

# BZQIY Earnings Call Transcript

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**Quarter: 3**

Yochai Benita: Welcome, everyone, and thank you for joining us on Bezeq's 2025 Third Quarter Earnings Call. I'm Yochai Benita, CFO of the Bezeq Group. Joining us from the senior management team today, we have Mr. Tomer Raved, Bezeq's Chairman; Mr. Nir David, Bezeq's Fixed-line CEO; and Mr. Ilan Sigal, CEO of Pelephone and yes. Before we start the call, I would like to direct your attention to the safe harbor statement on Slide 2 of our presentation, which also applies to any statement made during today's call. We would like to inform you that this event is being recorded. Following the presentation of our results, we will have a Q&A session. With that said, let me now turn the call over to Tomer for his opening remarks. After his introduction, I will continue the presentation of our group's financial highlights, followed by Nir, who will discuss Bezeq Fixed-Line results; and Ilan, who will cover the results from Pelephone and yes. I will conclude the presentation with Bezeq International results. Tomer, please?

Tomer Raved: Thank you, Yochai, and good afternoon, good morning, everyone. Let's start on Slide 3. We continue to record stable and healthy growth across all of the group's strategic business segments, consistently meeting and beating our forecast. I am proud to announce that we have reached our 2.9 million home passed target and have completed our network deployment across the vast majority of Israel. Accordingly, starting 2026, we expect to see a gradual decrease in CapEx. This is a historic milestone that will enable us to be fully prepared ahead of the AI revolution that will transform the economy, society and the quality of life of every Israeli citizen. During this quarter, we continued to deliver significant growth in core revenues and double-digit growth in adjusted EBITDA and adjusted net profit that were also positively impacted by the yes, improved valuation. Excluding the yes valuation impact, adjusted EBITDA still grew by a healthy 4% this quarter. We continue to focus on new strategic initiatives in Bezeq Fixed-line, Pelephone and yes, which further strengthened the Group's core pillars. On the regulatory side, there was further progress in the process for the removal of structural separation with the MOC publication of a call for public comments. We are hopeful that the MOC will complete its process by year-end as planned and that we can start merging yes into Bezeq Fixed line and further enhance value to customers, operational efficiency and leverage our NIS 1.2 billion significant tax asset. Moving to the next slide. Our tech and business road map is on track to reach our midterm KPI, including at least 40% fiber take-up and consistent ARPU growth across all verticals, while leveraging our leading position in 5G and TV. On Slide 5, you can see a good snapshot of our financial highlights for this quarter, both in top line as well as in profitability metrics. Core revenues grew by almost 2% and now represent 93% of our total revenue. After adjusting for the change in yes valuation, adjusted EBITDA grew 4%, in line and actually slightly above the group's targets. Turning to Slide 6. Let me point out that even in a year with a volatile geopolitical situation, our core business continued to perform well with outstanding growth in every KPI this quarter. Total fiber subscribers as of today reached 969,000. 5G subscriber plans reached 1.36 million and cellular ARPU grew over 4%. Yes, ARPU is actually a highlight for this quarter, up 1% year-over-year and stable ARPU at NIS 189. We are pleased to see the improvement in the macroeconomic environment, the ceasefire in the region and the return of our hostages. These tailwinds, together with the group's strong performance are generating growing interest from investors in the Israeli, European and U.S. capital markets. We will continue to work to create significant value for our customers, employees and shareholders. I will now

turn the call over to Yochai, who will elaborate further on the group results.

Yochai Benita: Thank you, Tomer. Moving to Slide 7. We show a 1.7% increase in core revenues due to higher core revenues across all key group segments. Adjusted EBITDA grew 13.8% and adjusted net profit grew 56% due to the increase in the valuation of -- after excluding the impact of the updated valuation, adjusted EBITDA increased 3.9% and adjusted net profit was up by 0.1%. Turning to the next slide, we show the 9 months trends, which were similar to Q3 revenues and profitability. Free cash flow was impacted by Bezeq Fixed Line assessment -- tax assessment paid in the first quarter of 2025 and tax refund received in the corresponding period. Moving to the next slide, we show our operating expenses. Salary expenses decreased 8.9% due to the sale of Bezeq Online and its deconsolidation as of Q2 2025. We recorded decreases in operating expenses and depreciation expenses, mainly due to the change in yes valuation. Other expenses were impacted by higher provision for legal claims and employee retirement at Bezeq Fixed line. The next slide shows our quarterly operational metrics. Broadband retail ARPU continued to grow year-over-year. In addition, we recorded increases in telephone ARPU as well as in yes ARPU year-over-year due to fiber growth. Compared to the previous quarter, cellular subscribers grew by 16,000 and TV subscriber grew by 3,000, representing the second consecutive quarter of growth. Slide 11 highlights our balanced capital structure with net debt at NIS 4.6 billion and a coverage ratio of 1.3x. The decrease in coverage ratio was due to the increase in adjusted EBITDA as a result of the change in yes valuation. We remain committed to maintaining our high credit rating. Moving to the next slide on our 2025 outlook remains unchanged, and we are forecasting adjusted EBITDA of NIS 3.85 billion, adjusted net profit of NIS 1.45 billion and CapEx of NIS 1.75 billion. I will now turn the call over to Nir, who will share more detailed results from our Fixed line operation. Nir?

Nir David: Thank you, Yochai. We continue to deliver strong results in the third quarter, reflecting the successful implementation of our multiyear strategy focused on the core actives and the acceleration, infrastructure -- acceleration, investment in advanced infrastructure nationwide. Turning to Slide 13. Fixed line core revenues increased 2.2% to NIS 991 million, driven by higher revenues from transmission and data communication, broadband and cloud and digital services. Broadband fiber customers reached 969,000 today and ARPU rose 3.8% year-over-year to NIS 136. We recently expanded our IRU agreements with Gilat Telecom. Together with partner agreements, this represent another significant milestone in our growth strategy, enabling us to better leverage the potential of our fiber networks and to expand our customer base nationwide. On the following slide, we show Q3 financial highlights. Adjusted EBITDA rose 0.5% due to higher core revenues, partially offset by lower telephony revenues. Adjusted net profit was down 10.5% to NIS 214 million, mainly due to higher depreciation and financing expenses. Free cash flow was down 3.1%, mainly due to timing differences in working capital. Turning to the next slide, we show continuous fiber deployment reaching out targets of 2.9 million homes passed with over 969,000 active subscribers in our fiber network today, representing 65% of total broadband subscribers and resulting in a take-up rate of 34%. Moving to the next slide, we show the take-up trends. Retail subscriber take-ups reached 616,000 and also fiber take-up reached 355,000 today. Fiber subscriber representing 62% of total retail subscribers. Turning to the next slide. Broadband revenues were up 1.6%, driven by growth in ARPU and fiber subscriber. Transmission and data revenues grew 4.7% to NIS 310 million and cloud and digital revenues grew 5.7%, driven by higher revenues from virtual exchange and cloud services. With that, I will now turn the call over to Ilan to discuss Pelephone and yes.

Ilan Sigal: Thank you, Nir. Moving to Slides 18 and 19. Pelephone delivered strong quarterly financial results together with sustained growth across key performance indicators. Service revenues grew 4.4%, reaching NIS 381 million for the highest service revenues in a decade. Adjusted EBITDA grew approximately 6% to NIS 202 million for the highest adjusted EBITDA in 2 years. Revenue and profitability growth were driven by continued growth in postpaid subscribers, including 5G subscriber plans as well as high roaming revenues. 5G postpaid subs plans grew by 33,000, reaching 1.36 million subscribers today. 5G Max subscribers reached 115,000 today. Moving to the next slide, we show 5G postpaid subscriber plans reaching 1.36 million subscribers as of today, representing 59% of postpaid subscribers and Q3 service revenues showing consistent growth over the last few years. The next slide shows Q3 key operational metrics. We posted the highest ARPU in 6 years, reaching NIS 48, up 4.3%

of NIS 2 year-over-year. Turning to yes on Slide 22. Yes has demonstrated consistent increase in revenues and subscribers along with significant growth in all profitability metrics, which have been driven by comprehensive efficiency and renewal initiatives and the completion of strategic transactions and measures we undertook. Revenues increased 1.3% to NIS 321 million due to higher revenues from the TV and fiber bundle. Pro forma adjusted EBITDA rose 69% to NIS 59 million, driven by an improvement in operations, including growth in subscribers and revenues and the reduction in expenses resulting from the completion of transactions and strategic initiatives. Total TV subscribers increased by 3,000 this quarter, representing the highest quarterly increase in total subscribers since 2022. We posted quarterly growth with 12,000 net fiber subscribers, adds reaching 111,000 as of today. Moving to the next slide. Pro forma adjusted net loss improved by 97% due to higher revenues and streamlining of expenses -- streamlining of expenses. On the next slide, I would like to highlight that this is the second consecutive quarter with a sequential increase in total TV subscribers outrose NIS 2 year-over-year growth due to higher revenues from the fiber plans. We should continue growth in IP subscribers reaching 489,000 today, representing 86% of total subscribers. With that, let me now turn the call back to Yochai.

Yochai Benita: Thanks, Ilan. Moving on to Bezeq International on Slide 25. ICT businesses revenues grew 8.7% to NIS 281 million, mainly due to higher revenue from the sale of business equipment as well as cloud activity. As a result, profitability metrics grew with adjusted EBITDA up to 2.6% and adjusted net profit up to 14.3% to NIS 16 million. We are continuing with our streamlining plan, including the implementation of the employee retirement agreement for the years 2025 through 2027. Finally, I would also like to mention that we will be attending the TMT conference this week in Barcelona. In addition, we will be attending the UBS Global Media and Communications Conference on December 9 in New York. For those attending, we look forward to meeting you there. With that, I will open the Q&A; session.

Yochai Benita: [Operator Instructions]

Chris Reimer: Chris Reimer from Barclays.

Yochai Benita: First question from Chris from Barclays.

Chris Reimer: Yes. Yes. I wanted to ask about the guidance, the near-term 2% growth in adjusted EBITDA. How should we be looking at that in terms of the strong impact from the revaluation of yes.

Tomer Raved: Yes. So the -- as I mentioned this quarter, the growth of the EBITDA of 14% if you exclude the yes impact, we're talking about 4% growth. We talked and we are targeting to be around the 2% EBITDA CAGR in our midterm targets. But given the successful growth in our core revenues and ongoing efforts driven by Bezeq, yes and Pelephone, we're obviously trying to overachieve these numbers. You saw this year, we upgraded our guidance twice and we are very confident of being at this number, maybe slightly above. But we are going to continue and push for at least 2% or more growth in EBITDA CAGR. And I would also share that in this coming March, we will share a revised midterm guidance as a result of our very successful business initiatives across the group.

Chris Reimer: Yes. That's good color. And also just touching on, yes, you announced the extension of the satellite -- using their satellite. I'm just wondering how does that correspond to a positive impact on the segment?

Yochai Benita: Okay. So as you mentioned, we did announce that we will keep some satellite business, but it will be very small compared to what we have today with lower cost structure. So what we communicated of a significant saving starting the first quarter of 2026, we still see it as part of our forecast. So there is no material change from our view in this respect. Next question is Siyi He from Citi.

Siyi He: I have 2, please. The first one is really follow up on the topic on Yes. And we see that yes ARPU has stabilized this quarter. Just wondering if you can give us how do you think the yes ARPU could develop given that the fiber take-up continues to grow up? Should we expect this which the ARPU will trough from now on? And the second question, just if you could give us some updates on the HOT Mobile offer. I think the news said that you just raised the offer by like NIS 100 million. Just wondering if you can give us some update on how that's been progressing and your thoughts on the pricing.

Tomer Raved: Yes. I'll touch quickly. Siyi, thanks for joining. The TV market is extremely competitive. Yes, has a very unique and premium offering. And while the TV stand-alone ARPU continued to go

down as expected, slightly better -- slightly lower than expected, but still a very competitive market with fiber, the accompanied ARPU and now it's significant, has stabilized and growing gradually, as you can see. So with the growing take-up on fiber from yes, you would expect the offsetting the decline in TV stand-alone offerings to basically stay stable and slightly grow as a result of the fiber offering and additional offerings that yes has opened up like advertising and others that you'll hear about soon.

Ilan Sigal: I'll add only one thing that, yes, second quarter that we are gaining more customers, 3,000 this quarter and last quarter, 1,000. In a competitive market, we are enabling to grow in our subscriber base. So also impacting the ARPU.

Tomer Raved: And on the question of Hot Mobile, so we submitted an offer on the process, NIS 2 billion. We submitted a revised indication of NIS 2.1 billion. We are in touch with Altice and the representative as part of the process for the past 2 months. We did update the Street today on the revised offer, and we will update the Street on any other development there. We are focusing only on the mobile unit. We believe the value to the Israeli cellular market will be very significant, especially to the networks if this consolidation happens.

Yochai Benita: Thank you. Siyi. Next question is from Christina Michael from UBS.

Christina Michael: Can you hear me?

Yochai Benita: Yes, we can hear you.

Christina Michael: Following up from the previous question, how do you see the competitive dynamic in general in the market? And if there are any other specific actions you are taking in response to the competitive dynamics and increased competition in the market?

Ilan Sigal: What market?

Yochai Benita: Which market are you referring to?

Christina Michael: The mobile market.

Yochai Benita: The mobile. Okay.

Tomer Raved: Yes. I'll touch and Ilan, please further elaborate. The competitive -- the Israeli market in cellular is very competitive with very low ARPU compared to the world, given the reforms that happened 10 years ago. ARPU stand around the NIS 45 to NIS 50 across the street or in euros at EUR 12 to EUR 13, much lower than Europe. So we've seen a recovery in ARPU over the past 2, 3 years, thanks to the 5G offering. We expect to continue and see this trend happening. There are 4 MNOs and 20 MVNOs, very competitive market. We believe consolidation supports a better network development. Most markets are 2- or 3-player market. This is a 24-player market. So we are glad to see the market recovering, but Israel is still behind on cellular speed, #70-ish in the world, while it's #7 on Fixed line broadband. So we believe this type of transactions will support basically the country network and evolution into 5G and 6G.

Ilan Sigal: I'll just add, the 5G network is still in the baby steps, we are around 33% of the antennas nationwide are 5G. And we believe that the nation needs to be 100% very fast. So -- and also, the market is very competitive, as Tomer said, 23, 24 players and a lot of MVNOs and the pricing is very down -- is very low. So that's the market and we believe it will be still very competitive in the next few years.

Yochai Benita: Okay. Thank you. So if there are no further questions at this time, just a minute, we do have another question, Sabina.

Sabina Levy: First of all, congratulations on the quarter. You've mentioned previously the long-term guidance. And I just was wondering whether it takes into the consideration also potential developments in the regulatory landscape, like you've mentioned that the Ministry of Communications might decide regarding the structural separation. So I was wondering if it's in the numbers. And also, maybe you can provide us some additional color regarding the potential impact of AI implementation considering the cost base and potential savings and maybe streamlining measures in the company.

Tomer Raved: Yes. Touching quickly on AI, and I promise you, you'll hear a lot more both from Nir and Ilan very soon on AI initiatives. But we play de facto 3 roles basis the infrastructure for AI. So everything that's going on with higher bandwidth speed, data center connectivity locally and globally, we are part of, given we are the incumbent. We adopted a lot of AI tools. We are ahead of the world, both in Pelephone and especially in Bezeq Fixed line. And we see cost savings and better customer service as a result. And you will also see a lot of AI solution at the customer premise. We're already offering cyber

solutions, device management solution and more to come. That's on AI. You'll hear a lot more about this from us in the coming weeks. Regarding the regulatory front, we've seen a lot of activity on the regulatory front. Earlier this year, they talked about the wholesale and the removal of structural separation happening later in this year. They have been very active in the past 2 months with hearings and RFIs across both. And they set a target date to decide on structural separation structure and removal by end of this year. We are in active conversation with them, and I think the rest of the Street is as well, and we expect them to make a decision by year-end.

Sabina Levy: What about? I asked about if it's reflected maybe risk-adjusted in the long term -- in your long-term guidance or aspirations.

Tomer Raved: We did not -- sorry, yes, Sabina, we did not take into account any of the regulatory impacts on the long term, especially not structural separation. It's not in our guidance.

Sabina Levy: So can we assume that in case there will be developments in this front in the next coming months, you will provide us more color at the annual report?

Tomer Raved: Yes. We will provide more color when we have better visibility. And as you know, the 3 main impact, of course, the significant value to the customers on the service and on the price. So while putting revenues aside, there is a NIS 1.2 billion tax asset that will be used over a course of 8 to 10 years, very significant free cash flow impact as well as potential cost savings as a result of the Bezeq & yes merger. But we will provide specific numbers, hopefully, during the annual statements.

Yochai Benita: Next question is from Omri Lapidot from [indiscernible].

Omri Lapidot: Yes. [indiscernible] Omri Lapidot. I want to add on the previous questions regarding the company's forecast and whether or not you are taking into account in the forecast, yes, revaluation. If I look at the EBITDA margin for the medium term, in my eyes, it seems like it didn't take it into account. It seems like the yes, revaluation added like, I don't know, NIS 400 million in adjusted EBITDA yearly. How can we think about it?

Tomer Raved: I'll respond and Yochai feel free to add. We did not take into account any impact from -- yes in our initial guidance when we issued it in March. As a result of company better performance and the yes revaluation in Q2, we revised guidance and then did it again because there were 2 impacts on the yes revaluation. So both were taken into account in the revised guidance or in the second revised guidance, and that's one of the primary reasons for the revised guidance. So it's already in there, but we are not taking into account any future revaluation of yes into the guidance. I hope that makes sense.

Yochai Benita: Okay. Thank you, Omri. If there are no further questions at this time, I would like to thank you all for taking the time to join us today. Should you have any follow-up questions, please feel free to contact our Investor Relations department. We look forward to speaking to you on the year-end 2025 earnings call. Thank you.