



Bezeq Group

Investor Presentation
Financial Results Q2 2023



yes.



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Bezeq Group | Focus on Growth



3.3% growth in Group revenues, to NIS 2.3 billion, driven by Bezeq Fixed-Line (+5.9%) and yes (+6.3%)



Record profit quarterly results in last five years – 6.8% increase in Adjusted EBITDA to NIS 987 million; 14.2% growth in Adjusted Net Profit to NIS 354 million



Strong execution in strategic growth drivers – robust fiber take-up in Bezeq Fixed-Line and yes, consistent growth in 5G subscriber plans in Pelephone



Board recommendation to distribute semi-annual dividend of NIS 392 million, 0.14 per share, reflecting a dividend yield of ~5%



ESG – MSCI upgrade to AA rating



Bezeq Group is executing on its strategy while focusing on growth

Technological & Business Roadmap



Migration to fiber

2020

Launch of fiber project

Today

- 1.9m homes passed
- 457k subscriber take-up (retail + wholesale)
- 24% fiber penetration rate
- 20% increase in broadband ARPU*

Mid-term

2.7m homes passed, approx.
85% of Israeli households



Transition to 5G

5G Tender Award

- 920k subscribers (35%)
- 14% increase in service revenues*

Approx. 80% 5G subscribers

yes.

Migration to IPTV

Satellite to IP migration

- 370k subscribers (64%)

Completion of IP migration
Opex and Capex savings

Technology upgrades reflect potential for future growth



Bezeq Group | Q2-2023 Summary

Revenues

NIS **2.3** billion

↑ 3.3%

Highest since 2018

Adjusted EBITDA ⁽¹⁾

NIS **987** million

Adjusted EBITDA margin of **42.9%**

↑ 6.8%

Highest since 2017

Adjusted Net Profit ⁽¹⁾

NIS **354** million

↑ 14.2%

Free Cash Flow

NIS **238** million

↓ 33.7%

Decrease in Net Debt

NIS **222** million

↓ 3.9%

All results are compared to Q2-2022 unless otherwise stated

(1) After adjusting for other operating expenses/income, net, one-time losses/gains from impairment/increase in value of assets and stock-based compensation



Bezeq Group | Q2-2023 Summary (Cont'd)



Fiber Net Adds⁽²⁾

73k

(retail and wholesale)

Fiber Subscribers

457k ⁽¹⁾

(retail and wholesale)

Retail Internet ARPU

NIS **122**

↑ 8.0%

Homes Passed

1.88 million ⁽¹⁾

↑ 44%



Cellular subscribers

2.59 million

↑ 0.3% ⁽²⁾

920k subs (35%)
with 5G plans⁽¹⁾

7k

Net postpaid
subscriber adds⁽²⁾

Cellular ARPU
excluding interconnect fees

NIS **45**

↑ 4.7%

Cellular Service Revenues
excluding interconnect fees

NIS **350** million

↑ 2.9%

yes.

TV subscribers

579k

↓ 0.2% ⁽²⁾

64% IP subscribers⁽¹⁾

TV ARPU

NIS **185**

↑ 0.5%

All results are compared to Q2-2022 unless otherwise stated

(1) As of reporting date

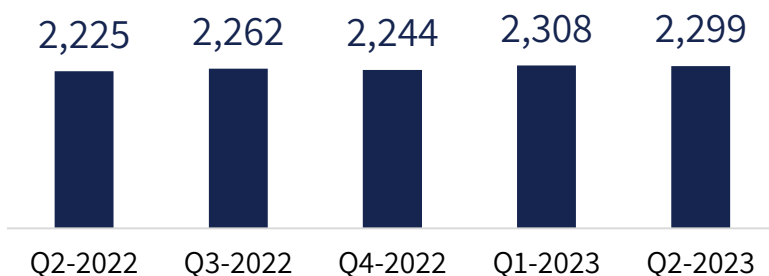
(2) Compared to Q1-2023



Bezeq Group | Q2-2023 Key Financial Highlights NIS Million

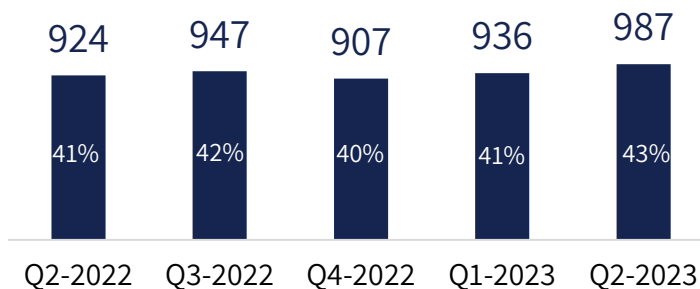
Revenues

↑ 3.3%



Adjusted EBITDA ⁽¹⁾

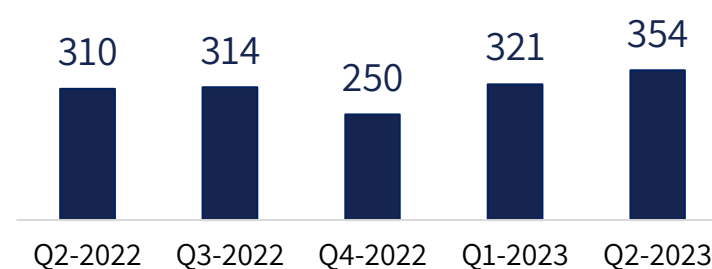
↑ 6.8%



% - Adjusted EBITDA margin

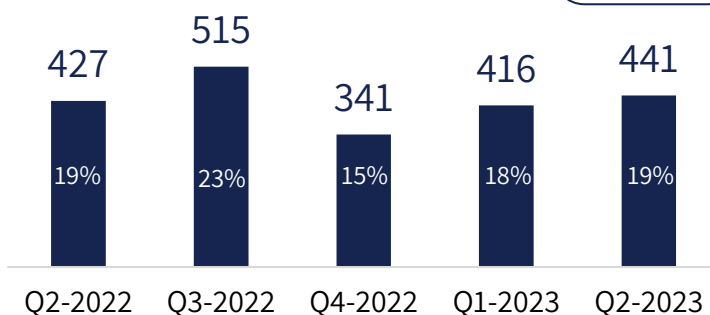
Adjusted Net Profit ⁽¹⁾

↑ 14.2%



CapEx

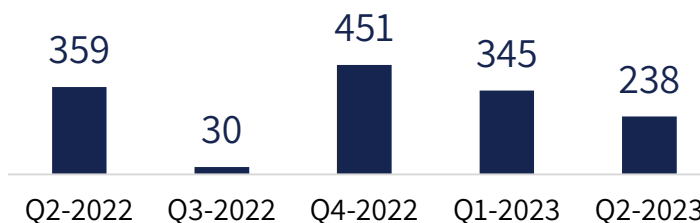
↑ 3.3%



% - Capex/Sales

Free Cash Flow

↓ 33.7%



- Revenue growth driven by increases of 5.9% in Bezeq Fixed-Line and 6.3% in yes
- Highest quarterly Adjusted EBITDA since 2018 and Adjusted Net Profit since 2017
- Free cash flow was impacted by changes in working capital



Bezeq Group | H1-2023 Key Financial Highlights NIS Million

Revenues

↑ 2.8%

4,480



H1-2022

4,607

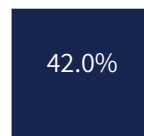


H1-2023

Adjusted EBITDA ⁽¹⁾

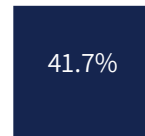
↑ 2.2%

1,882



H1-2022

1,923



H1-2023

% - Adjusted EBITDA margin

Adjusted Net Profit ⁽¹⁾

↑ 6.8%

632



H1-2022

675



H1-2023

CapEx

857



H1-2022

857



H1-2023

% - Capex/Sales

Free Cash Flow

↓ 37.2%

929



H1-2022

583



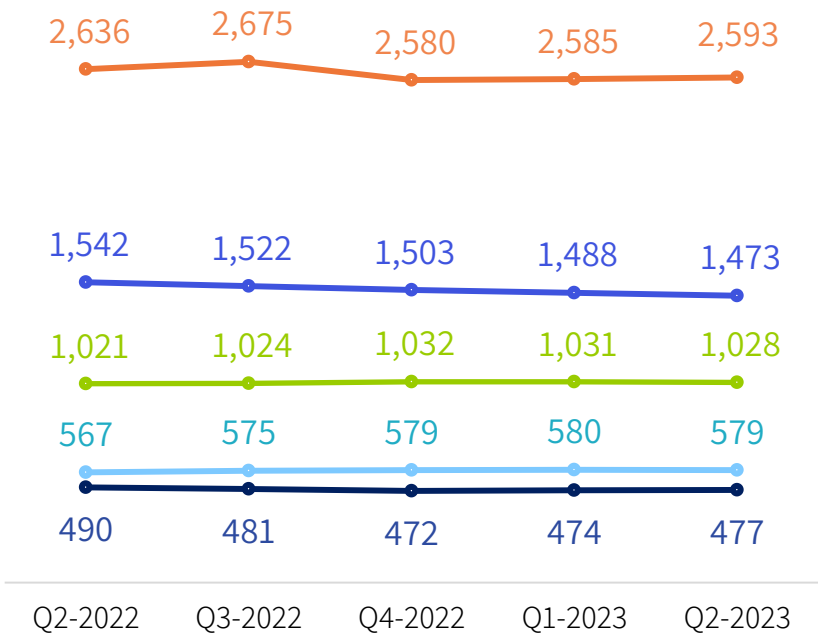
H1-2023

- Revenue growth driven by increases of 3.6% in Bezeq Fixed-Line and 5.2% in yes
- Increase in Adjusted EBITDA and Adjusted Net Profit driven by improved business results in Bezeq Fixed-Line and yes
- Free cash flow was impacted by changes in working capital



Bezeq Group | Key Operational Metrics

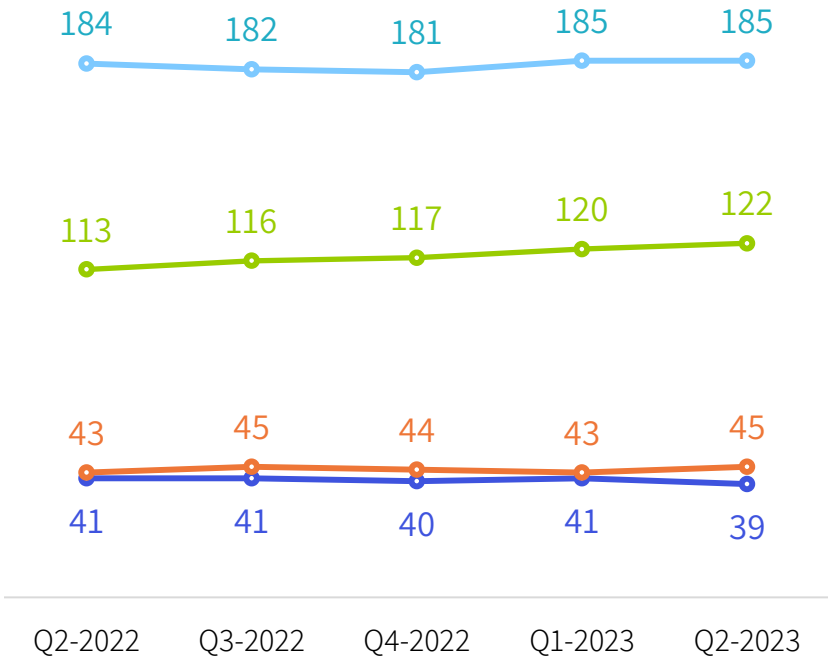
Subscribers (end of period, in thousands)



Second consecutive quarter of growth in wholesale Internet subscribers

Growth in TV subscribers y-o-y

ARPU (NIS)



8.0% y-o-y increase in retail Internet ARPU

TV ARPU grew y-o-y due to agreements with international content providers

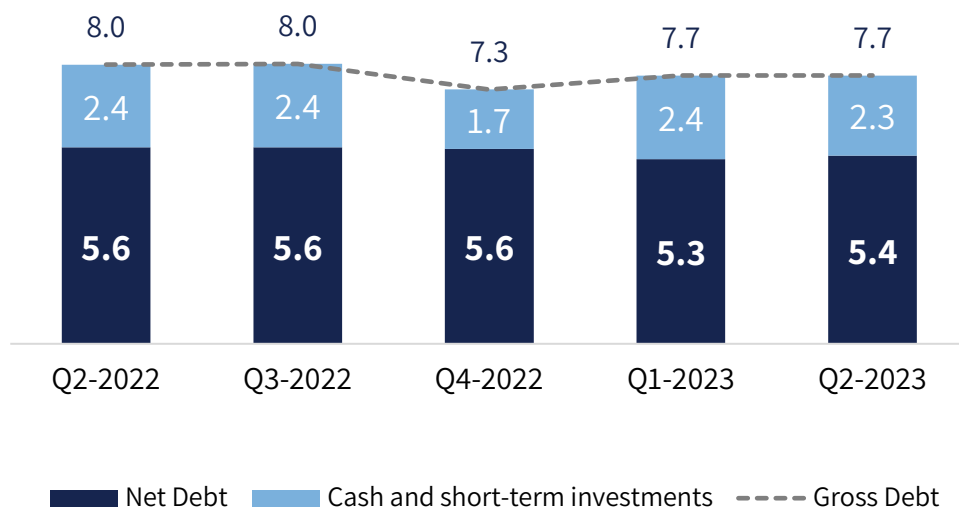
TV Wholesale Internet Retail Internet Telephony Lines Cellular*

* Cellular ARPU - excluding interconnect fees



Bezeq Group | Financial Debt

Financial Debt (NIS billion)



The Group strives to maintain its high credit rating within the AA group

Decrease in net debt

- Decrease of NIS 222 million, or 4% y-o-y

Further improvement in Net debt/EBITDA ratio

- Decreased to 1.6 from 1.7 as of June 30, 2022

Debt ratings

- Increase in Israeli rating agencies' outlook in Q2-2023 from "stable" to "positive" due to continued improvement in Group financial ratios

Rating Agency	Rating	Outlook
S&P Global Maalot	ilAA-	Positive
Midroog	Aa3.il	Positive



Bezeq Group | 2023 Updated Guidance



Previous Outlook



Updated Outlook

Adjusted EBITDA ⁽¹⁾	NIS 3.8 billion	Unchanged
Adjusted net profit ⁽¹⁾	NIS 1.2 billion	NIS 1.32 billion
CAPEX	NIS 1.75 billion	Unchanged
Fiber deployment	2 million households	Unchanged
Financial stability	Maintain High Credit Rating, within the AA group	Unchanged



Bezeq Fixed-Line | Q2-2023 Summary



Fiber net adds of 73k, of which 43k retail and 30k wholesale



Fiber network homes passed reached 1.88m with 457k customer take-up (24%) ⁽¹⁾



65% of retail broadband subscribers are combined infrastructure + ISP customers



Highest quarterly revenues since 2012 reaching NIS 1.13 billion, an increase of 5.9%



Highest quarterly Adjusted EBITDA since 2018 – NIS 681 million, up 5.6%

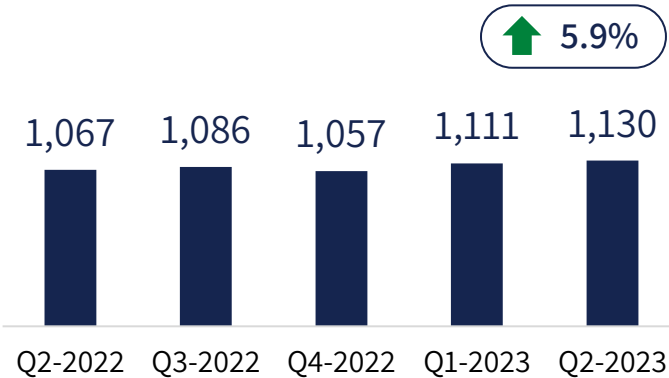


8.0% growth in retail Internet ARPU reaching NIS 122

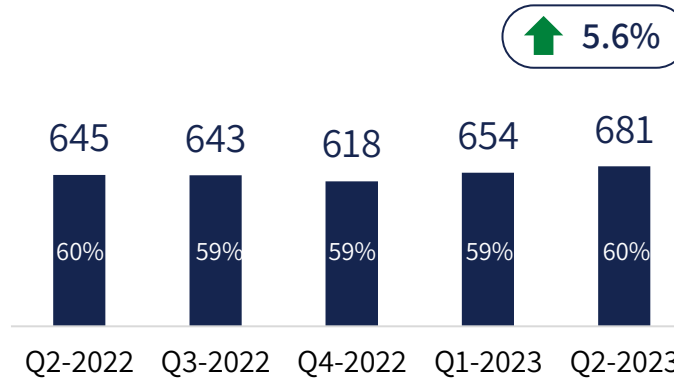


Bezeq Fixed-Line | Q2-2023 Key Financial Highlights NIS Million

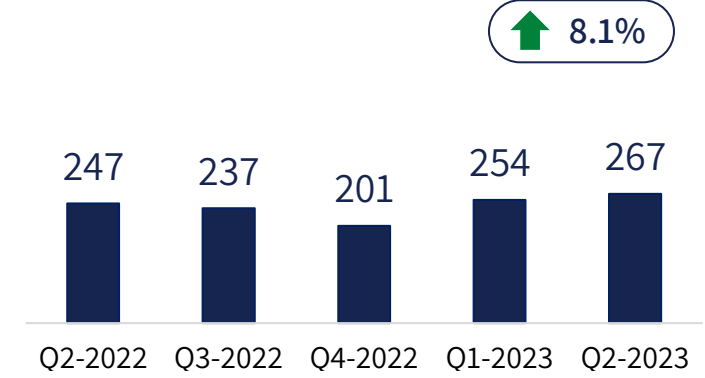
Revenues



Adjusted EBITDA*

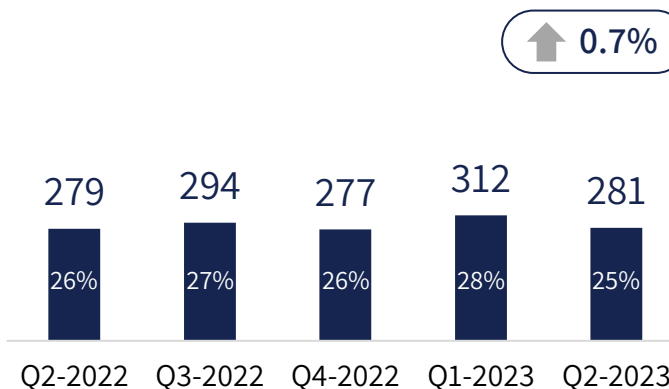


Adjusted Net Profit*



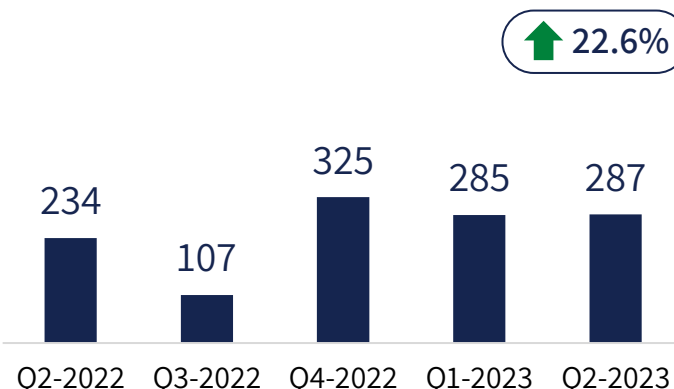
% - Adjusted EBITDA margin

CapEx



% - Capex/Sales

Free Cash Flow



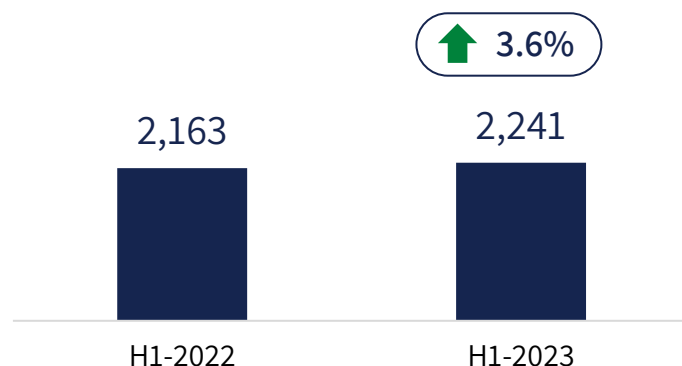
- Revenue growth recorded in all activity segments except for telephony services
- Strong growth in Adjusted EBITDA and Adjusted Net Profit
- Free cash flow growth primarily due to improved business results

* After adjusting for other operating expenses/income, net, one-time losses/gains from impairment/increase in value of assets and stock-based compensation

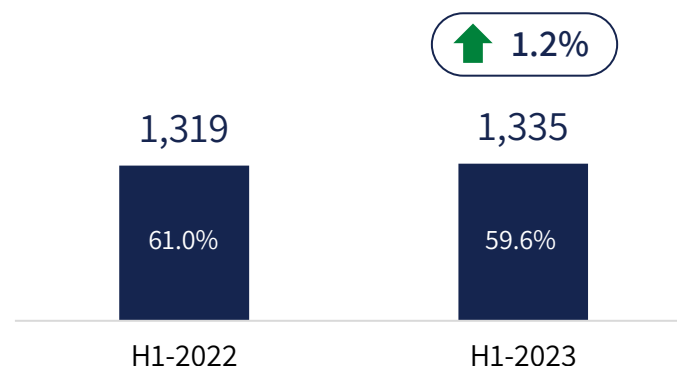


Bezeq Fixed-Line | H1-2023 Key Financial Highlights NIS Million

Revenues

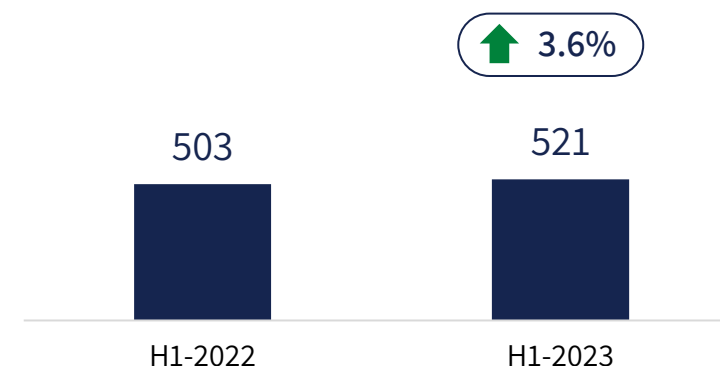


Adjusted EBITDA*

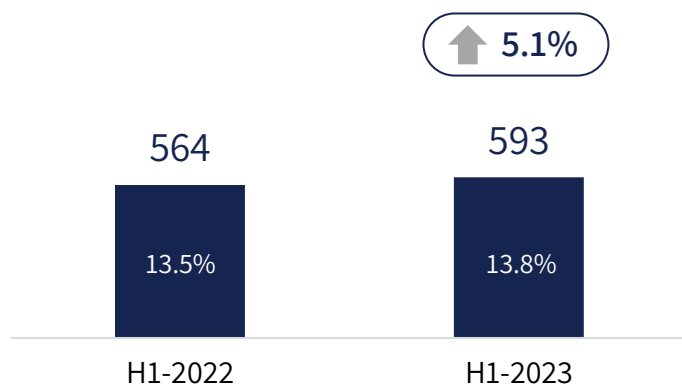


% - Adjusted EBITDA margin

Adjusted Net Profit*

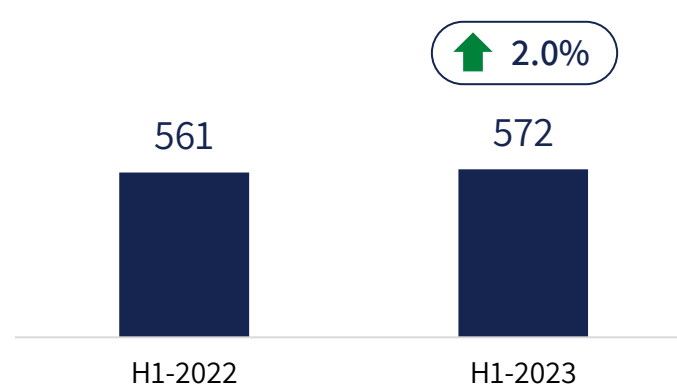


CapEx



% - Capex/Sales

Free Cash Flow



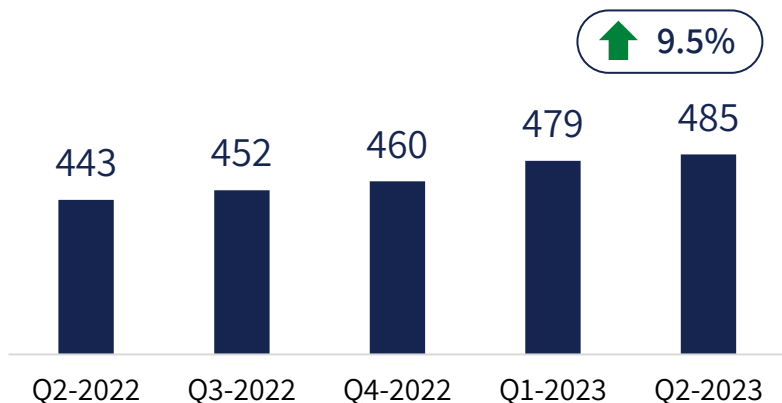
- Revenue growth recorded in all activity segments except for telephony services
- Increase in Adjusted Net Profit, primarily due to an increase in revenues and a decrease in net financing expenses
- Increase in free cash flow primarily due to improved business results

* After adjusting for other operating expenses/income, net, one-time losses/gains from impairment/increase in value of assets and stock-based compensation

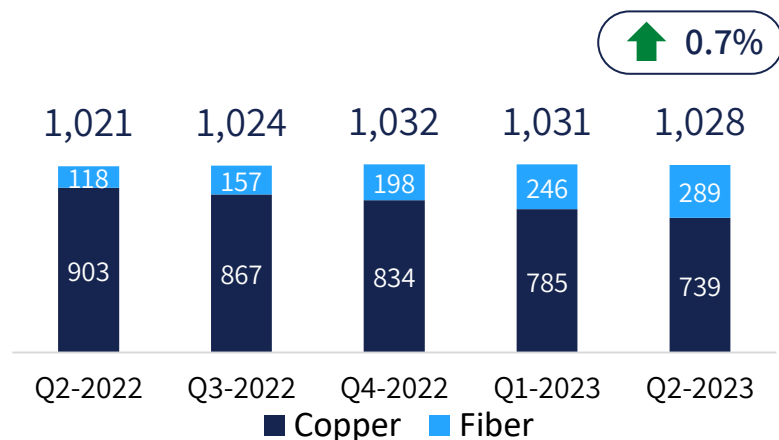


Bezeq Fixed-Line | Q2-2023 Broadband Internet

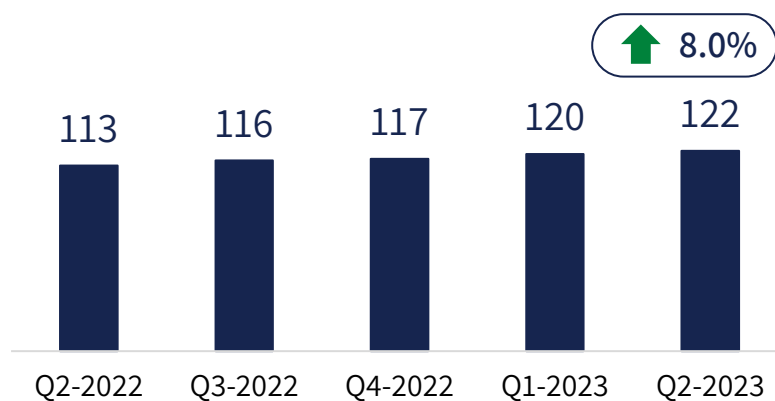
Broadband Revenues (NIS million)



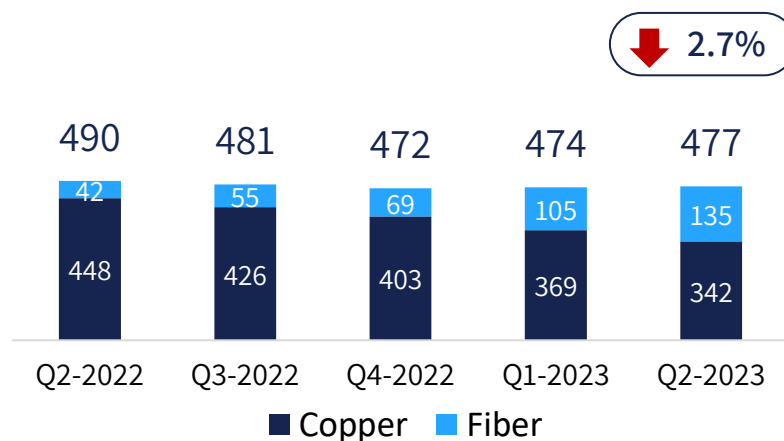
Retail Broadband Lines (thousands)



Retail ARPU (NIS)



Wholesale Broadband Lines (thousands)

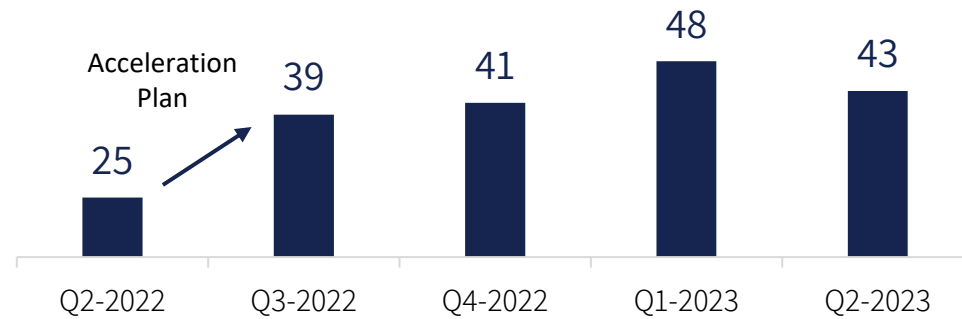


- Significant increase in fiber customer take up
- Continued significant growth in broadband revenues
- Continued growth in retail ARPU positively impacted by fiber customer take up

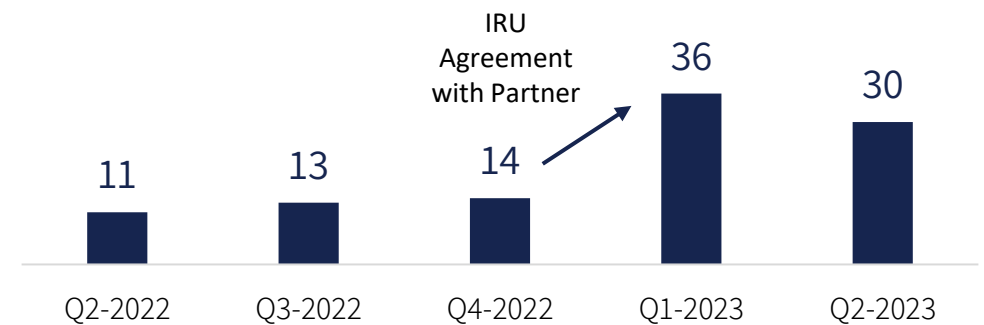


Bezeq Fixed-Line | Accelerated Fiber Take-Up – Retail and Wholesale

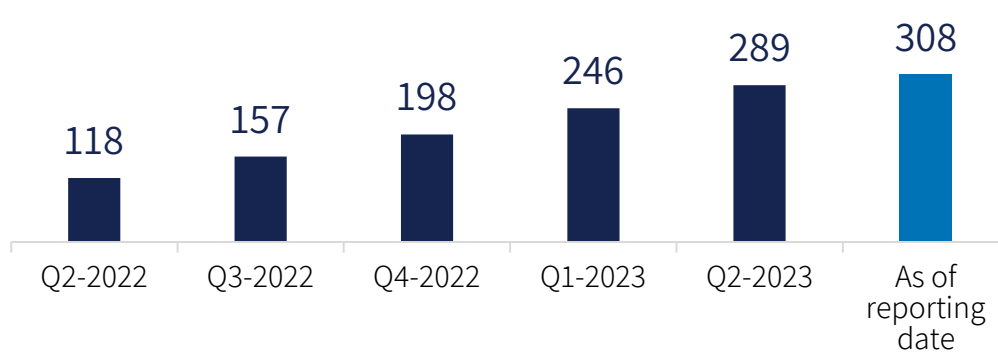
Retail Fiber – Net Adds (Thousands)



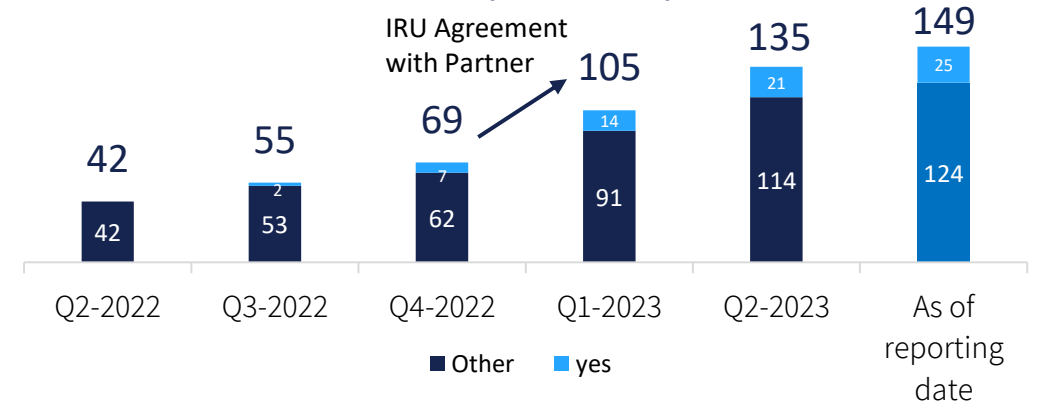
Wholesale Fiber – Net Adds (Thousands)



Total Retail Fiber Take-Up (Thousands)



Total Wholesale Fiber Take-Up (Thousands)



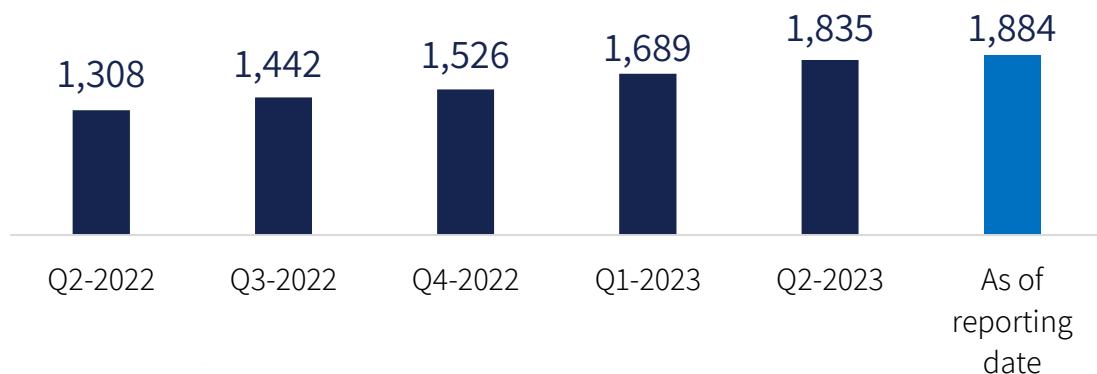
Significant acceleration of retail take-up starting in H2-2022

Accelerated wholesale take-up began in Q1-2023

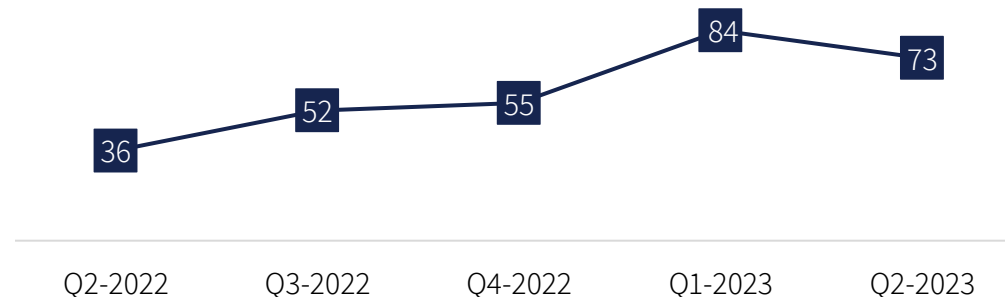


Bezeq Fixed-Line | Continued Fiber Deployment with Increased Take-up Focus

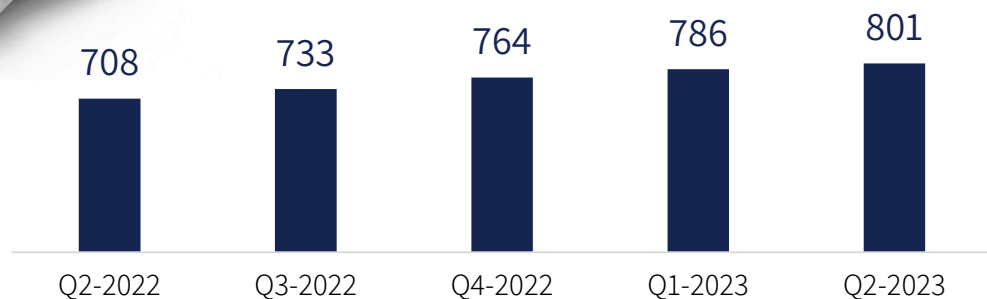
Homes Passed (thousands)



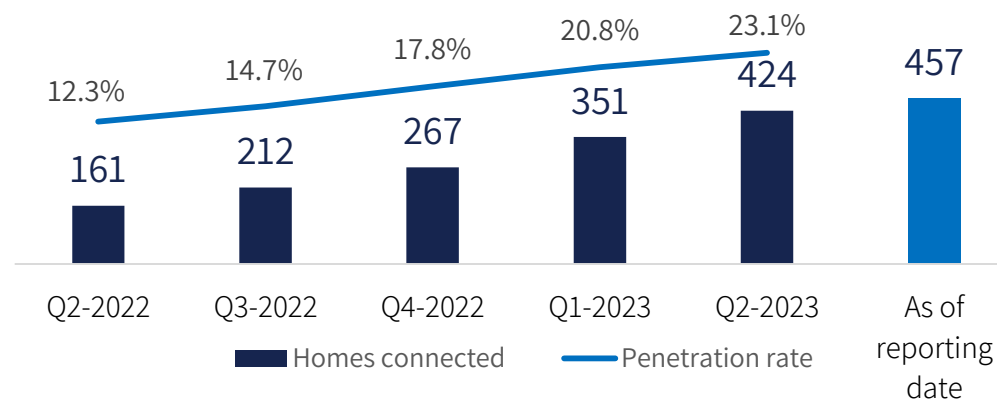
Total Fiber Net Adds (thousands) (Retail and Wholesale)



Customers with Be router (thousands)



Total Fiber Take-Up (thousands) (Retail and Wholesale)



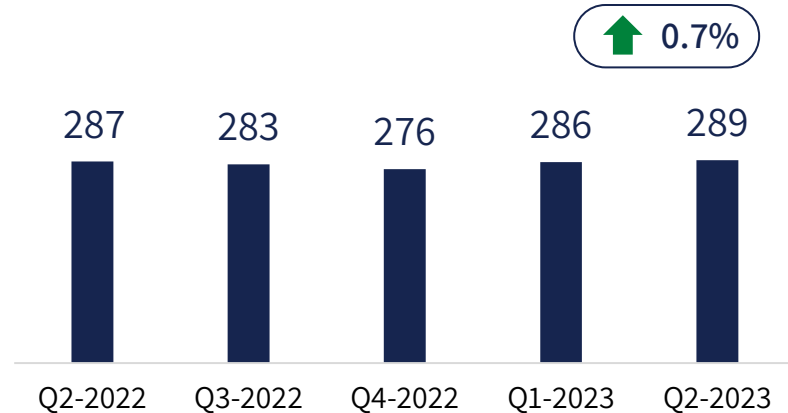
70% y-o-y increase in average broadband speed to 278 Mbps

Bezeq is leading in fiber take-up (retail + wholesale)

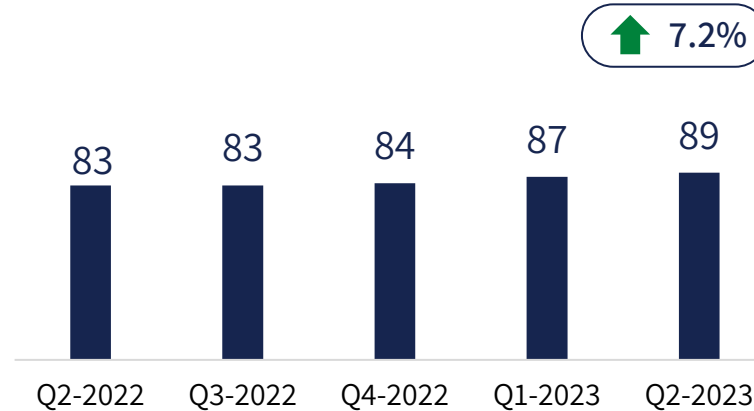


Bezeq Fixed-Line | Data, Telephony, Cloud & Digital Revenues | NIS millions

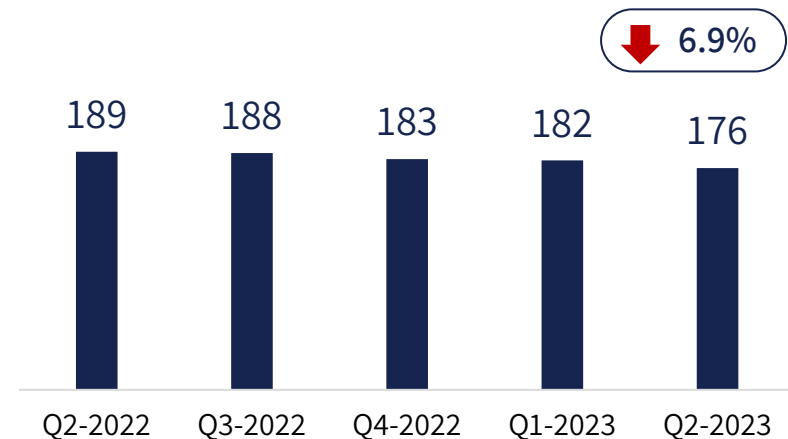
Transmission & Data



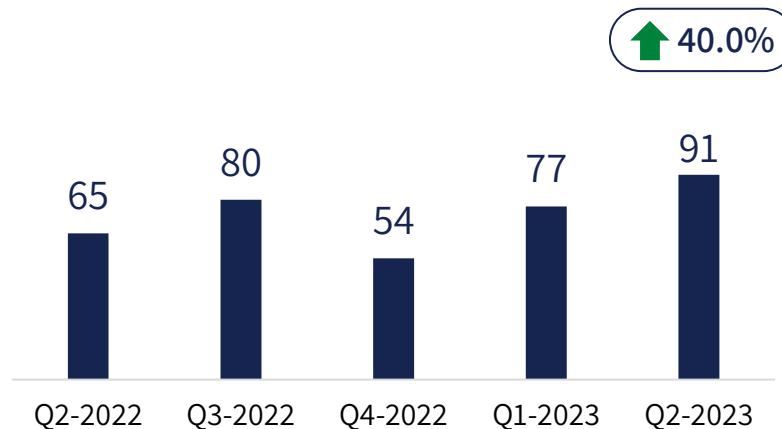
Cloud & Digital



Telephony



Other

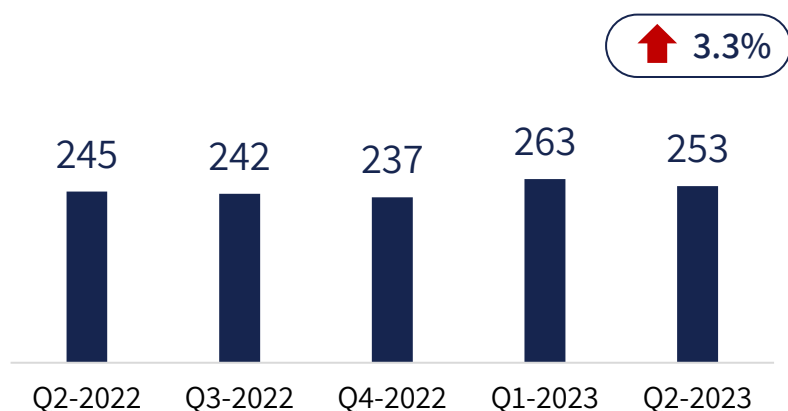


- Continued growth in data revenues offset by a decrease in traffic revenues from ISP companies
- Growth in cloud & digital revenues driven by an increase in virtual exchange services
- Increase in other revenues mainly due to infrastructure projects

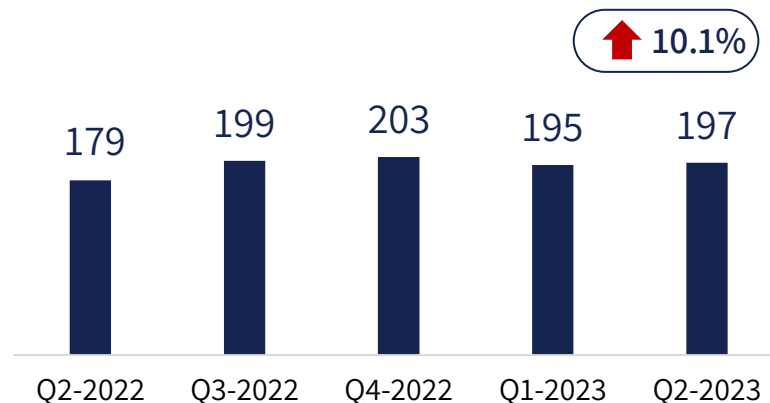


Bezeq Fixed-Line | Operating Expenses | NIS million

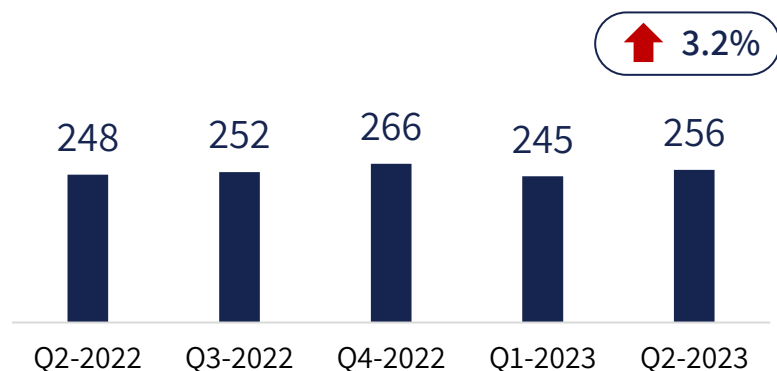
Salaries



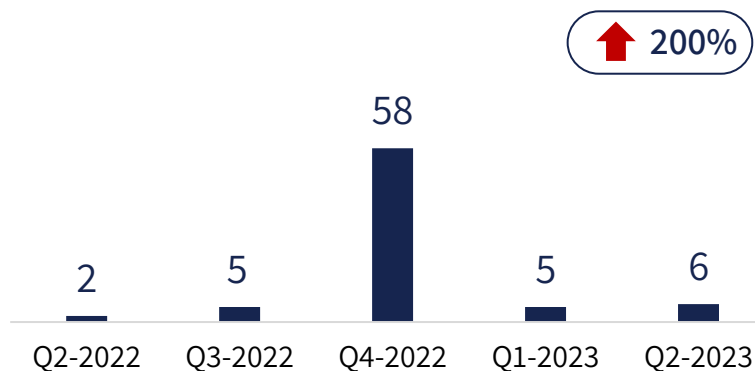
Operating Expenses



Depreciation & Amortization



Other Expenses



- Increase in salaries mainly due to salary updates as well as employee recruitment relating to the fiber project
- Increase in operating expenses mainly due to higher materials and subcontractor expenses relating to fiber and other infrastructure projects, as well as timing differences in advertising expenses



Bezeq Fixed-Line | Key Takeaways



Accelerated retail fiber take-up as part of “acceleration plan”, combined with continued increase in ARPU



IRU agreement with Partner - Improving Bezeq’s position in wholesale fiber market



Continued migration to combined infrastructure + ISP service



Growth in broadband revenues offset impact of MOC telephony tariff reduction



Growth in business sector revenues driven by increased demand for data and communications solutions, with decrease in revenues from ISP operators



Widespread fiber deployment combined with accelerated fiber take-up is reflected in Bezeq’s continued growth in the residential market



Pelephone | Q2-2023 Summary



2.9% growth in revenues from services excluding interconnect fees, driven by an increase in roaming revenues and growth in subscribers, including 5G subscriber plans



Consistent growth in 5G subscriber plans reaching 920k (35%) ⁽¹⁾ contributing to ARPU, alongside growth in postpaid subscribers with 7k net adds;



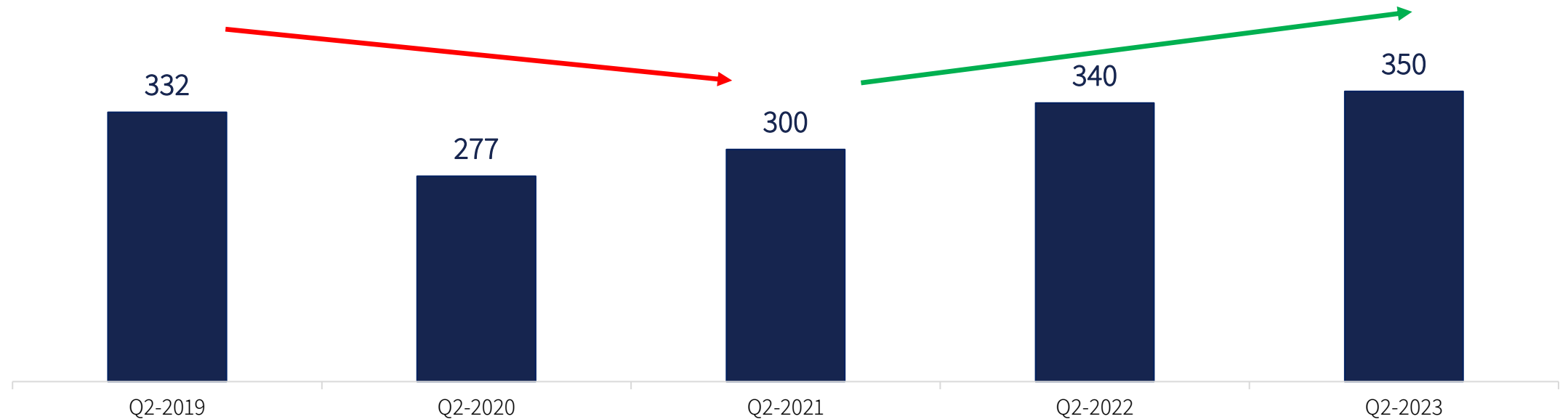
Stable Adjusted EBITDA and Adjusted Net Profit



ARPU, excluding interconnect fees, increased NIS 2 year-over-year



Pelephone | Continued Turnaround in Service Revenues Excluding Interconnect Fees NIS Million

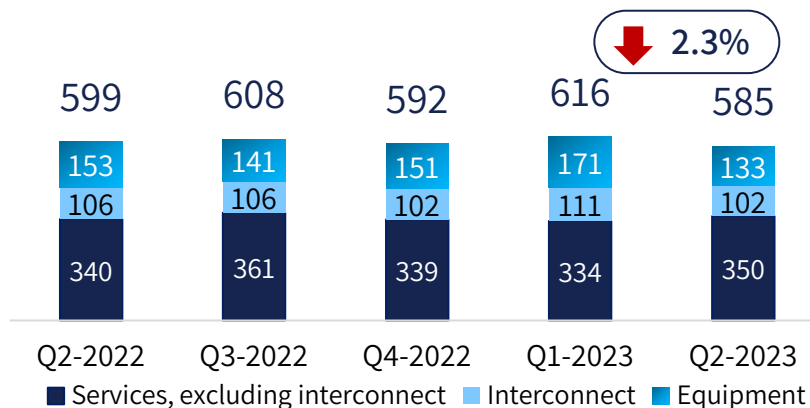


- Growth in service revenues excluding interconnect fees, driven by recovery in roaming revenues, increase in subscribers and growth in 5G subscriber plans
- Service revenues excluding interconnect fees in Q2-2023 were higher than Q2-2019 (pre-COVID period)

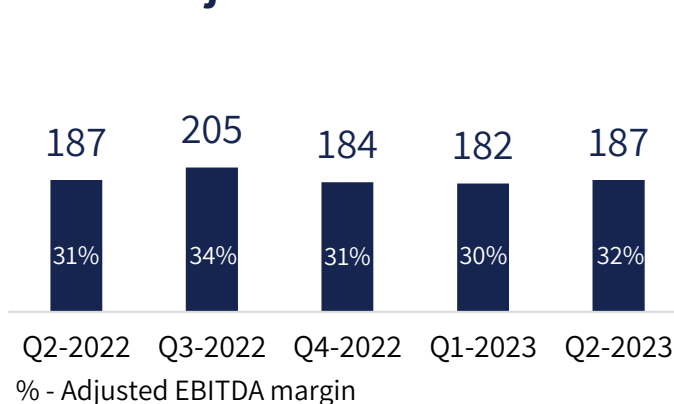


Pelephone | Q2-2023 Key Financial Highlights NIS Million

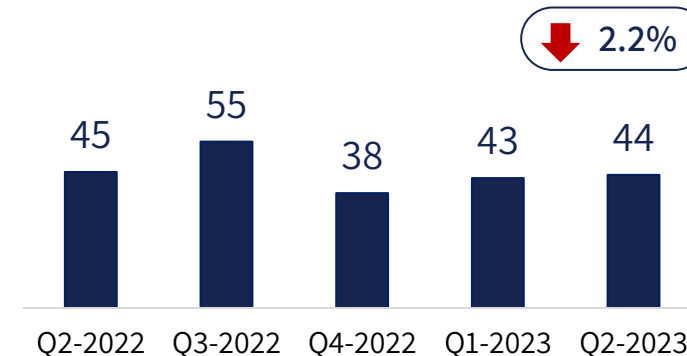
Revenues



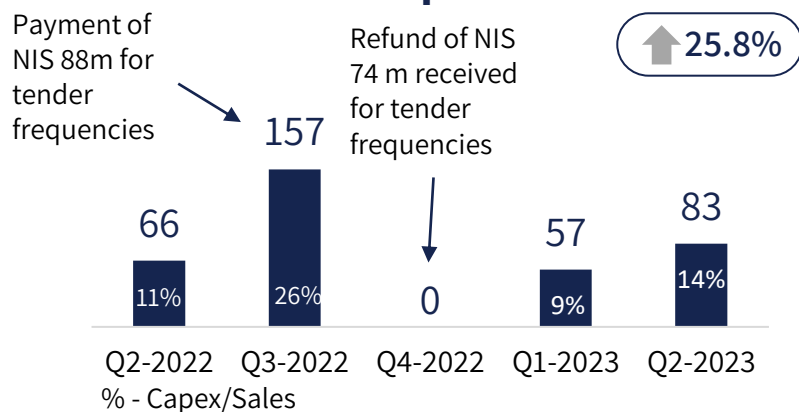
Adjusted EBITDA ⁽¹⁾



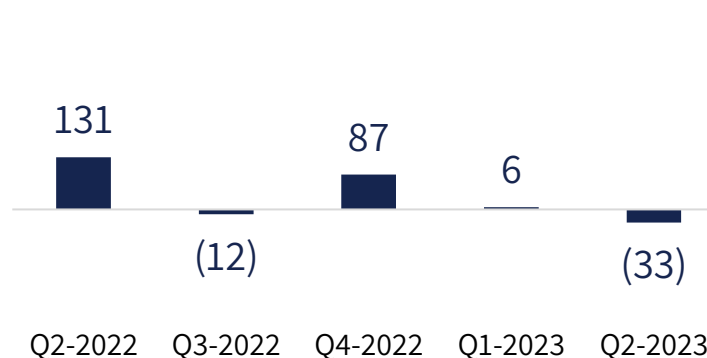
Adjusted Net Profit ⁽¹⁾



CapEx



Free Cash Flow

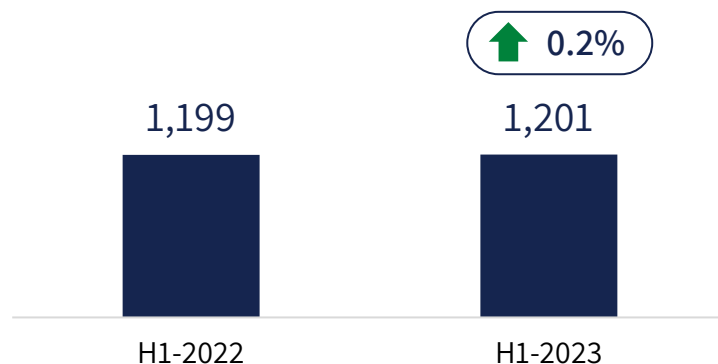


- 2.9% growth in revenues from services excluding interconnect fees, driven by an increase in roaming revenues and growth in subscribers, including 5G plans
- Free cash flow was impacted by the upfront payment of frequency fees for the year 2023 in the current quarter, as well as changes in working capital in the corresponding quarter

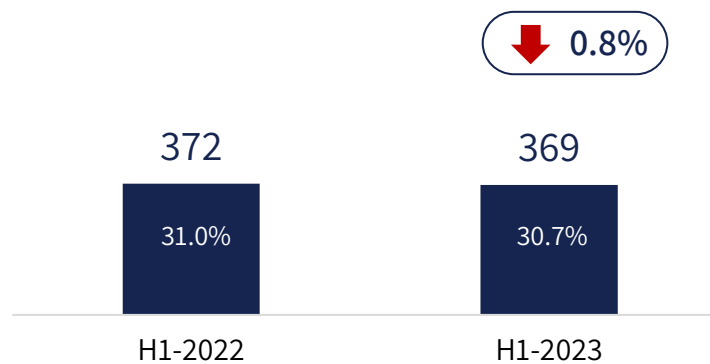


Pelephone | H1-2023 Key Financial Highlights NIS Million

Revenues

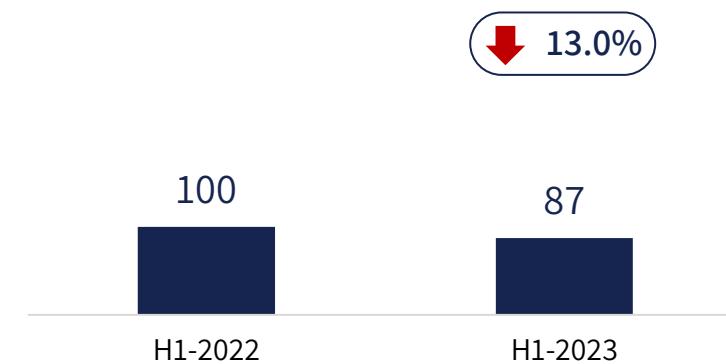


Adjusted EBITDA ⁽¹⁾



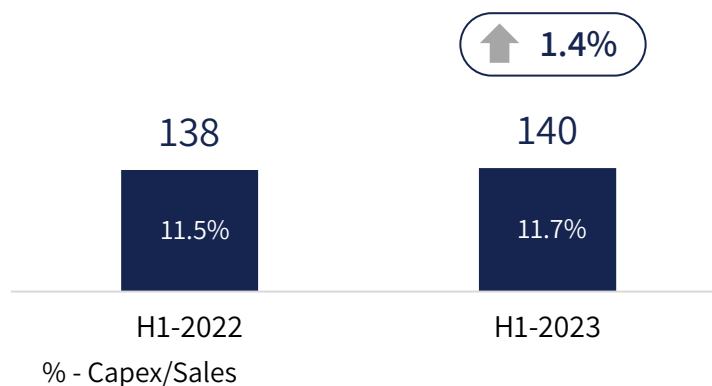
% - Adjusted EBITDA margin

Adjusted Net Profit ⁽¹⁾



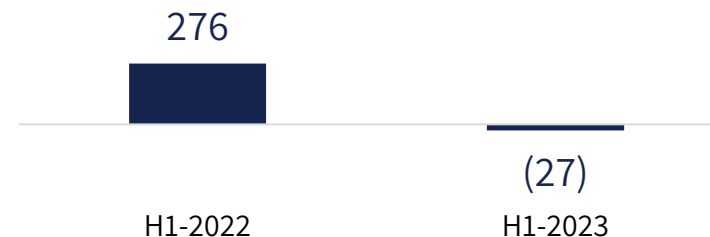
- Adjusted EBITDA - increase in revenues from services excluding interconnect fees, offset by a decrease in equipment revenues and an increase in operating expenses due to negative macroeconomic factors
- Adjusted Net Profit was impacted by an increase in depreciation, due to an update in estimated right-of-use assets for past periods recorded in the corresponding period
- Free cash flow was impacted by the upfront payment of frequency fees for the year 2023 in H1-2023, as well as timing differences in working capital related to the deferral of customer debt collections from 2021 to 2022 due to employee sanctions

CapEx



% - Capex/Sales

Free Cash Flow

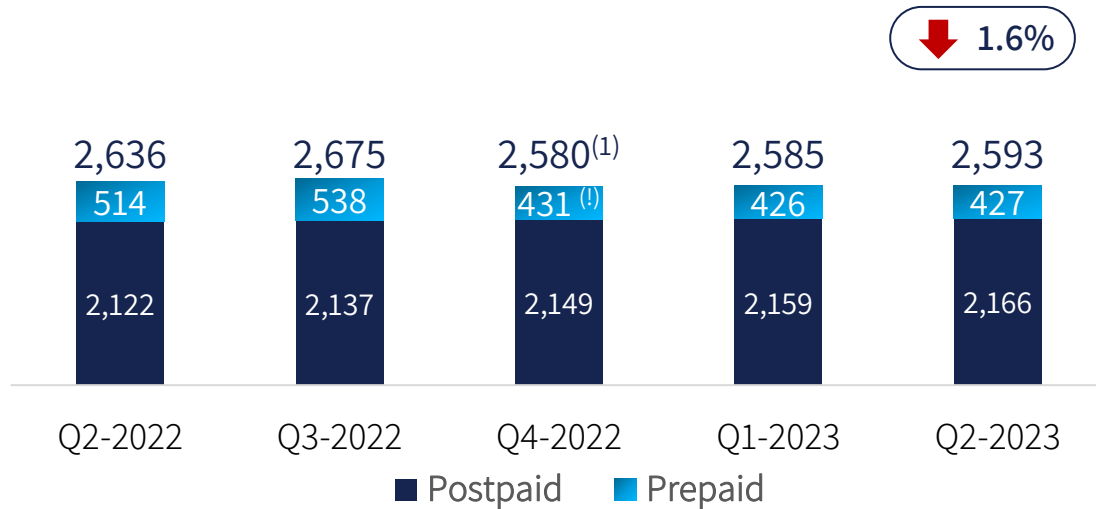


(1) After adjusting for other operating expenses/income, net, one-time losses/gains from impairment/increase in value of assets and stock-based compensation



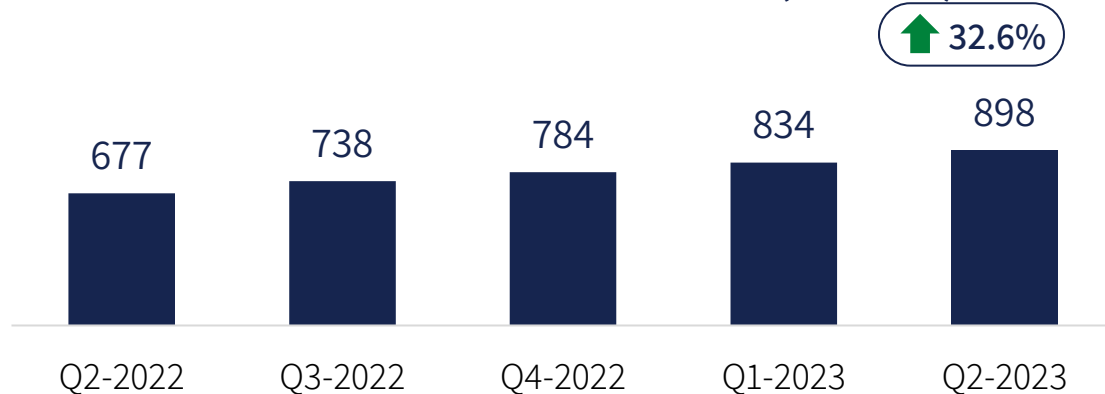
Pelephone | Q2-2023 Key Operational Metrics

Subscribers (Thousands)

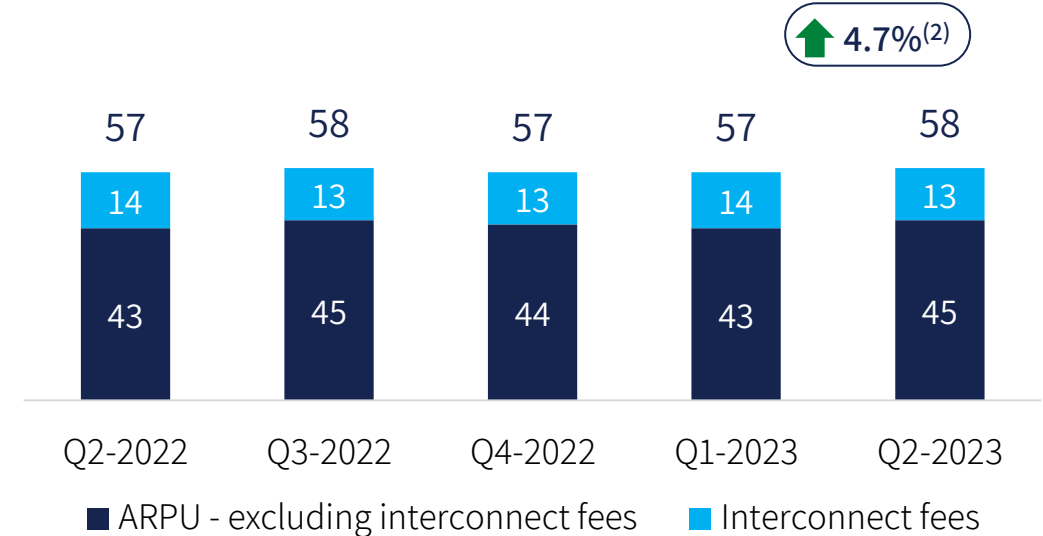


(1) The decrease is due to a one-time removal of 96k prepaid subscribers in Q4-22 who did not meet the definition of an active subscriber

Subscribers on 5G Plans (Thousands)



ARPU (NIS)



- Subscribers on 5G plans were 35% of total subscribers and 42% of postpaid subscribers ⁽³⁾
- ARPU, excluding interconnect fees, increased NIS 2 y-o-y mainly due to an increase in roaming and transition to 5G subscriber plans, partially offset by the termination of the Ministry of Education project and a decrease in content services in 4G plans

(2) Year-over-year change in ARPU, excluding interconnect fees

(3) As of reporting date



yes | Q2-2023 Summary



Revenue growth of 6.3% driven by the launch of TV + Bezeq fiber bundle, together with agreements with leading international content providers



ARPU growth year-over-year due to agreements with leading international content providers



Growth in fiber subscribers reaching 25k⁽¹⁾



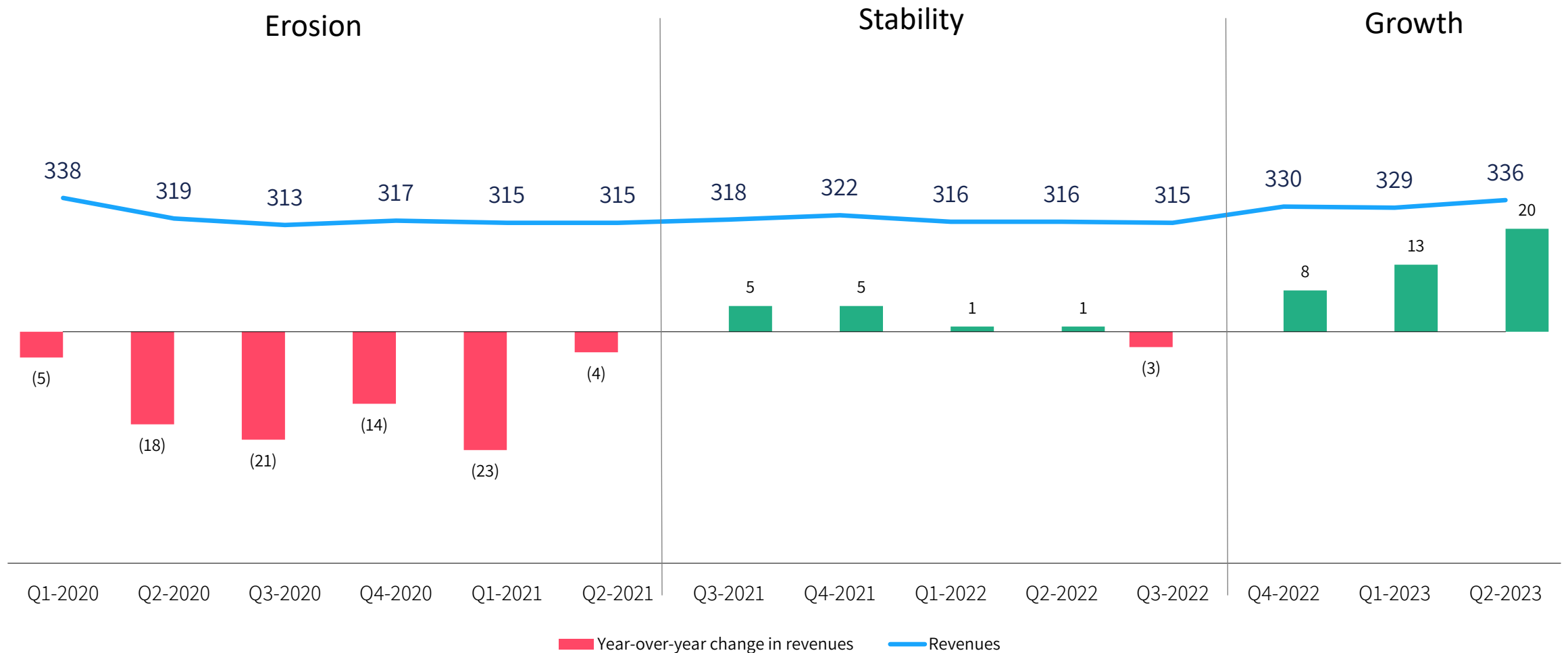
yes is the largest Israeli IPTV operator with 370k customers watching TV through IP broadcasting (64% of total subscribers), of which 113k are STINGTV customers ⁽¹⁾



Highest quarterly Adjusted Net Profit since 2016 reaching NIS 17 million; Adjusted EBITDA grew 14.3% reaching NIS 72 million⁽²⁾

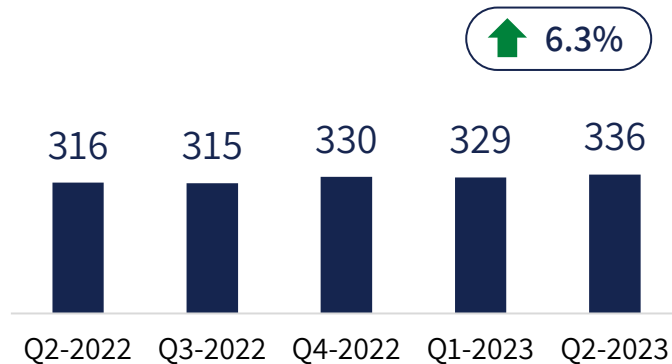


yes | Revenue Growth Turnaround NIS Million

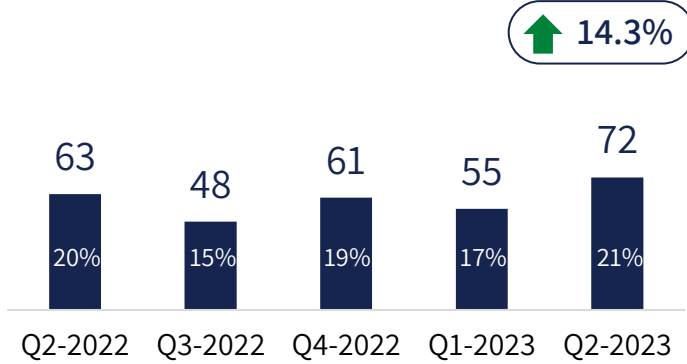


yes | Q2-2023 Key Financial Highlights NIS Million

Revenues

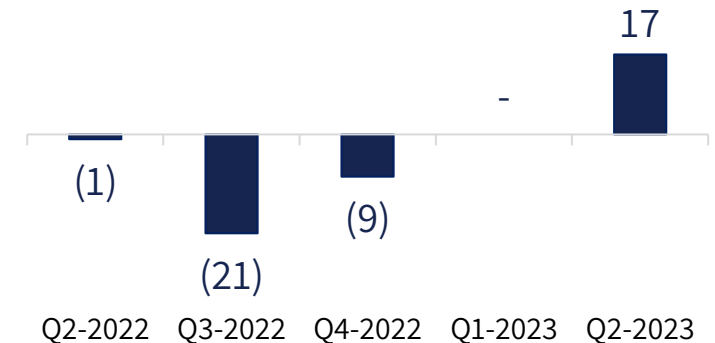


Adjusted EBITDA ⁽¹⁾

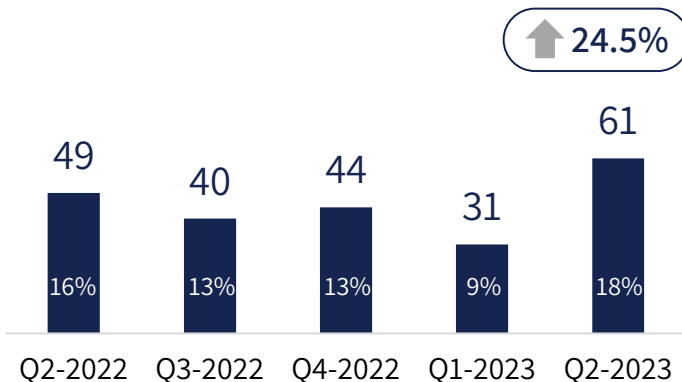


% - Adjusted EBITDA margin

Adjusted Net Profit (Loss) ⁽¹⁾

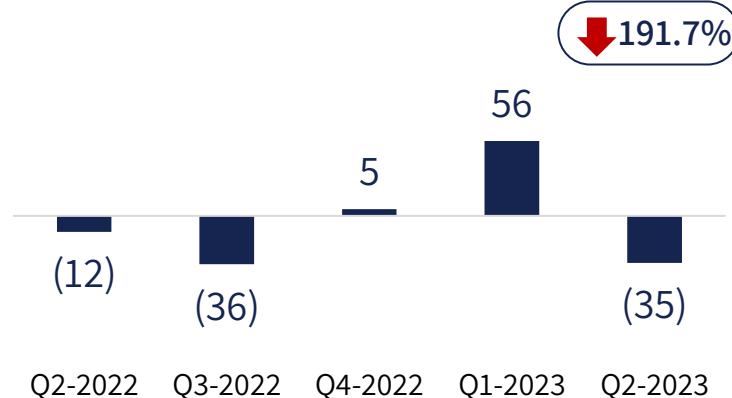


CapEx



% - Capex/Sales

Free Cash Flow



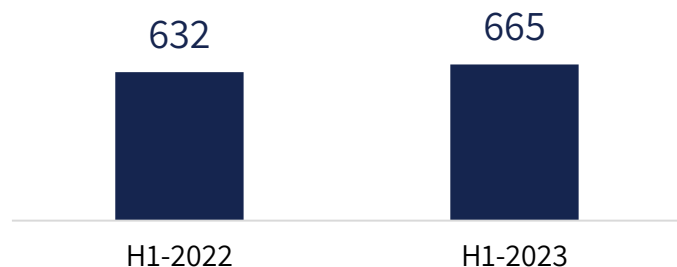
- Third consecutive quarter of y-o-y revenue growth driven by the launch of TV + Bezeq fiber bundle, together with agreements with leading international content providers
- Significant growth in Adjusted EBITDA, driven by an increase in revenues. Adjusted Net Profit grew due to higher revenues and lower depreciation expenses
- CapEx was impacted by timing differences between Q1-2023 and Q2-2023
- Free cash flow was impacted by changes in working capital



yes | H1-2023 Key Financial Highlights NIS Million

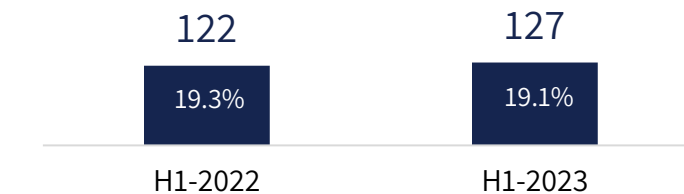
Revenues

↑ 5.2%



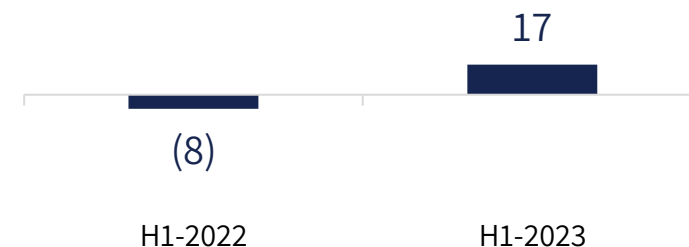
Adjusted EBITDA ⁽¹⁾

↑ 4.1%



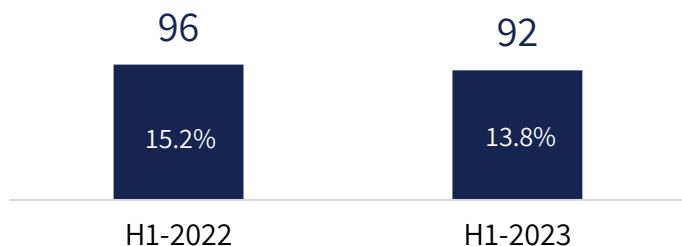
% - Adjusted EBITDA margin

Adjusted Net Profit (Loss) ⁽¹⁾



CapEx

↓ 4.2%



% - Capex/Sales

Free Cash Flow

↑ 50.0%

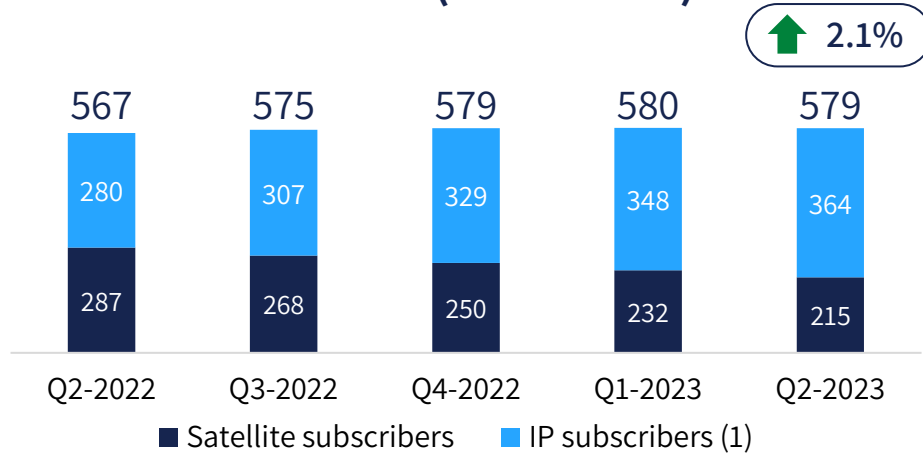


- Revenue growth driven by the launch of TV + Bezeq fiber bundle, together with agreements with leading international content providers
- Increase in Adjusted EBITDA driven by higher revenues. Adjusted Net Profit grew due to higher revenues and lower depreciation expenses
- Increase in free cash flow due to improved business results as well as changes in working capital

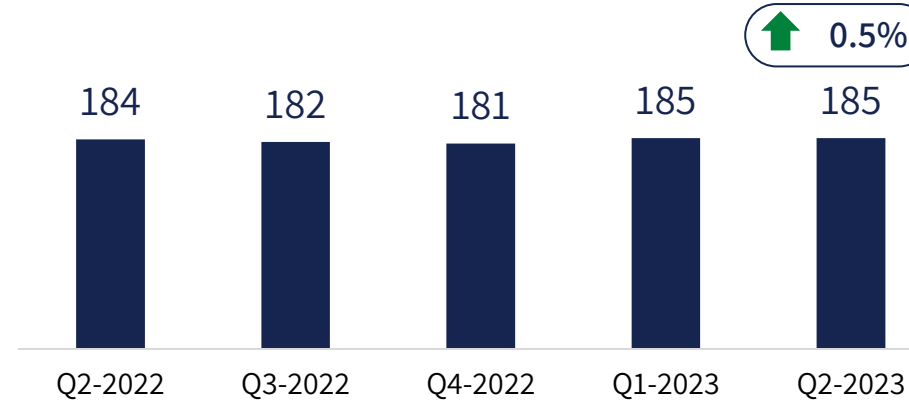


yes | Key Operational Metrics

Subscribers (Thousands)

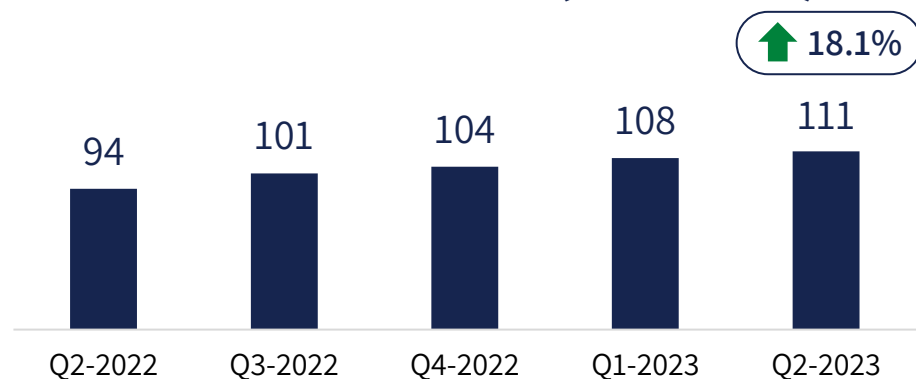


ARPU (NIS)

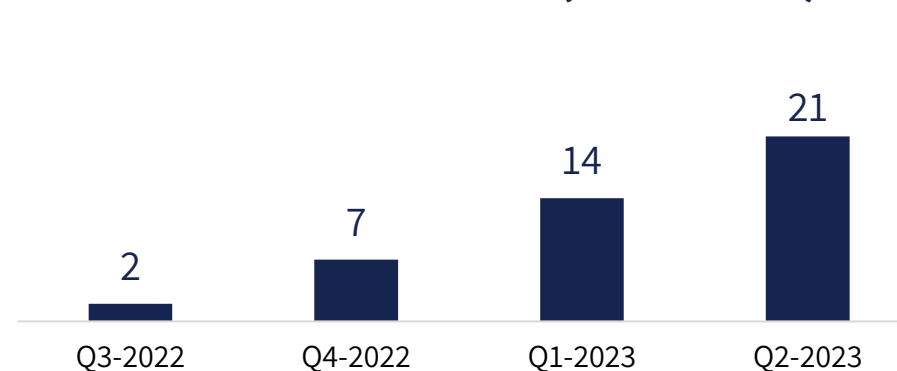


- Continued growth in IP subscribers - 64% of yes subscribers watch IPTV⁽²⁾
- ARPU growth year-over-year driven by agreements with international content providers
- Growth in fiber subscribers

STINGTV Subscribers (Thousands)



Fiber Subscribers (Thousands)



(1) IP subscribers - the number of yes subscribers viewing IP broadcasting through the yes+ and STINGTV services. This includes subscribers that use satellite services as well
(2) As of reporting date



Bezeq International | Q2-2023 Summary



0.9% increase in LTM revenues reaching 1.2 billion, compared to corresponding period



Adjusted Net Profit reached NIS 33 million in the first half of 2023, compared with NIS 11 million in H1-2022



23.5% increase in Adjusted EBITDA to NIS 100 million in the first half of 2023



Focus on growth in ICT market with emphasis on cyber, integration, public cloud and data centers

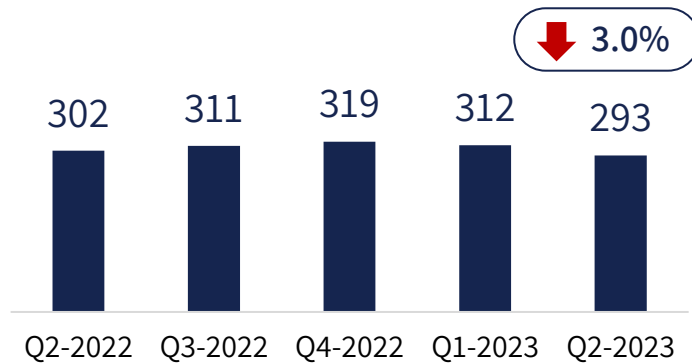


Cost savings due to reduction in consumer ISP activity

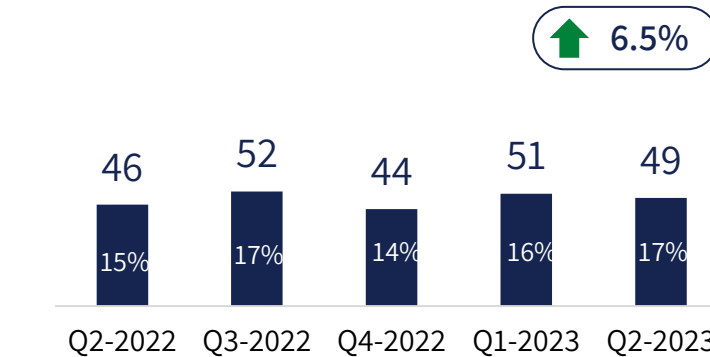


Bezeq International | Q2-2023 Key Financial Highlights NIS Million

Revenues

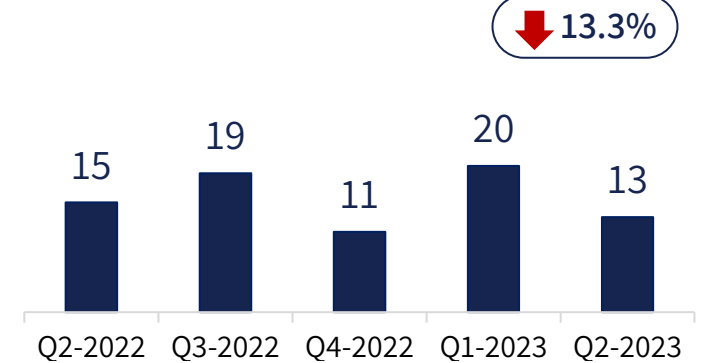


Adjusted EBITDA ⁽¹⁾

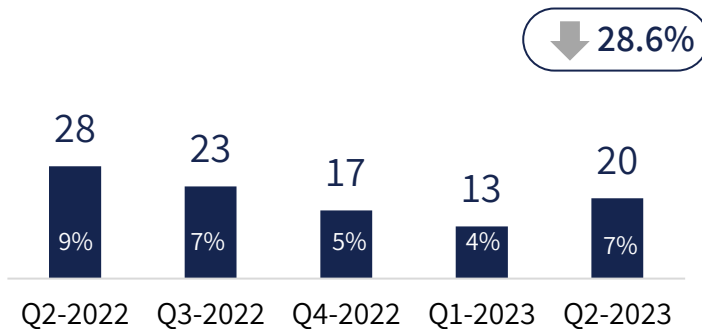


% - Adjusted EBITDA margin

Adjusted Net Profit ⁽¹⁾

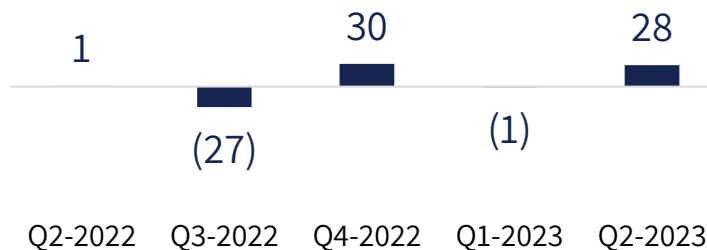


CapEx



% - Capex/Sales

Free Cash Flow

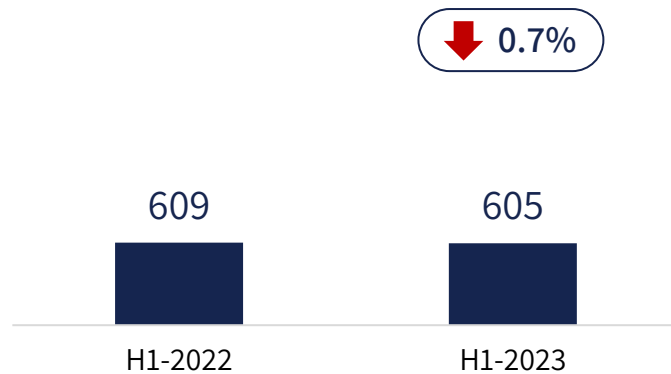


- Decrease in revenues due a reduction in the consumer ISP activity following the regulatory reform for unified Internet service in Q2-2022, partially offset by an increase in ICT activity
- Increase in Adjusted EBITDA mainly due to lower expenses driven by decrease in consumer ISP activity
- Significant improvement in free cash flow, mainly due to changes in working capital

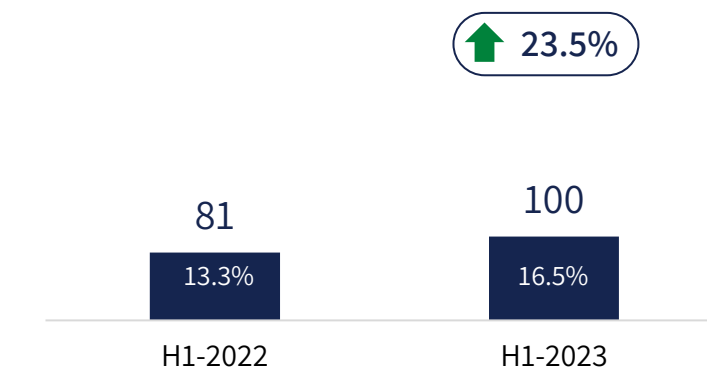


Bezeq International | H1-2023 Key Financial Highlights NIS Million

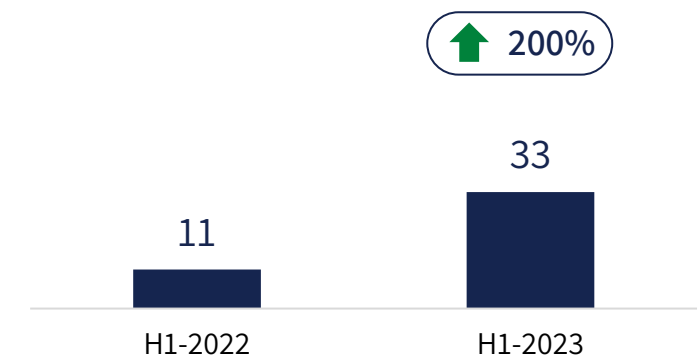
Revenues



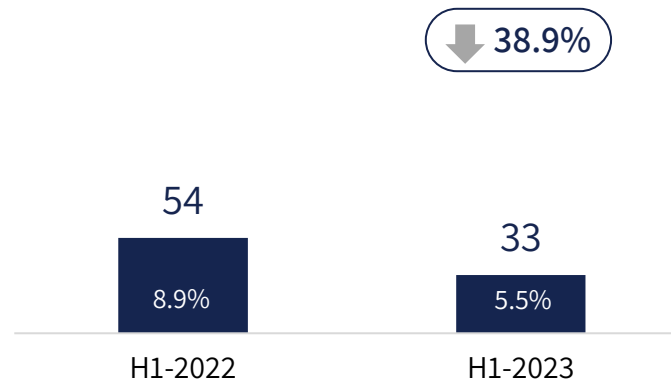
Adjusted EBITDA ⁽¹⁾



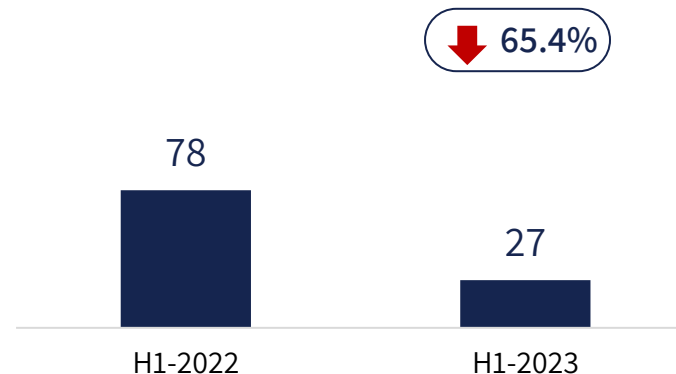
Adjusted Net Profit ⁽¹⁾



CapEx



Free Cash Flow



- Increase in revenues from business services due to activity growth and CloudEdge acquisition, offset by decrease in consumer ISP revenues following the regulatory reform for unified Internet service
- Significant increase in Adjusted EBITDA and Adjusted Net Profit mainly due to lower expenses driven by decrease in consumer ISP activity
- Free cash flow was impacted by payments for retirement in H1-2023 as well as changes in working capital related to the deferral of customer debt collections from 2021 to 2022 due to employee sanctions



Bezeq Group | Focus on Growth



3.3% growth in Group revenues, to NIS 2.3 billion, driven by Bezeq Fixed-Line (+5.9%) and yes (+6.3%)



Record profit quarterly results in last five years – 6.8% increase in Adjusted EBITDA to NIS 987 million; 14.2% growth in Adjusted Net Profit, to NIS 354 million



Strong execution in strategic growth drivers – robust fiber take-up in Bezeq Fixed-Line and yes, consistent growth in 5G subscriber plans in Pelephone



Board recommendation to distribute semi-annual dividend of NIS 392 million, 0.14 per share, reflecting a dividend yield of ~5%



ESG – MSCI upgrade to AA rating



Bezeq Group is executing on its strategy while focusing on growth



Thank You!

For more information please visit us
ir.bezeq.co.il

