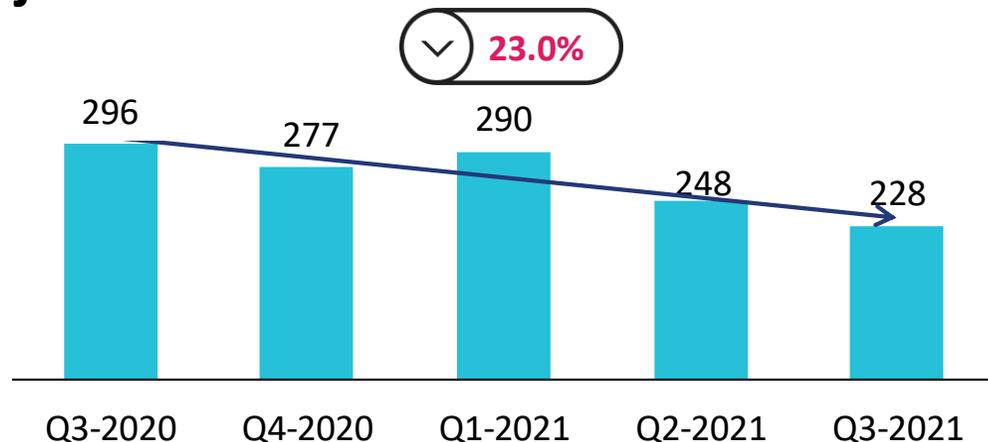


- **Salary expenses** – increase due to hiring of employees for the fiber project as well as the recognition of stock-based compensation
- **Operating expenses** – increase mainly due to the recognition of expenses of NIS 5 million for the universal fund for fiber deployment as well as an increase in subcontractor expenses

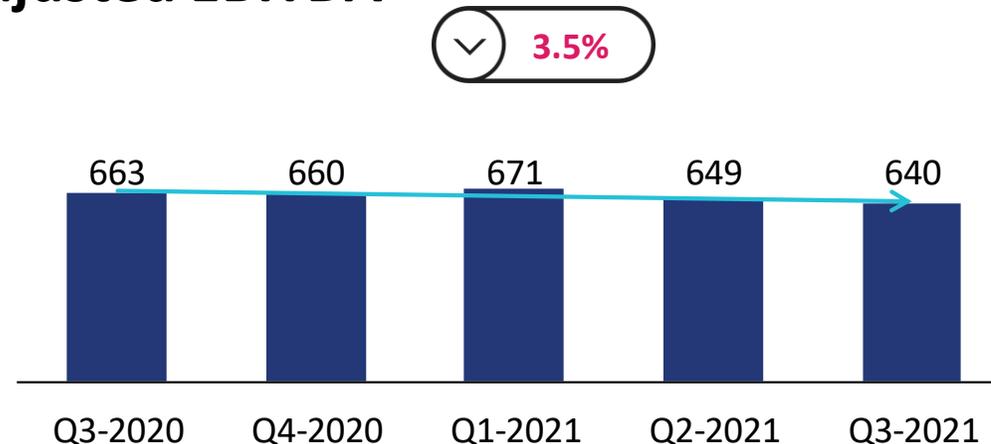


# Bezeq Fixed-Line - Key Financial Metrics | NIS Million

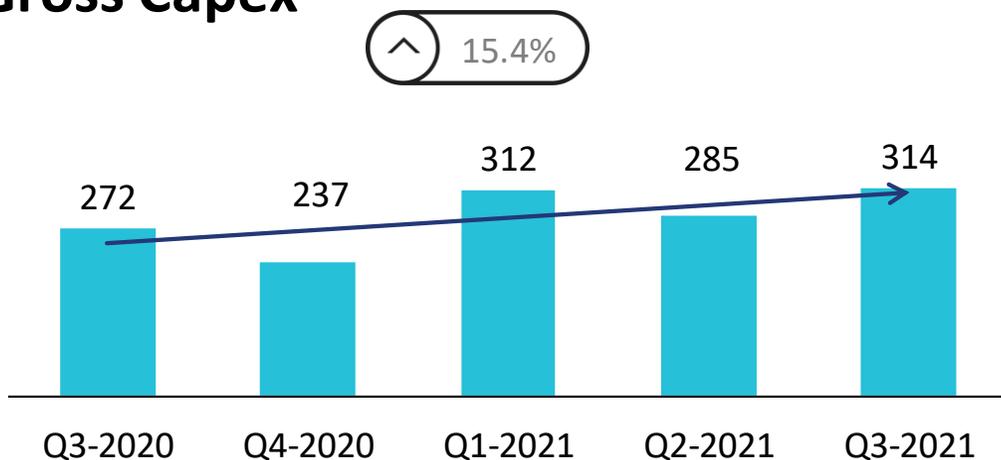
## Adjusted Net Profit\*



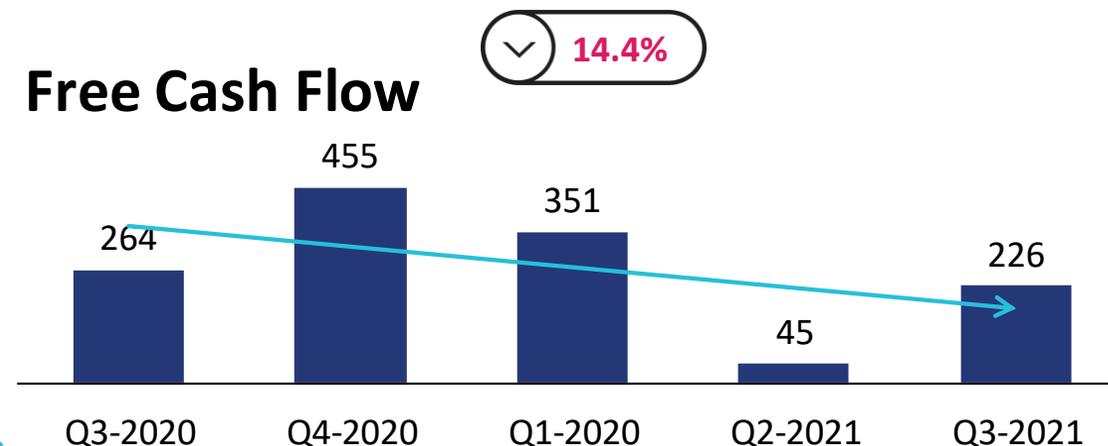
## Adjusted EBITDA\*



## Gross Capex



## Free Cash Flow

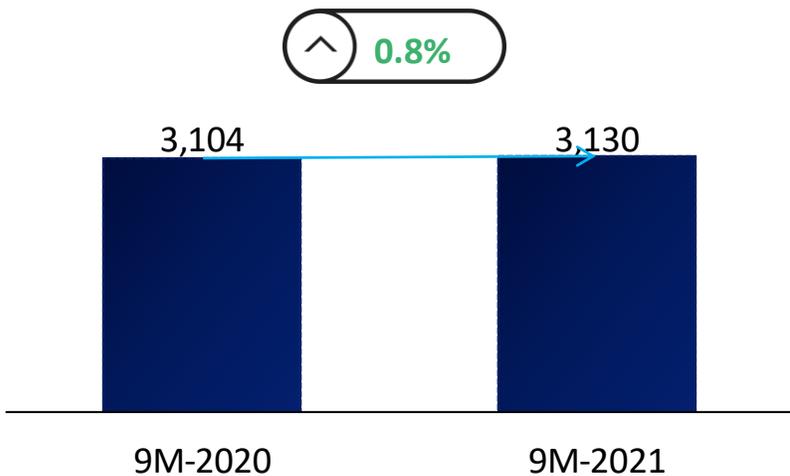


- FCF in Q2-21 was impacted by increased Capex due to fiber deployment and payment of one-time grant to employees

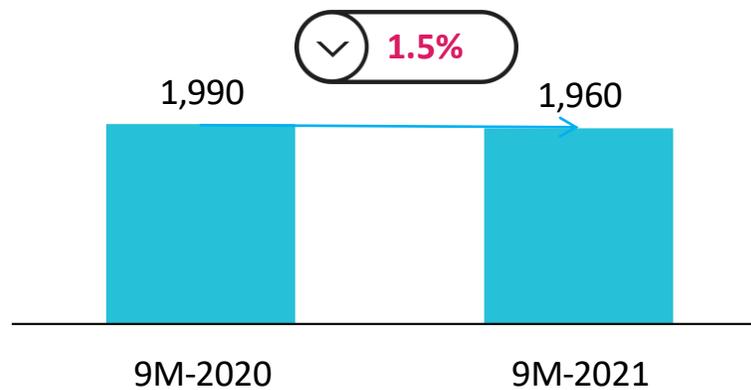


# Bezeq Fixed-Line – Key Financial Metrics (9M-2021) | NIS million

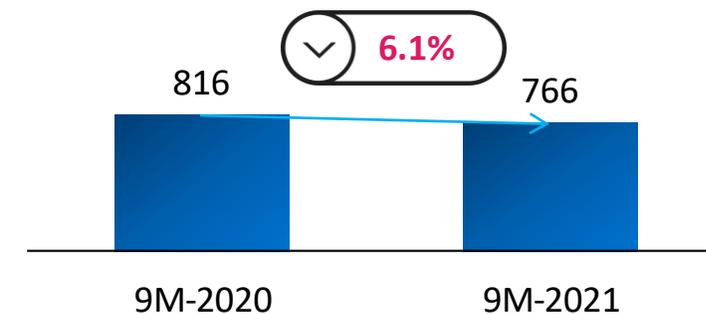
## Revenues



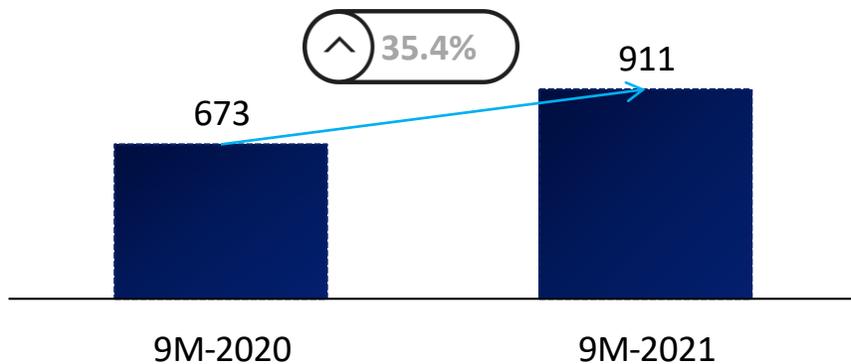
## \* Adjusted EBITDA



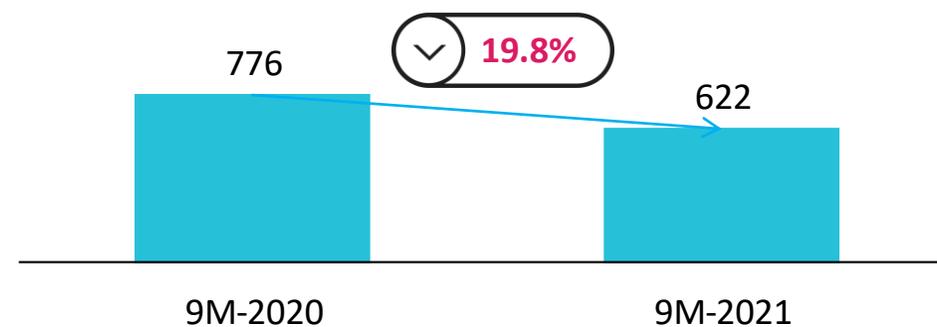
## Adjusted Net Profit\*



## Gross Capex



## Free Cash Flow





# Bezeq Fixed-Line - Summary



**Growth in retail broadband Internet revenues driven by increase in retail subscribers and ARPU**



**Success in sales of BE router and Wifi enhancers**



**Launch of nationwide deployment of fiber**



**Leading operations in business sector**

**Accelerated fiber deployment together with high quality service reflects potential for continued growth and strengthening of Bezeq's position in the residential broadband Internet market**

# Subsidiary Companies



Bezeq International

yes.



Pelephone



ISP



TV



Mobile

# Subsidiary Companies - The First Stage (2019-2021)

## Steps Taken

- Reduced headcount by 1,500 employees during the period from Dec 2018 – Sept 2021 through 45% reduction in senior management positions (including those reporting to senior management)
- Lowered operating expenses through joint procurement for all three companies and savings in real estate

## Future Steps Planned

- Transition to one new CRM system – sales and services to customers through a wider approach (including triple play); savings in future investments and costs of support



# Subsidiary Companies – Q3 2021 Highlights

- ✓ Subscriber growth in Pelephone and yes and continued growth in business services in Bezeq International



- ✓ Improved profitability metrics



- ✓ Free cash flow growth in all three subsidiary companies

- ✓ 37% of yes customers watching TV through IP broadcasting



- ✓ Continued streamlining in employee headcount



- ✓ Increase in number of **Pelephone** subscribers with accelerated deployment of 5G network



yes+ 2.0

- ✓ The next generation of TV viewing



- ✓ Growth in **Bezeq International's** business operations



# Subsidiary Companies – The Next Phase (2022-2024)

The process will yield further efficiencies that are expected to result in savings of tens of millions of shekels a year

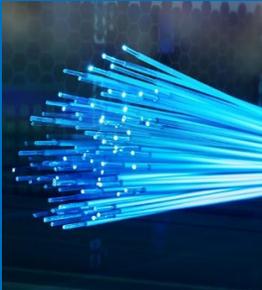


# Subsidiary Companies - Marching on to Next Generation Technologies

**5G  
Mobile**



**Internet  
over Fiber  
Optics**

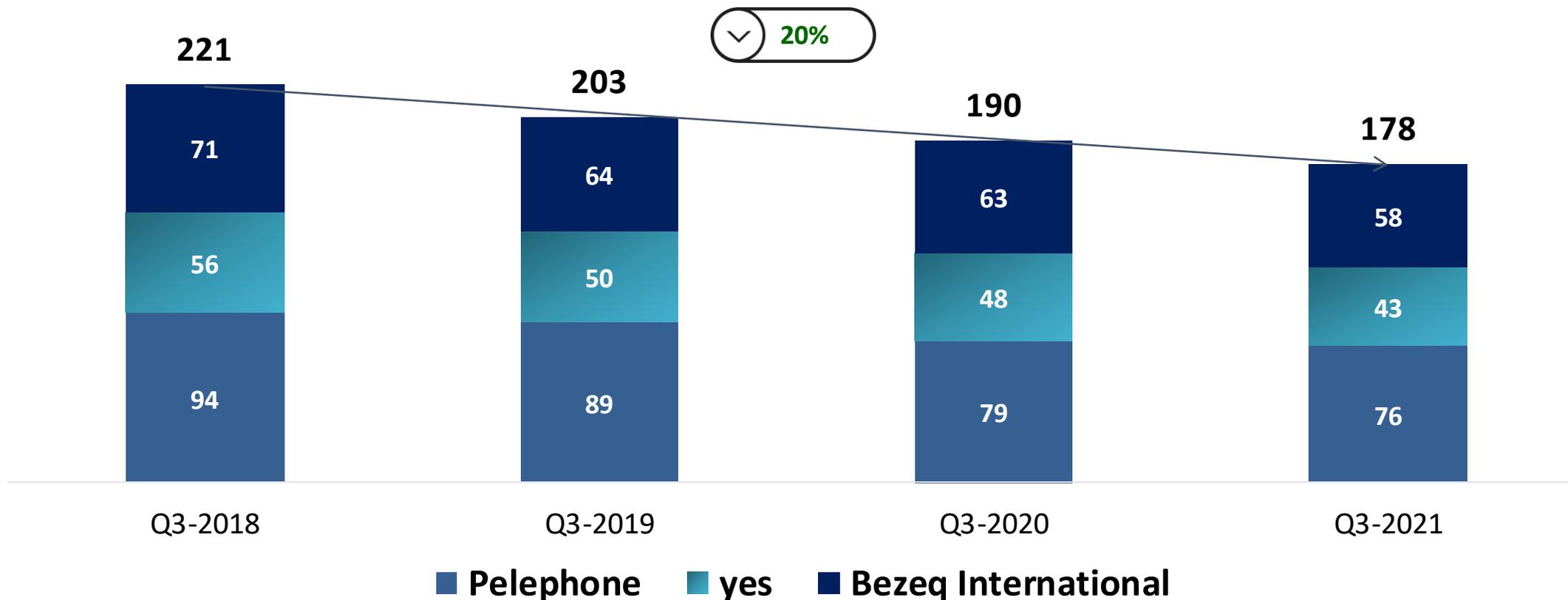


**IP  
Broadcasting**



**New Generations of Technologies in all Subsidiary Companies**

# Subsidiary Companies - 20% Decrease in Salary Expenses\* | NIS million



Streamlining measures led to a 20% decrease in salary expenses from Q3-2018 to Q3-2021

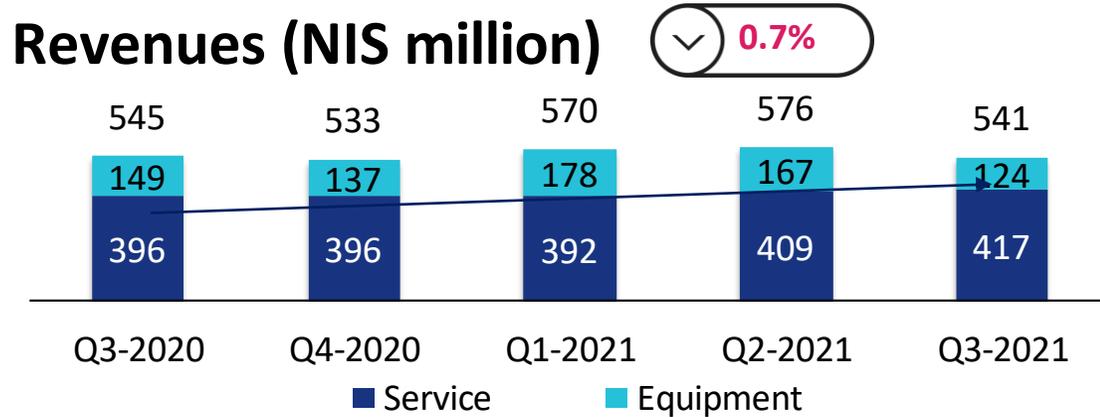
# The Next Generation of Cellular in Israel

- Gradual deployment of 5G network
- Diverse handsets and plans
- 500k subscribers today with “5G” plans contributing to increase in ARPU
- Data communications and private broadband networks for businesses and organizations
- Exclusive use of frequencies gives Pelephone a competitive advantage

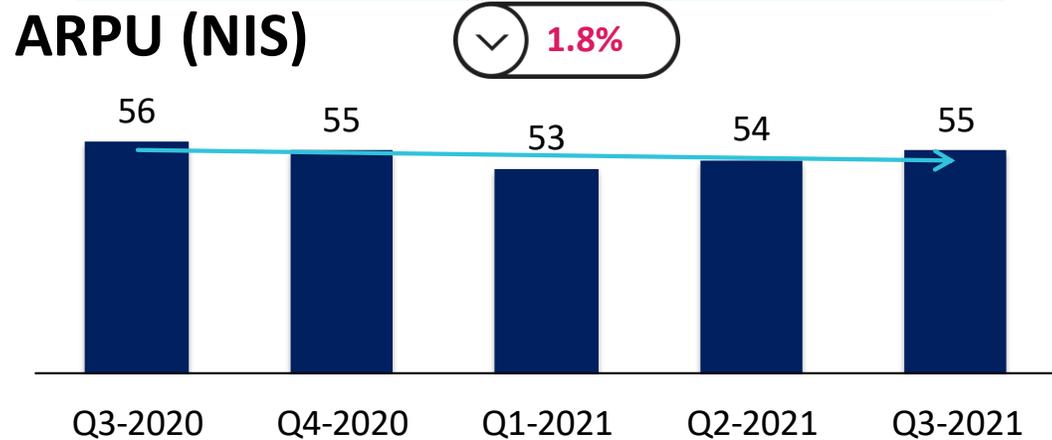


**Pelephone was the first company to launch and operate its 5G network in Israel and it continues to lead in the field**

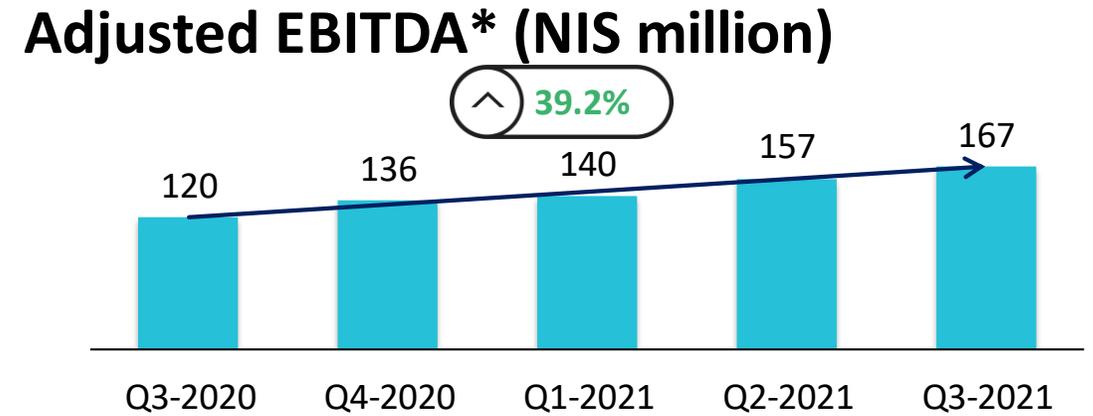
# Pelephone – Key Operational & Financial Metrics



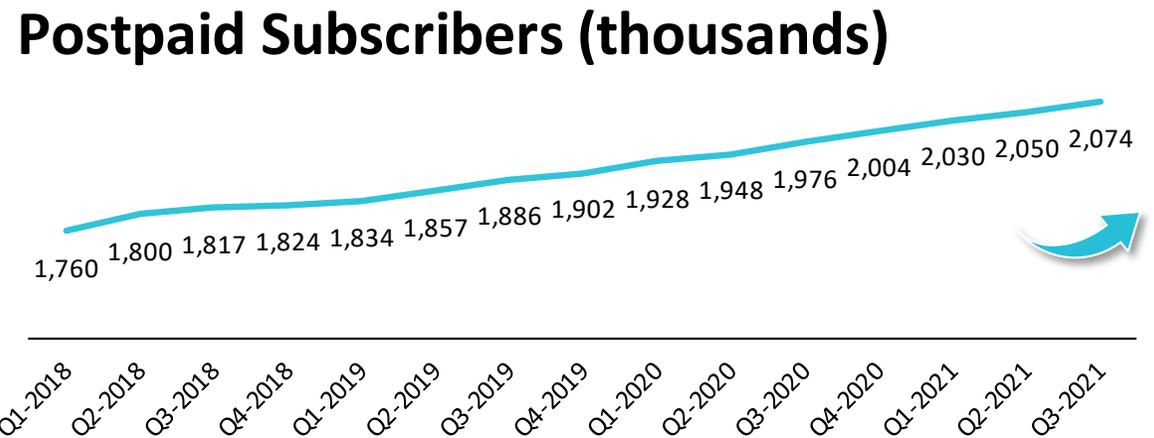
Lower equipment revenues due to global chip shortage and COVID effect in 2020. Increase in revenues from services due to increase in subscribers



Stable with Q-o-Q growth



Y-o-Y and q-o-q growth in Adjusted EBITDA

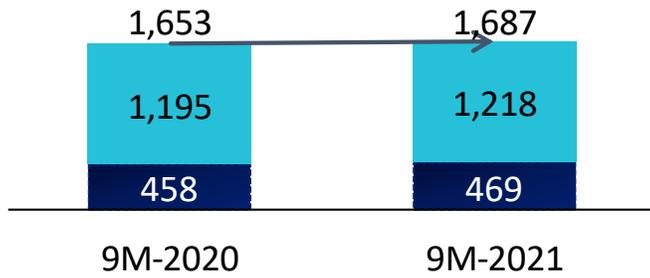


Subscriber growth for the fifth consecutive year moderated revenue decrease



# Pelephone – Key Financial Metrics\* (9M-2021) | NIS million

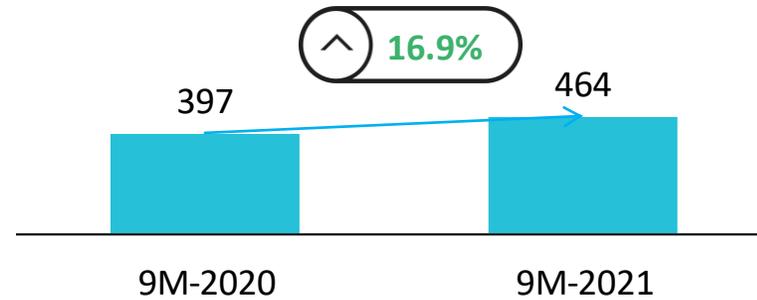
## Revenues ↑ 2.1%



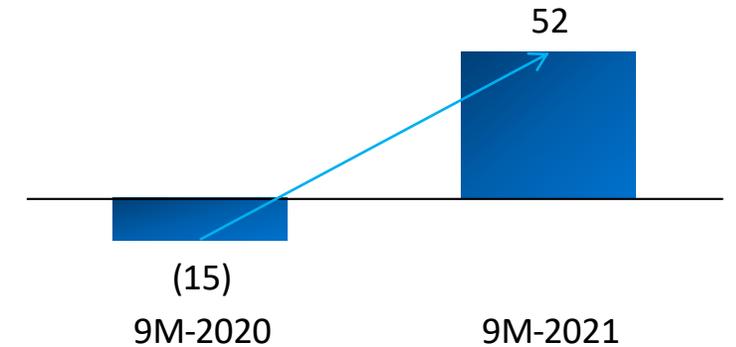
■ Equipment ■ Service

- Equipment revenues increased primarily due to launch of new I-phone
- Service revenues – Increase in roaming revenues and growth in postpaid subscribers, including 5G plans

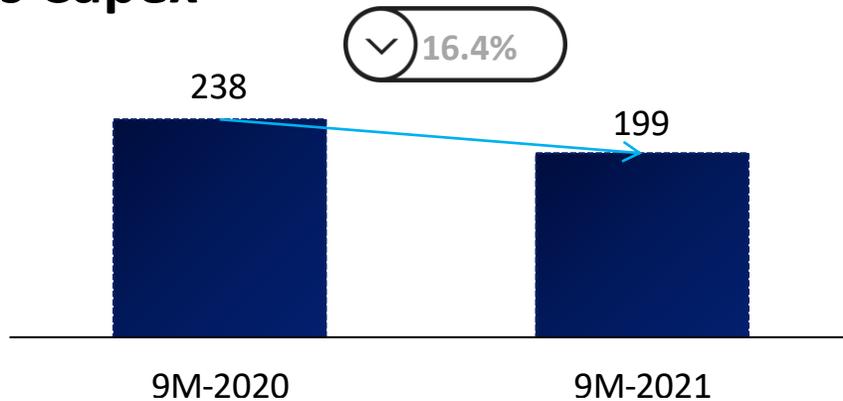
## Adjusted EBITDA\* ↑ 16.9%



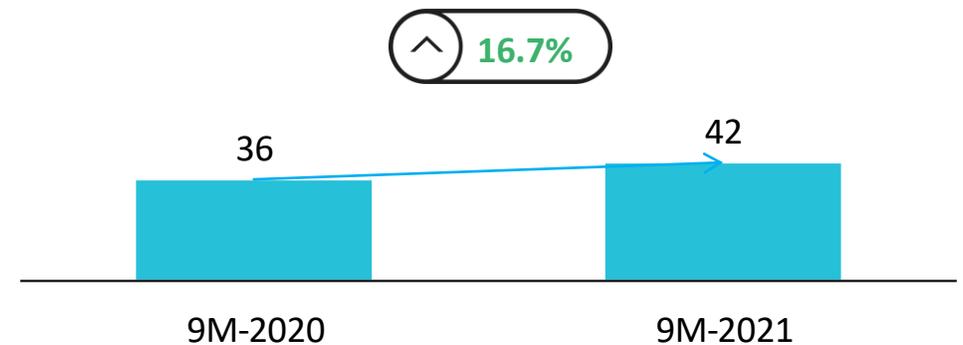
## Adjusted Net Profit\* ↑ 16.7%



## Gross Capex ↓ 16.4%



## Free Cash Flow ↑ 16.7%



# yes – Continued Subscriber Growth and IP Migration

Improved customer experience along with savings in expenses



Continued subscriber growth



Significant improvement in cash flow with positive cash flow in 9M-2021



yes+ 2.0

The next generation of TV viewing



38% of yes customers watch TV through IP broadcasting

Leader in original production

yes continues to lead in production of local content



Savings in satellite costs after full transition to IP

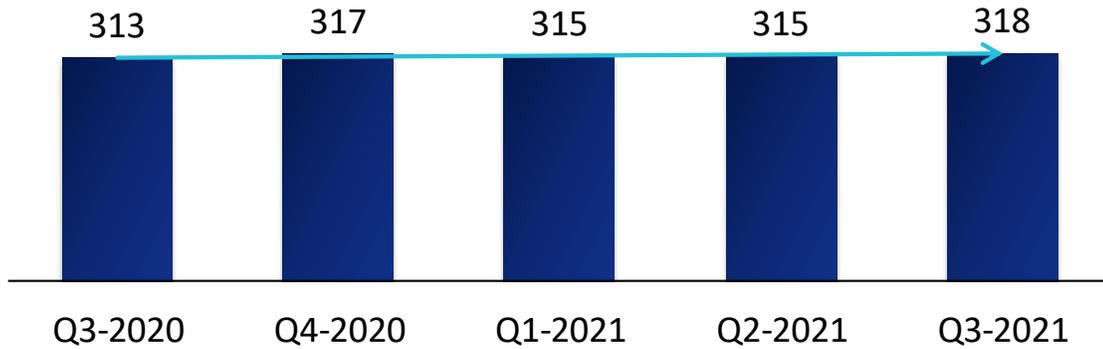


Savings in transition from expensive set-top boxes to cheaper streamers

# yes – Key Operational & Financial Metrics

## Revenues (NIS million)

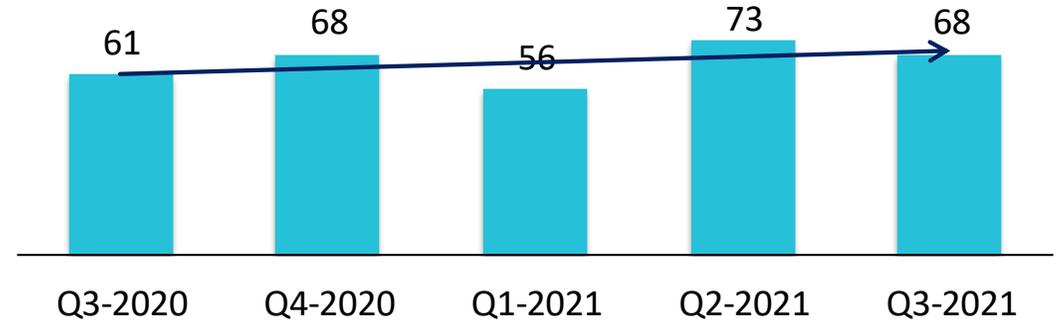
↑ 1.6%



Q-o-q growth in revenues

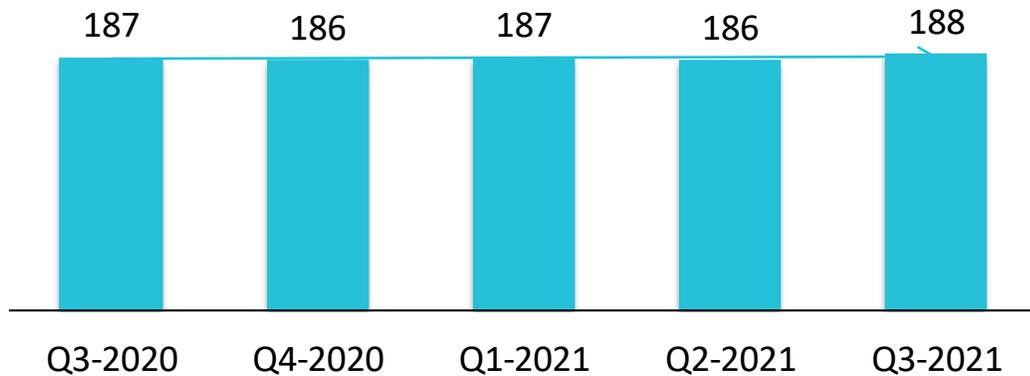
## Adjusted EBITDA\* (NIS million)

↑ 11.5%



## ARPU (NIS)

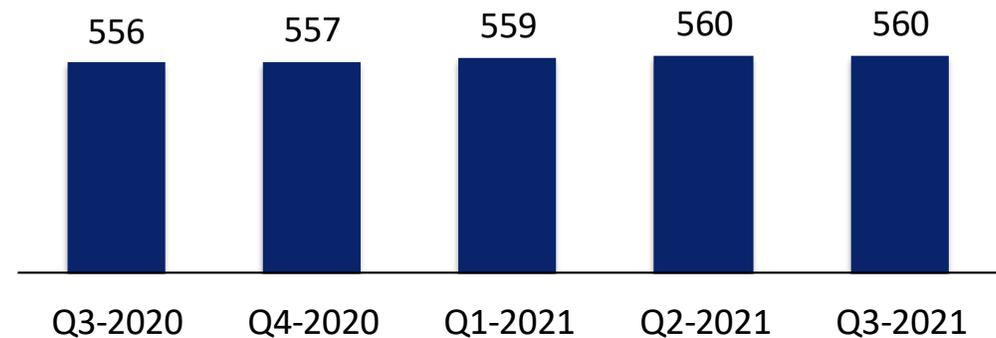
↑ 0.5%



Stable ARPU over last few quarters

## Subscribers (thousands)

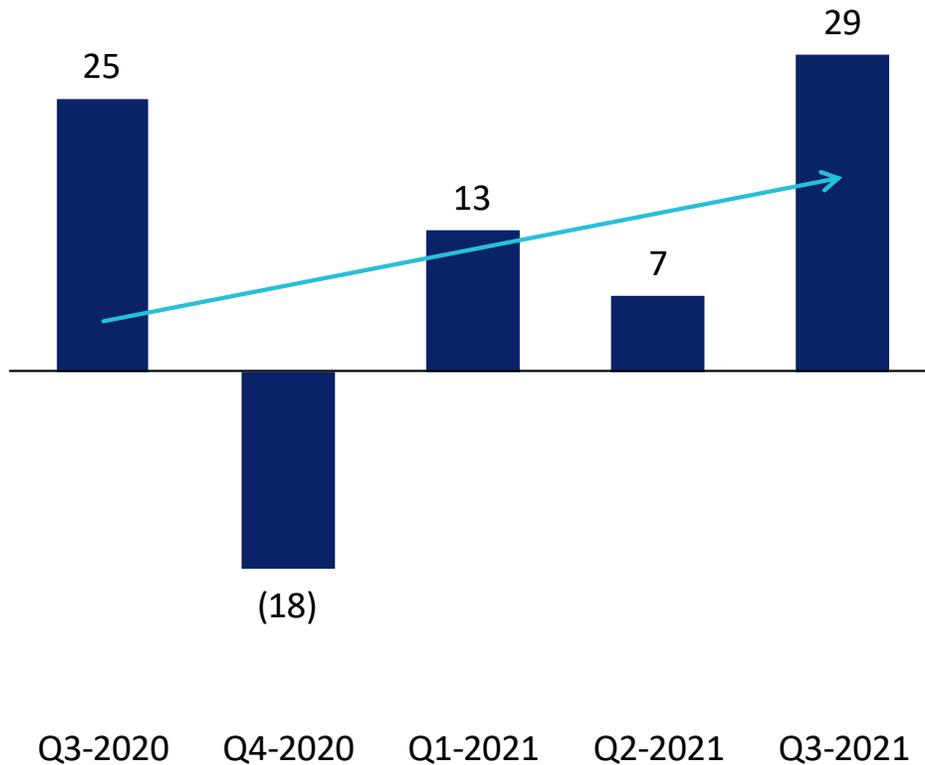
↑ 0.7%



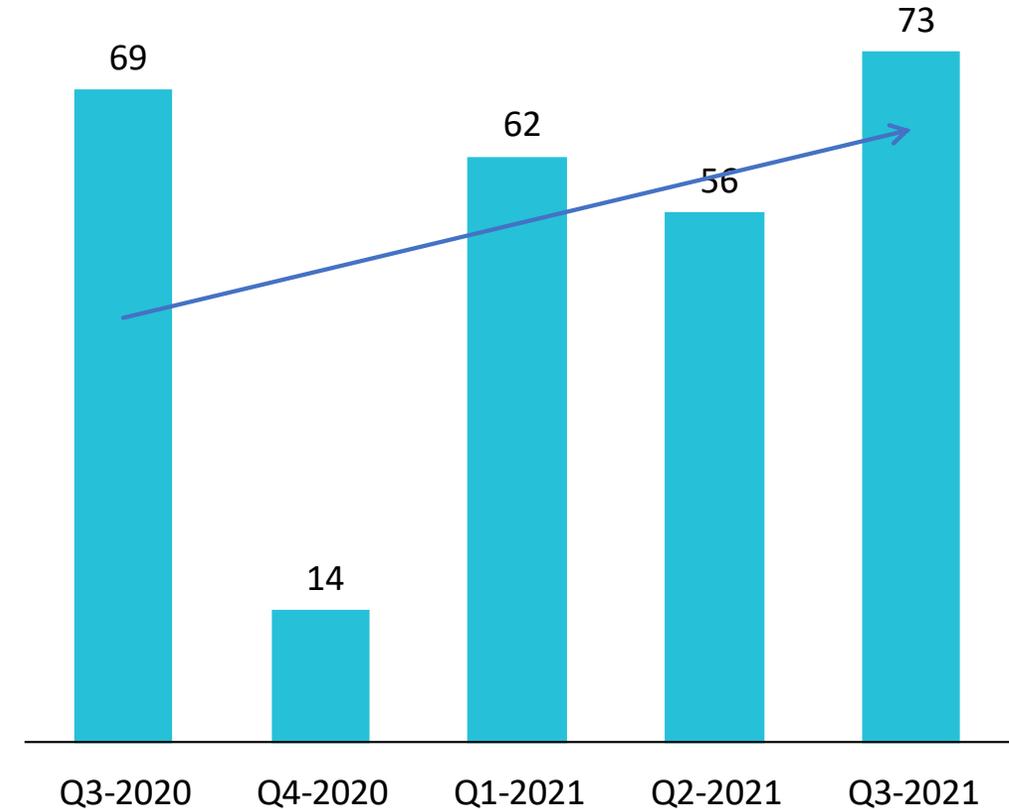
Increase in demand for STING and yes+ led to stable subscribers

# yes – Significant Improvement in Cash Flow | NIS Million

## Free Cash Flow



## Operating Cash Flow

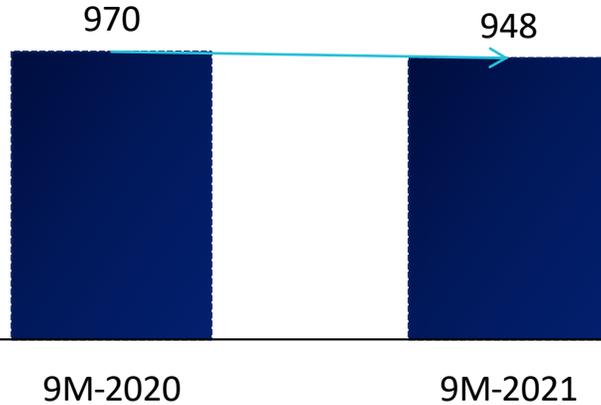


After a number of years, yes posts significant improvement in cash flow with positive free cash flow

# yes – Key Financial Metrics\* (9M-2021) | NIS million

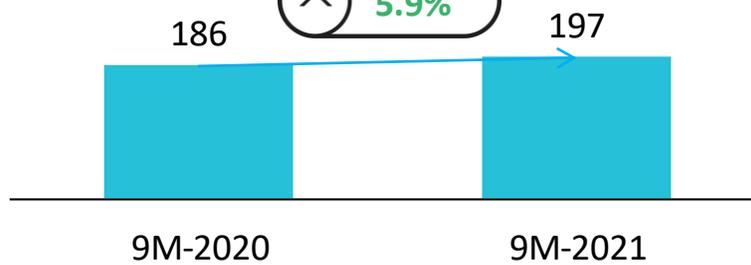
## Revenues

↓ 2.3%



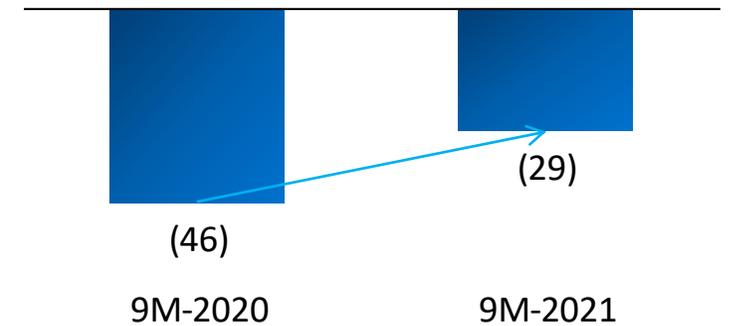
## Adjusted EBITDA\*

↑ 5.9%



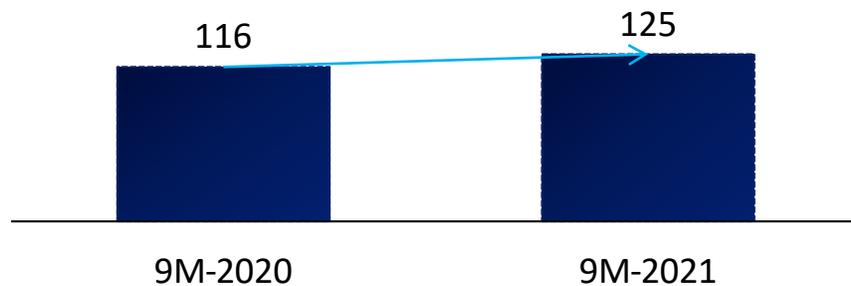
## Adjusted Net Profit\*

↑ 37.0%



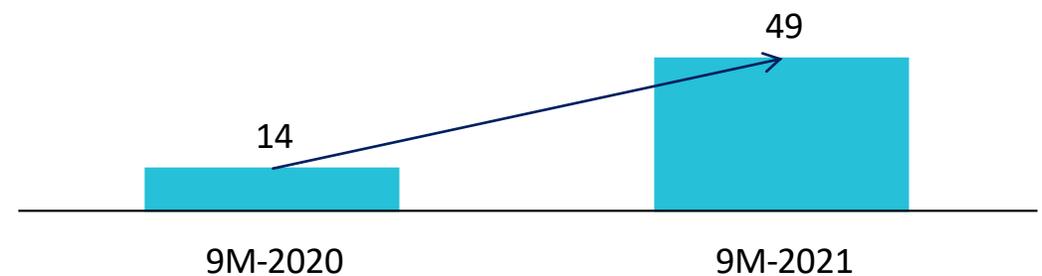
## Gross Capex

↑ 7.8%



## Free Cash Flow

↑ 250.0%



# Bezeq International – Leader in Business Solutions – Significant Operator in a Growing Market

## Wide Range of Business Solutions

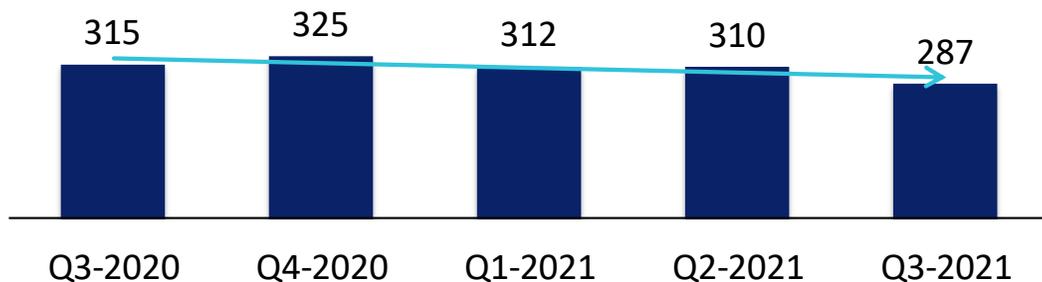
- Wide range of data centers in Israel
- Joint venture agreement to operate a sixth data center
- Growth in cloud solutions (business applications) and service contracts
- Growth in business and international data services
- Continued expansion through agreements with a wide variety of international business customers
- Winning significant and leading tenders in Israel



# Bezeq International – Key Operational & Financial Metrics | NIS Million

## Revenues

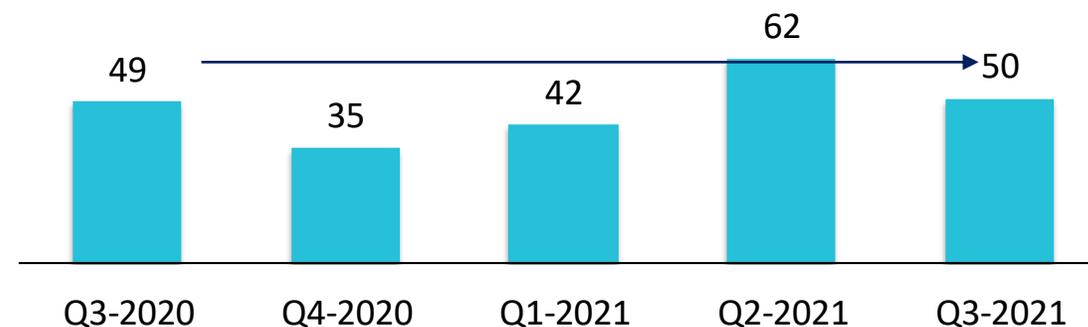
8.9%



קיטון בהכנסות נובע מקיטון בהכנסות אינטרנט אשר קוזז בחלקו מהמשך עלייה בשירותים עסקיים

## Adjusted EBITDA\*

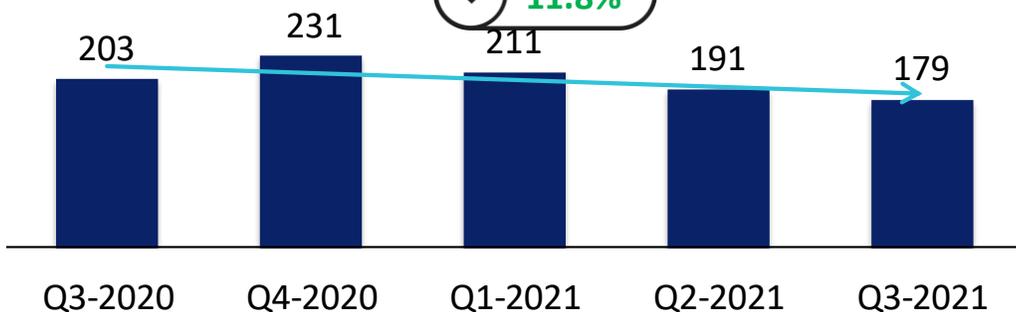
2.0%



בדומה לרבעון המקביל EBITDA רמת

## Operating Expenses (excluding depreciation and other expenses)

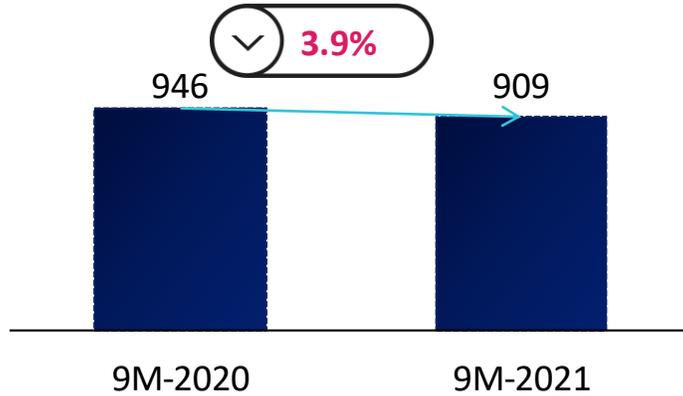
11.8%



המשך ירידה בהוצאות החברה

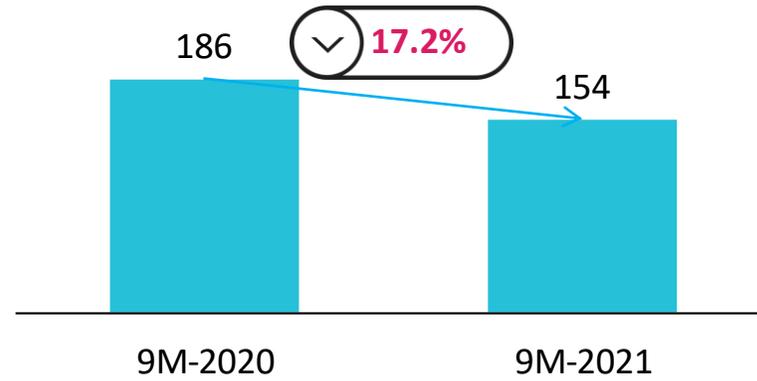
- Lower revenues due to decrease in revenues from Internet services partially offset by an increase in business services
- Stable Adjusted EBITDA y-o-y
- Continued decrease in operating expenses

## Revenues



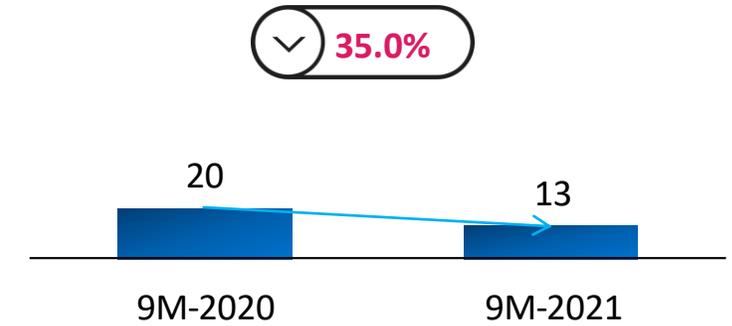
Lower revenues impacted by a decrease in ISP revenues partially offset by an increase in revenues from business services

## Adjusted EBITDA\*

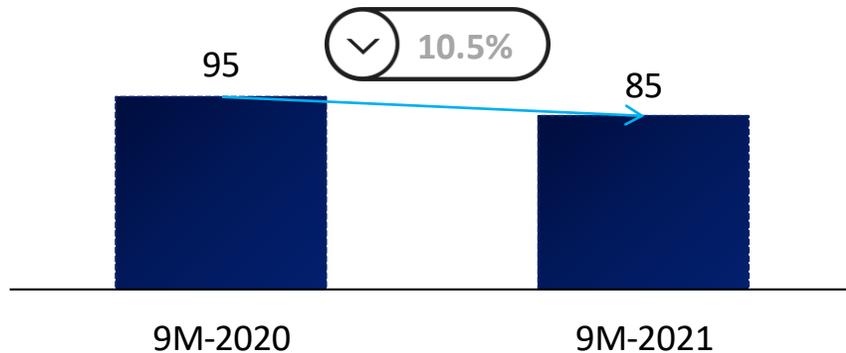


Decrease in ISP profitability and one-time credit in 9M-2020 related to update in wholesale Internet tariffs

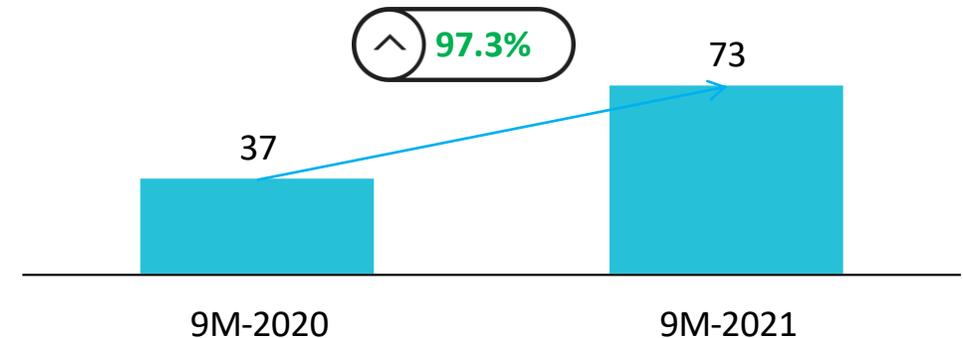
## Adjusted Net Profit\*



## Gross Capex



## Free Cash Flow





# Bezeq Group - Summary



**Strong financial results – increase in revenues and net profit**



**Significant investment in advanced infrastructures**



**Financial strength – significant decrease in net debt**



**Structural change – growth potential and streamlining**



# Thank you

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