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PROX.BR - Q3 2024 Proximus NV Earnings Call

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PRESENTATION

Operator

Hello, and welcome to the Proximus Q3 2024 results analyst conference call. My name is Laura, and I will be your coordinator for today's event. Please note, this call is being recorded. (Operator Instructions). I will now hand you over to your host, Nancy Goossens, Investor Relations lead, to begin today's conference. Thank you.

Nancy Goossens - Proximus NV - Director of Investor Relations

Thank you, and welcome, everyone, for joining us today. We are keeping our usual format, starting the webcast with an introduction by the CEO, Guillaume Boutin, after which we will open the line for your questions.

Before handing over to Guillaume, let me introduce to you the other members of the leadership squad that have joined us for the Q&A, starting with the CFO, Mark Reid; the Residential lead, Jim Casteele; our 2 business leads, Anne-Sophie Lotgering for the IT part, and Renaud Tilmans for the Telco part, and the Corporate Affairs Lead, Ben Appel. They will be taking your questions in a moment, but first, Guillaume will take us through the highlights of today. Guillaume, please go ahead.

Guillaume Boutin - Proximus NV - Chief Executive Officer, Member of the Executive Committee, Director

Thank you, Nancy. Good afternoon, everyone, and welcome to our webcast covering the third quarter results of the Proximus Group. And before diving into the detailed results, I would like to start this presentation by highlighting some of our key achievements from the past few months. Let me start with our financial and operational results for Q3 2024.

We'll take a closer look in a few minutes. But in summary, we have closed another strong quarter, keeping up very good operational trends, which support our financials for the quarter, and by extension, our outlook for the remainder of the year.

We therefore are comfortable in further raising our guidance, expecting to end 2024 with a group EBITDA growth of up to 3%. Our results are reflecting the successful execution of our strategy as we progress in laying the foundation of our company's transformation both domestically and internationally.

Our top-tier networks remain a cornerstone of our domestic strategy with focus on further scaling our fiber footprint in parallel to the ongoing fiber collaboration negotiations. For B2B unit, we have carved out the IT activities under the brand Proximus Next, which we are now also expanding in the Luxembourg and Dutch B2B market, signed an agreement to sell our data center business as announced publicly this morning.

We are also advancing on our headquarters for which we launched a new RFP, and we expect bids to come before end of this year. Internationally, we have now fully closed the transaction with Route Mobile having successfully sold 8% of the shares to comply with the Indian minimum public holding requirements. We were very pleased with the strong interest of large long-only investors and the slight premium we obtained versus our entry price.

Let's now have a close look into our operational results for Q3. And starting with our fiber build, which remains a key driver of our strong commercial performance. In September, we were deploying fiber in 167 cities and over the past year, we have increased our fiber footprint by about 500,000 homes passed, including almost 100,000 in the last quarter.

We have now passed the 2 million milestone, the vast majority of it being 100% Proximus owned. Then the customer traction for fiber sustains. Our base of activated fiber lines continued to grow solidly with the park now counting a total of 519,000 active lines. Moving now to a different achievement and still fresh of the press. We are pleased, as I said, to have signed an agreement with Belgium-based Data Center United for the sale of our data center business.

Given our long-term ambition to move to public and sovereign cloud, we consider the data centers no longer as core, and we do not intend to compete with hyperscalers on that field. And as part of this agreement, we secure the necessary capacity for our own needs and keep the freedom to continue selling cloud solutions to external customers with the data stored in Belgium and managed by an expert partner.

The transaction will bring close to EUR130 million of proceeds and fits our overall asset divestment plan. We anticipate the closing of the transaction by Q1 2025. Regarding our international activities, we have closed a new long-term strategic partnership with Infosys.

In this agreement, Route Mobile's CPaaS solutions, Telesign DI services, and BICS offerings will be combined with Infosys Digital Services. This new agreement adds to the previously announced partnership with Microsoft, both strongly validating our increasing relevance in the global digital communications market.

In parallel, progress was made on the synergies between Telesign and Route Mobile with initial benefits starting to materialize. Cross-selling efforts are well underway, and we anticipate this to deliver revenue momentum shortly. We have also launched our shared services initiative, which will support the ambitious OpEx synergies.

Let's move to the next part and take a closer look at the third quarter results, and I'll start with our domestic segment. And as I already pointed out, domestically, we maintained excellent customer growth despite an intense competitive market. We added no less than 47,000 mobile postpaid cards over the past 3 months.

This in a heating market with B brands adjusting the mobile pricing in anticipation of the arrival of Digi. We also further grew our Internet base in a seasonally slower quarter, adding 9,000 internet subscriptions, while the erosion in TV and fixed voice kept a steady pace.

Our strong commercial performance, along with our effective pricing strategy drove notable revenue growth for our residential unit, up by 3.1% in total, with revenue from services increasing year-over-year by 3%. The growth has been more moderate because of the annualization of the July 2023 price indexation.

The revenue from residential services was supported by the price indexation of Jan 01, 2024, as well as by the ongoing customer growth, especially in our convergent base. For business units, the total revenue was impacted by lower IT product revenues, while revenue from services were also slightly down by 0.5%.

If we zoom in the services revenue, we see here again, the effect of the annualization of the July 2023 price indexation as well as the impact of the loss of a large contract with the Vlaamse Overheid/Flemish government, which has mainly impacted our mobile services revenue.

At the same time, we sustained growth for IT services, up by plus 4.4% and for fixed data up by 1.3%. Our wholesale revenue showed good growth driven by wholesale services revenue, which were positively impacted by higher roaming volumes. This more than offset the ongoing decline in low-margin interconnect revenues. Brings me to the total domestic revenue for which we achieved a growth of 1.5% for the third quarter, driven by a 2.2% increase in services revenue.

Turning now to the domestic operating expenses, which were up by 2.2% from last year. Thanks to our ongoing cost efficiencies, we are further moderating the overall OpEx increase despite the remaining impact from 2 wage indexations. Bringing it all together, our domestic EBITDA showed a 1.3% growth year-over-year, driven by the increase in our direct margin.

And turning now to the international part of our results. Through our three global brands, BICS, Telesign and Route Mobile, we grew our international direct margin by 2.3% on a pro forma basis, and 3.5% when leaving out currency effects. The direct margin was up in spite of a 0.9% revenue decline on the same basis. This is due to the revenue loss being mainly caused by low-margin legacy voice.

Moreover, the industry-wide CPaaS transition from SMS to OTT solutions continued, though we could recapture part of the CPaaS traffic through our omnichannel solutions. Lastly, the third quarter proved also a strong quarter for mobility services, thanks to high roaming volumes with direct margin growing and OpEx benefiting from some initial synergies, combined with a favorable currency effect, the international segment EBITDA grew by 4.2% from a high comparable base.

And this brings me to the group results. Our traditional slide bringing it all together with the group EBITDA up by 1.6% on a pro forma basis with both the domestic and international segments contributing.

The CapEx over the first nine months of 2024 totaled EUR874 million, coming down year-over-year by about 3%. This mainly reflects the lower CapEx needed for our own fiber build in the dense areas where the fiber deployment in mid and dense areas is picking up. We reiterate our expectation of EUR1.36 billion for the end of the year, implying a step-up for the last quarter of the year.

Our free cash flow for the third quarter was EUR161 million on an adjusted basis and brings the nine months free cash flow at EUR48 million. This compares to a negative EUR35 million adjusted free cash flow for the same period in 2023. As shown on the graph, the year-over-year improvement mainly reflects the higher EBITDA, lower equity injections and lower cash out related to investments over the first nine months, partially offset by year-to-date higher business working cap needs.

In conclusion, we closed the third quarter ahead of our expectations with strong operational results and no meaningful effect from market structure changes expected in the remainder of this year. Therefore, we further raised our growth outlook for the full year, expecting our domestic revenue and EBITDA, as well as our group EBITDA to grow up to 3%. This despite the consolidation of Fiberklaar having a limited negative EBITDA impact for 2024. For international segment, we expect the direct margin to grow mid-single digits, reflecting some longer sales cycles for omnichannel and timing of some outstanding cost of gross sales synergies.
With this, I've covered my presentation, so we can turn to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Ganesha Nagesha, Barclays.

Ganesha Nagesha - Barclays Bank - Analyst

Just a couple of questions from my side. So, could you please provide some color on the pricing environment going ahead? So, it's like you have been increasing the prices close to 4% this January and also in the previous year, you hiked.

But given that Digi is going to launch the commercial operations soon, so how do you see the pricing environment going ahead? And will you be following the January price hike cycle as usual? Or will there be any wait-and-watch approach? Or are you going to delay it?

And my second question is on the fixed side. So, how do you see the competition developing in the Wallonia region given that Telenet is entering the market? And any detail on the competition development would be very helpful.

Guillaume Boutin - Proximus NV - Chief Executive Officer, Member of the Executive Committee, Director

Jim?

Jim Casteele - Proximus NV - Consumer Market Lead, Member of the Executive Committee

So on the pricing part, so indeed, the price increase that we did in January '24 has landed very well, thanks to the combination of doing price increase with a more-for-more approach. Also, of course, our investments that we're doing both in the mobile network, but especially also in the fiber network makes us now a product leader with the fastest internet and the best mobile network in Belgium, which continues to give us a good pricing power on the premium Proximus brand.

So that means that we are confident that we can continue to execute on our pricing strategy aligned with inflation levels also in 2025. So, if we now go into your second question, in terms of competition. So indeed, the market has been quite competitive, not only in Wallonia because the launch of Base for Telenet was not only in the South, but also in the north of the country with Internet and TV.

And we haven't seen an increase in churn on our side. And of course, an additional brand does mean that customers that are looking for a new provider now have an additional choice. Nevertheless, as you can also see in our results, we have again delivered very strong results also on internet, and this is not only in the north of the country.

So, we are confident with our current strategy and also with fiber now being the undisputed fastest internet technology in Belgium, combined with, as I already mentioned, mobile network being the best mobile network in Belgium, combined also with the fact that we have three very strong brands in the market that we are confident in the commercial execution of our plan.

Operator

David Vagman, ING Groep.

David Vagman - ING Groep N.V. - Analyst

The first is on Fiberklaar and your deal with Wyre. What is the respective speed of migration on each of the sides? So, how will these two network respectively impact your EBITDA over the coming years? So, it's more about the speed, let's say, or the ramp-up, the respective speed. It's related also to your comment that Fiberklaar still has a bit of a negative impact on your EBITDA for this year. So, this can change in the coming few years.

The second is on the CapEx. Could you give us more color or more detail on the termination CapEx? So, the cost of connecting the clients, the CapEx cost, let's say, of connecting the client to fiber or actually moving from copper to HFC to hybrid fiber co network. So, what is basically the migration CapEx cost per client and how much of this is still modeled long-term? So, if we're referring to your free cash flow sort of guidance for 2028, 2030.

Last question on the international activities. To better understand the sales cycle as you were saying that the sales cycle to move to omnichannel is taking a bit longer or is a bit longer, and so you're slightly more prudent. So how does it work?

So basically, when a client is moving from SMS so text message to omnichannel commercially , how much of them do you keep basically? On the other hand, can you actually not pay clients from other CPaaS companies moving from SMS to omnichannel. So, net-net, what does it give?

Mark Reid - Proximus NV - Chief Financial Officer

David, thanks for the question. Unfortunately, the first two questions are difficult for us to answer, and we're not really providing that. On the migrations, we clearly, we're in negotiations at the moment. So, that clearly is not something we want to enter into. The second question, again, I don't believe we've provided that, and we're not going to provide that on today's call. So, I'm sorry, I can't give you that. I think the third question, Guillaume, you were going to try and take, I think.

Guillaume Boutin - Proximus NV - Chief Executive Officer, Member of the Executive Committee

So first, the vast majority of our CPaaS business is still around SMS today. But indeed, the growth of our omnichannel, so OTT channels for the future is going to be important for non-SMS channels. Also, it depends on the different geographies. In some geographies, they are faster to adopt OTT channels. Some other geographies, they are still mostly relying on SMS.

For us, in terms of direct margin effect, you don't see that because we have the same kind of in absolute numbers of DM for conversation around OTT channels and conversation around SMS. You might have less revenues, but in terms of a unique contribution of the different channels, I think we see at least for us, something which is quite similar depending on the different channels.

The value we bring on top of that is that orchestration ability, so deliver the best channel, or the preferred channel for the customers depending on these preferences. So that's the way the industry is going, is going to be good for us. But at the end of the day, our current customers today, some of them are willing to switch to that omnichannel approach, some of them are still very happy with the SMS channel.

But we are talking to the same people, the same customers. It's the same go-to-market. So, it's not like you have to adapt, your go-to-market to transition into that new omnichannel reality. You keep with the same sales approach and you just have to build that omnichannel that is already something that we have within the group. So, it's just a matter of accompanying that transition for our existing customers, but there is no risk to in terms of our ability to convince, retain or attract new customers as the same go-to-market is going to be used.

I think what you have to take into consideration is, the first thing I said, there is a lot of geographical differences in between the pace to which those OTT channels are being adopted. That's one. And second, more and more, you see large domestic enterprises choosing our solutions.

That's also one of the key growth drivers especially in the APAC, especially in LatAm, where you see more and more enterprise customers that are not hyperscalers choosing our solutions to better engage with their own customers. So that's a bit -- hopefully, I answered your question.

David Vagman - ING Groep N.V. - Analyst

Okay. So, no real difference in the trend between, let's say, moving from SMS to omnichannel?

Guillaume Boutin - Proximus NV - Chief Executive Officer, Member of the Executive Committee, Director

On absolute terms, in terms of direct margin, that omnichannel is an opportunity for us.

David Vagman - ING Groep N.V. - Analyst

Then if I may, so even the first two questions couldn't be answered. On your commercial performance in Belgium, could you explain a bit the different momentum we see in mobile and broadband? So, mobile was still very strong and broadband was a bit weaker. So, is the competition heating up in broadband and why is mobile still doing so well?

Jim Casteele - Proximus NV - Consumer Market Lead, Member of the Executive Committee

So David, this is Jim. So, I'm going to take the question on commercial performance. So, I'm really happy that you acknowledge the strong performance we have in mobile. Now at the same time, I think if you look at the residential market, our broadband performance for Q3 is very similar to the performance we had in Q3 last year.

I think we're probably talking about 500, 700 difference in terms of units, and it's more a rounding discussion than an actual difference. So, I think the performance is very, very similar to Q3 last year, both on postpaid and on internet. And we don't have the numbers of our competitors because we are the only one publishing numbers in Q3, but we are convinced that we continue gaining market shares, both on mobile and on internet with those kind of performances.

Operator

Dhruva Shah, UBS.

Dhruva Shah - UBS Investment Bank - Analyst

I have just a couple. First on data centers, the news on the data center business sale for EUR128 million is obviously positive and gives us transparency on your path to the EUR500 million of asset disposals to 2027. But would this sale not also lead up to a step-up in net costs going forward?

So, could you share any color on the rough quantum of these increased costs? Is it a low double-digit amount per annum or low single-digit amount per annum? That would be very helpful.

Then second, very strong free cash flow generation in Q3 and is a notable positive in the quarter, driven by a number of factors. Just wanted to dig in on working capital, in particular. Do you expect this to be broadly flat or neutral for the full year?

And if not neutral this year, could this be a tailwind for free cash flow in the out years? And additionally, on free cash flow, are you happy or confident with where consensus currently sits at free cash flow ex-M&A for 2024 of EUR18 million? I'm assuming this is excluding any proceeds from any asset sales in the year. So that's the two.

Mark Reid - Proximus NV – CFO- Member of the Executive Committee

Thank you for the question. First on data centers, let me give you a little bit of context on that. So, we're really happy with the transaction and the partnership we've got with DCU. I think the discussion has been going on, and I think we found the right partner there.

In terms of how we think about it, again, I think there's a view on the multiple. I think that can -- it's around 14. I think that can work you back into roughly the EBITDA, but there's also some CapEx savings that we would get out of this transaction.

I think the way we look at, and I think we've talked about this as well in our headquarters, right? The long-term strategy for us on kind of the on-premise data centers, we are a small player and that world is going to much bigger specific data center operators.

So, we think that's the right place that those kind of assets should be held in. I think in terms of -- you saw us sign a deal with Microsoft. I think our workloads are changing over the medium-, long-term. So that also pools towards why we would see this as a non-core asset.

So, I think you've got to really look at that perspective. The deal is for 10 years. So, there is a kind of low double-digit EBITDA drag, but I think that makes -- for us makes sense. In terms of free cash flow, I think let's talk a little bit about that.

In terms of -- we don't give long-term guidance. But in terms of the consensus number, I think ex, our headquarters disposal that is clearly going to move into 2025 and the data centers is also not going to get the proceeds until 2025. The average consensus is around the number for this year. So, I think that's right.

Operator

Roshan Ranjit, Deutsche Bank.

Roshan Ranjit - Deutsche Bank AG - Analyst

I've got three, please. Just going back to the data center, Mark. How should we think about the capitalization of the leases? I think in the press release, you talked about service agreements as well as lease agreements. And circling back to your previous answer, when you talk about a double-digit drag, is that the net effect because you do talk about some OpEx savings in there?

Second question, just on Fiberklaar. Again, you talked about some OpEx drags from Fiberklaar this quarter. Could you quantify that and maybe give us a view on how we should think about that into Q4? And finally, on the operational side, B2B on the services front, we saw that decline a small amount this quarter. How do you see that returning to growth in the coming quarters and into next year, please?

Mark Reid - Proximus NV - Chief Financial Officer

Roshan, let me take on the -- maybe the double-digit. So, it's low -- again, you can work it out from the 14x EBITDA multiple I gave you. So, it's low double-digit to almost single-digit drag on the data center. So that's the way I think about it. The leases are included in the service agreement. So, I think that's, again, fairly straightforward.

In terms of the OpEx drag on Fiberklaar, so the way you should think about that is effectively Fiberklaar has got around EUR 2 million of OpEx impact in the quarter, which is primarily related to workforce for Fiberklaar and marketing elements. But as you can imagine, now that we've got control of the entity, we're effectively consolidated that into the Proximus Fiber machine. And therefore, that will moderate in the years going forward. So that's that one. On EBU services declining in the quarter, let me just set that out.

Overall, the B2B revenue was down 1.2% in the quarter. Again, there was a significant impact on overall IT hardware in the quarter, again, at very low margin. So, I think when you take that out, again, the performance of the overall business, we continue to be very pleased with.

On services revenue, that was down about 0.5 percentage point year-over-year. But again, if you peel the elements of the service revenue, we had IT services growth of 4.4%, which is very pleasing, again, off the back of cloud, security, and smart mobility.

And then I think again, pointed out, we also had effectively some headwinds from the loss of the VO (Vlaamse Overheid) impacting services revenue and the cycling of July 2023 price rise. So, when you put that into the overall services revenue performance, overall, we think it's a continuation of previous trends of good performance in the B2B services.

Guillaume Boutin - Proximus NV - Chief Executive Officer, Member of the Executive Committee, Director

Just to add on your first question. So, you have, as Mark mentioned, that EBITDA effect. But if you look at the cash effect because we have CapEx savings, it is going to be low single-digit free cash flow effect for us. So, a very, very, very limited effect on the free cash flow linked to that deal, just to clarify.

Roshan Ranjit - Deutsche Bank AG - Analyst

Great. That's helpful. And just coming back, Mark, to your point around the leases. So, should we not think that there's an additional lease liability associated with the service agreement?

Mark Reid - Proximus NV - Chief Financial Officer

No. Again, we've got the Master Services Agreement in place. So, I think that's the way you should think about it coming through as an operating cost charge.

Operator

Michiel Declercq, KBC Securities.

Michiel Declercq - KBC Securities NV - Analyst

It's a bit on the divestment programs and again, on the data centers. I appreciate that you shared the multiple with us. I was just wondering because it's a sale that's been rumored in the press for the past year, I would say. I was just wondering if the roughly EUR130 million, is this roughly in line with the budget that you originally had when you set the EUR500 million target?

And then maybe also on the divestment plan, of course, we had the HQ sale, which is delayed. But I was just wondering because Immobel already had, of course, the permits for the development, et cetera. And given that these take quite some time, I was wondering if this could be maybe be an issue for the new buyer or if they have also need to buy these permits from Immobel then? So those would be my 2 questions, please.

Mark Reid - Proximus NV - Chief Financial Officer

Michiel, let me take the first one. In terms of the data center, was it in line with what we expected? Yes, it was. So, I think as I said, I think we've found the right partner and the right valuation and the right setup. As you clearly know, there's a little bit of trade-off in terms of sales proceeds and the MSA costs that we eventually end up taking. So, I think that's -- we feel very pleased with the overall agreement, as I said at the start.

In terms of the HQ, we are very well progressed with the HQ plan in terms of -- we've been out to the market for RFQs for proposals for a new headquarters. Those proposals will arrive this weekend, and therefore, we'll very quickly start to form a plan about which one we will take.

In terms of the permitting, we don't see that as any inhibition to our plans forward, and we fully see the realization of the proceeds for the headquarters in 2025 and are starting towards a path to a new headquarters from that point onwards.

Operator

(Operator Instructions). Joshua Mills, BNP Paribas Exane.

Joshua Mills - BNP Paribas Exane - Analyst

A couple of questions from me and one clarification, please. So, the first is just regarding your capital allocation strategy and then use of the proceeds from the new hybrid, which you've issued. I think in the press release, you talked about using the EUR700 million to provide financial flexibility to support organic growth.

And I guess in between the lines, saying you might think about using this to buy more assets. Tell me if I'm wrong, but would you be looking more on the telco side of the business or on the International side and potentially boosting the Route Mobile part of the company? It would be great to get some color there.

The second question, I just wanted to clarify, you talked in the presentation on Slide 8 about the 2 million homes passed and then referenced 40% fiber in the street. So how do you define fiber in the street? Is that just you're passing outside the premise, there's no connection? Or is it that those -- that 40% of homes is closer to the home?What I'd really like to get from you is of the 2 million, how many of the homes are actually connected today? So, I think that's very important for us to understand the future CapEx trajectory.

And then third and finally, I think on the first question, there was a discussion about pricing. I may have heard you wrong, but I believe you said something about aligning to inflation levels in 2025. Could you just clarify whether that would be the ambition with your 2025 price increases or not?

Guillaume Boutin - Proximus NV - Chief Executive Officer, Member of the Executive Committee

So, I'll take number three and number one. So, on your last question, I think you understood correctly what Jim said. However, as you know, it's not something we apply on all services, on all products. And so, you know how we do that. We are experts in managing the value of our customer base, and we continue to do so for 2025. That's for number three.

For number one, I want to clarify immediately here. We have no intent to use that financial flexibility provided by the hybrid for external M&A activities. I think we will fully use that flexibility to deliver our organic ambitions. So really, I want to be extremely clear on this. And on the second point, Mark, do you want to.

Mark Reid - Proximus NV - Chief Financial Officer

Yes. Maybe just on the first point, I think, Josh, we also talked about in the deck presentation, we've used for general corporate purposes. We were very clear on that point that Guillaume made. So, I think hopefully, if you take a look at that presentation, I think -- I hope it's very clear there. On the 40% coverage, that's almost 2.1. Those are homes connected ready for service, right.

We've got an additional 300,000 of homes in the fiber in the street, which is effectively a fiber that's passing homes, and we've effectively got to have the last X meters to connect to get it ready for service. So that's the way you should think about it. Our official homes passed number, again, is the 2.08, which is the number that is ready for service. The 300,000 homes passed is fiber in the street is effectively you just got the last X meters to connect and get it ready for service. That's the way I would think about it.

Joshua Mills - BNP Paribas Exane - Analyst

So just to be -- the 2 million homes passed, we're saying that 40%.

Mark Reid - Proximus NV - Chief Financial Officer

So 2,081,000, that's 35%. When you add the 300,000 fiber in the street, which is effectively the last X meters to the actual home to make it ready for service, that's the 40%. That's the way you should think about it.

Joshua Mills - BNP Paribas Exane - Analyst

Okay. So, you have 500,000 connected, another 300,000 ready to go, and 1.2 million that you still need to actually connect at some point?

Mark Reid - Proximus NV - Chief Financial Officer

No. We have 2 million, 35% ready for service, and another 300,000 that has the effect of the last connection to go.

Operator

Kris Kippers, Degroof Petercam.

Kris Kippers - Banque Degroof Petercam S.A. - Analyst

Firstly, just on the cost side on domestic, you've already mentioned that Fiberklaar had a couple of million impact, but that's limited, of course. Given these were up 2.2%. Should we envisage this to go below 2% in the quarters ahead, given the comparison base?

And then secondly, looking at the Belgian market, there were quite some articles in the press on indeed Digi not being able to launch. I don't know whether you could comment what the recent status would be because indeed, it does seem that there are some hiccups in their buildup. So, any comments on that will be highly welcome.

Mark Reid - Proximus NV - Chief Financial Officer

Kris, on the cost, I think the cost levels that you saw in Q3 year-over-year are fairly comparable to what we see in Q4, primarily because you've got a bigger commercial activity in Q4. So, I think that's the way I would think about the overall costs.

Kris Kippers - Banque Degroof Petercam S.A. - Analyst

And for the quarter thereafter?

Mark Reid - Proximus NV - Chief Financial Officer

Well, I mean, we will come back in February in terms of giving you guidance for next year. But I mean, maybe just to kind of give you a bit of clarity on overall the costs, effectively in Q3, we had two wage increases in the quarter, which is a significant portion of that.

We had Fiberklaar, as you talked about, and we had some operational costs to support the overall net adds and gross adds results that we saw. In terms of indexation for next year, what I can tell you about that is we expect 1X 2% index in March '25. So, I think that's hopefully helpful, but we'll come back clearly with full guidance in the full year results in February.

Jim Casteele - Proximus NV - Consumer Market Lead, Member of the Executive Committee

And then Kris, on the comment on Digi. So, for the moment, we indeed see very little commercial activity. So even if they would still launch this year, then we don't expect any meaningful impact on the financials for the next quarter.

Nevertheless, as I already mentioned before as well, a lot of brands have already changed and adapted portfolio during the back-to-school period. And for now, as you see in our results, we have been able to manage this very well with our three brands over the last quarters. So that's a bit where we stand on that one.

Operator

Nuno Vaz, Bernstein.

Nuno Gontardo Vaz - Sanford C. Bernstein & Co. - Analyst

Two remaining from my side, which I think are fairly straightforward. One is on the debt you reconsolidated from Fiberklaar. If you could give us some more detail on what's the average coupon on these? I assume it's a bit higher because these structures are typically more leveraged and if you plan to refinance this debt at some point?

And then you mentioned on international that you're already seeing synergies from the acquisition of Route. If you could talk a little bit more about these synergies, where are they coming from? Are they still -- we're still talking about single-digit levels of synergies? And how is the ramp-up looking towards your target of above EUR100 million?

Mark Reid - Proximus NV - Chief Financial Officer

Yes. Let me take the first couple. So, in terms of the debt, you're correct. The debt on Fiberklaar is above what you should expect for Proximus' debt level. So, you can kind of think around 5- 6. In terms of plans to finance it, we're clearly looking at it. So, I think that there's -- you can expect more news of that in upcoming quarters.

In terms of synergies, in terms of the type of synergies, again, we set out the synergies very clearly at the Capital Markets Day in May. I think they were very much split between top line cross-sell, upsell, regional go-to-market, synergies is one bucket. Then we had effectively COGS level synergy with especially flowing traffic to the most optimal route, and then cost synergies.

I think in terms of our first 3 months with the businesses being put together, I think we're seeing the synergies starting to be realized. I think what we're seeing is -- which is great, is some of the cost synergies are coming faster than the cost of goods sold just because in terms of the operationalization of getting to those.

So, so far, so good. We continue to see the three buckets as significant benefits to this transaction. We're just seeing the cost synergies likely to come in faster, which is, if I point to the regionalization of where people are located, the type of tech engineering type roles in India versus elsewhere in the world. So those are the type of synergies that we're being able to realize faster than maybe we originally thought.

Guillaume Boutin - Proximus NV - Chief Executive Officer, Member of the Executive Committee

And we confirm the ambition to have triple digit synergy levels coming from the transaction.

Operator

(Operator Instructions). There are no further questions. So, I will hand back to your host to conclude today's conference. Thank you.

Nancy Goossens - Proximus NV - Director of Investor Relations

Thank you.

Thank you all for joining us and for your questions. So should there be any follow-up questions, as usual, you can reach out to Adrian or myself. Thank you. Bye.

Operator

Thank you for joining today's call. You may now disconnect.