Company: **Proximus**

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Presenter: **Nancy Goossens**

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Operator: Please stand by. This is Premiere Global Services, we are about to begin. Good afternoon, ladies and gentlemen, and welcome to today's Proximus 2016 Q1 Results Conference Call. For your information, this conference is being recorded. At this time, I would like to turn the conference over to Nancy Goossens, Director, Investor Relations. Please go ahead.

Nancy Goossens: Thank you. So, good afternoon to all of you and welcome to this conference call. With me today are Dominique Leroy, the CEO, Sandrine Dufour, the CFO, as well as other members of the Executive Committee of Proximus for the Q&A session. So we have Phillip Vandervoort for your questions on the consumer market, Bart Van Den Meersche for the enterprise market, we have Geert Standaert, our CTO of the Company and we have Daniel Kurgan for your questions on BICS. As per usual, the quarterly report as well as our presentation has been published on the IR website this morning. So I trust you had a chance to go through the numbers. The time available for this call will be mainly spent on your questions. So before we get to that, I'll let first Dominique take you through a few highlights of the quarter.

Dominique Leroy: Yes. Thank you, Nancy. Good afternoon, everyone, and welcome to our conference call. So today I'm happy to announce a good start of the year in which we continued to deliver solid customer growth while we have enhanced our profitability.

Let me first zoom in for a moment on our domestic business, meaning our business excluding BICS Carrier Services. For domestic, we posted nearly stable revenue while improving the EBITDA by a solid 3.8% compared to the previous year. We achieved this sustained growth by consistently executing on our Fit for Growth strategy, enhancing our customer experience and focusing on value-accretive customer growth. We succeeded in growing our customer base further in the first quarter for fixed internet, TV and mobile postpaid, leading to a favourable evolution on our market shares. End March 2016, our fixed internet market share was 46.2%; for TV, 35.4%; and for mobile postpaid, 47.2%. Thanks to a larger customer base and sound ARPU trends, we posted a sustained solid revenue increase for these products with fixed data growing by 6.5%, TV by 10.5% and mobile services growing by 1.7%. As this is high-quality revenue, this resulted in stronger direct margins. The domestic EBITDA was also supported by the strong focus we keep on improving our cost structure. Our first quarter domestic expenses were down, thanks to the efficiency gain from lowering bad volumes to our call centres and increasing internal productivity.

The strong EBITDA of our domestic business was partly offset by a lower EBITDA for BICS. BICS achieved further growth of its direct margin, thanks to the ongoing progress in higher-margin data revenue. This was, however, more than offset by higher expenses, partly as a consequence of the support needed for new geographies and for some new growth domains.

Domestic and BICS EBITDA combined led to a 2.5% increase for underlying Group EBITDA. As announced during our Capital Market Day in February, we also have a strong focus on free cash flow. Some structural actions that have been implemented are reflected in the lower cash needed for working capital. This, combined with the growth in EBITDA and lower cash paid for capex, resulted in a strong free cash flow for the first quarter at €133 million.

With this sound start of the year, we reconfirm our full year guidance with 2016 underlying domestic revenue and Group EBITDA expected to grow slightly. We also reconfirm our capex estimation for the year to be around €950 million. Our EBITDA objective will be supported by ongoing efforts to reduce costs. In this context, I am pleased that our social partners very recently approved our proposal for a voluntary early leave plan prior to retirement which will come into force on 1 July 2016.

This was the final point I wanted to put forward and I am therefore happy to turn to your questions now. Thank you.

Nancy Goossens: Operator, can we open the line for questions please?

Operator: Thank you, certainly. If you would like to ask a question at this time, you may do so by pressing *1 on your telephone keypad. Please ensure the mute function is switched off to allow your signal to reach our equipment. If you find that your question has already been answered, you may remove yourself from the queue by pressing *2. Again, please press *1 to ask a question. We will just pause for a moment to allow everyone to signal.

We will now take our first question from Emmanuel Carlier from ING. Please go ahead, your line is open.

Emmanuel Carlier: Yes, hi, good afternoon. Three questions from my side, one on the consumer segment. So in Q1, the customer growth was a bit weaker than previous quarters, could you maybe provide a little bit more colour on the reasons behind that and if you believe this is structural? Secondly, on the enterprise segment, on the fixed voice lines, we saw an acceleration in the number of line losses and in the press release, you referred to exceptional cancellations. Could you quantify them and maybe also explain if you see an acceleration in the losses and if you believe that is structural? And then thirdly on the early leave plan, here I would like to have a little bit more colour on how these elements will be booked in the coming quarters in terms of restructuring charges but also how you will book it in the underlying EBITDA? Thank you.

Phillip Vandervoort: Yes, Phillip Vandervoort speaking. So starting with the overall CBU net adds lower compared to the last quarters, let me split that into various components. On mobile, we indeed had less gross gains than the years before. We saw quite aggressive promos in January from our competitors when we were not in the market with promos. We saw that trend reverse in February and March when we had our value-focused, not volume-focused, promotions and joint offers in place. We do have on mobile less churn year-over-year and quarter-over-quarter, which underlies our value-based approach on our acquisitions and our joint offers. And despite our lower net adds than other quarters, we gained market share year-over-year and quarter-over-quarter.

If you go to fixed broadband, we added 23,000 lines – that is in line with other quarters. But it is, if you would compare to Q1 2015, it's a little bit skewed to that quarter because that was with the addition of Snow. Our churn decreased year-over-year and we gained also there market share on fixed broadband year-over-year and quarter-over-quarter.

If you look at fixed TV, we added 35,000 subscriptions. That is again in line with other quarters. If you compare Quarter 1 2016 to Quarter 1 2015, again that's skewed by the Snow acquisition. Again, we decreased our churn year-over-year and we gained all also on fixed TV market share year-over-year and quarter-over-quarter.

Fixed voice, we had more losses than previous quarters. Again, quarter over – Q1 2015 to Q1 2016, that would be skewed by Snow but still there, that market trend is not reversing and we were doing less variance. So despite lower net adds, we're gaining market share on mobile, on fixed broadband and on fixed TV.

Bart Van Den Meersche: Okay, and then for enterprise, indeed we have in this quarter a higher number of, or I would say, a higher erosion in terms of fixed voice lines, so we are at 13,500 lines. Most of that is driven by line rationalisation and move to voice over IP. But indeed this quarter, we have an exceptional number of cancellations, about 3,400 that are linked – actually press line cancellations for the European Summit. So that if you take that out, we are back at the, I would say, normal running rates. So it's not structural; it's a one-time and explained through that cancellation.

Sandrine Dufour: Okay, Emmanuel, on your question regarding the early leave plan, well, first in our IFRS consolidated accounts, what we will book at Q2 this year is the cost of people who will leave the company 1 July this year. It will be booked as a non-recurring elements and all employees who will be leaving us at a later stage, which is 1 January next year, 2018, ’19, ‘20, we will accrue the cost for the period the employee are still active. So t be more concrete, an employee who will leave on the 1 January 2017, the cost will be spread over Q2, Q3, Q4 this year. For someone leaving us 1 January 2018, the cost will be spread over seven quarters, etc., etc. So that's what you should expect.

Now in terms of quantum, as you know, we've just announced to the eligible employees that they can opt for this early departure plan. They still have till early June to make the decision so we do not know yet what is going to be the rate, the exact rate. We, I think, said last quarter that the closed target group was 3,700 or so. If we work on an assumption of 80% rate, we're talking 1,300 leaving us over the next three years. So it's a bit early to give a precise total euro amount in terms of costs, but our best assumption so far, globally between €400 million and €450 million for the entire period. So please expect this to be refined when we come back to you on Q2 because we will have the more precise result of who has been opting for the plan. And from an accounting point of view, you should expect that more than half would be accounted for in 2016.

Operator: Thank you. We will now take our next question from Stefaan Genoe of Degroof Petercam. Please go ahead.

Stefaan Genoe: Yes, thank you for taking my questions. As a follow-up on the last point, could you indicate to us or give more colour on how you see the economies from and the savings from the departures timing-wise in the coming – this year, next year, and on the assumption of the people that you assume will leave? And second to that, I also have the impression that in the CBU, the natural attrition on the fixed voice lines was higher in Q1. Is there a particular reason and should we – how do you see this trend in the coming quarters? Thank you.

Sandrine Dufour: Okay, so on your first question, well, do not expect to see any benefit as of Q2 because it will be just the beginning. In terms of cash, remember what we said, we are going to pay people leaving the company 75% of their salary, excluding additional elements that they were receiving. So that's how you should see the cash benefit being accrued over the next quarters as of Q3. It would be small numbers but in terms of cash, we'll pay the people departing at 75% of what they were receiving so it will be profitable cash wise as of Q3.

Phillip Vandervoort: On the fixed voice lines, if you exclude the impact of Snow, if you compare Q1 2015 over Q1 2016, it is, the decline is very much in line. It is a structural decline of fixed voice lines in households but it's not that it's accelerating year-over-year.

Stefaan Genoe: Okay, thank you.

Operator: Thank you. We will now move to our next question from Nawar Cristini of JP Morgan. Please go ahead.

Nawar Cristini: Thank you very much. So my first question is a follow-up on the mobile KPIs. It would be good if you can give us some colour about your expectations for the rest of the year. In particular, shall we expect to get back to the 30-40k run rate in mobile that we've seen over the last three years? And then I have a question regarding Mobistar rebranding that is expected to be launched soon. Are you expecting any impacts on that front? And my last question is on the B2B market. Clearly we are seeing a number of signals of the increase of the competitive environment in there, both from Telenet, but also from Mobistar. It would be interesting to know whether you have started any proactive actions on your client base to anticipate this? Thank you very much.

Phillip Vandervoort: On the mobile net adds, as I said, we've seen the trend reverse in February/March, where we will, where we had our, again, value-focused joint offers in the market and we will continue to drive that value-based approach. Indeed, we had less net adds but as I mentioned, we did gain market share and we will continue our approach. Also, if you look at mobile services revenue, we did reverse that trend from the Q4 2015. So yes, I mean, we will not change our approach dramatically, we will use all our sales engines, and we will use our value-based joint offer approach to get back to the net adds that we could expect before.

Dominique Leroy: So on the Mobistar rebranding, I think it's quite early to give any indication on that. I think the Orange brand is indeed known more in the south of the country than the north of the country. There is some overflow in terms of TV viewing. We know that's approximately 30% of TV viewing in the south of Belgium is done on French channels. So I think that's certainly a benefit that Mobistar will get for the rebranding, and potentially they could get some more traction on the TV and B2B. But to be very honest, I think it's very early to give any indication. It will be more a challenge in the north of the country where the brand is not known, and we know that for us the north of the country is quite important, as it is also an area where we are a challenger. So in that sense, very early to see. We will see more next quarter when we will be able to see what they do in terms of also the offer linked to Orange. And for B2B I give over to Bart.

Bart Van Den Meersche: Yes, then on your question on the signals on competition activity in the B2B market, yes indeed, we see increased activity, which is not a surprise. I mean, they have announced it everywhere. So that is indeed happening. You'll see that there is King/Kong for business that has been announced. So as I said, it's not a surprise. Have we done, are we doing proactive actions? Yes, we have already been driving actions from the beginning because we expected this. And so our strategy remains the same, that is have the best network experience – I mean that is definitely the case – but supported by a wide range of managed services. And then in the case of mobile managed services, of which some are unique in Belgium like mobile SLA, but also further innovation, competitive tariffs, and further rely on convergent offers. And then next to that, it's especially our proximity, so Proximus is the leader of proximity, we have a coverage with our account management. So we are really working on this, yes, indeed to anticipate.

Nawar Cristini: Okay, thank you very much.

Operator: Thank you. We'll now move to our next question from Luis Prota of Morgan Stanley. Please go ahead.

Luis Prota: Yes, thank you. My question is from the expected trend on a quarterly basis for underlying domestic revenues, which were slightly down in the first quarter. The guidance is for a slightly up for the full year. I know it was just 0.3% down, so no big difference related to handset sales, but what I would like to get your thoughts is on the special impact in the third quarter and the fourth quarter from roaming, so whether most of the negative roaming implications on revenue and EBITDA should be seen maybe in the third quarter and fourth quarter, and also whether you are expecting increasing competition from Mobistar and also Telenet BASE in the second half relative to the first half as, following up on the previous question, the rebranding of Mobistar is just happening now and the integration of Telenet and BASE is progressing. So maybe second half should be – we should see competition heating up or not? I would like to get your thoughts on this please. Thank you.

Dominique Leroy: I will start and if necessary, it can be complemented by Phillip or Bart. But I think you are right, I mean roaming will – the impact of roaming will be seen indeed mainly in the second half of the year, but that's for everybody. I think domestic revenue, we are flat this quarter; it's indeed mainly driven by device sales. We expect to meet the guidance for the full year with a slight growth on domestic revenue. We still see some very good traction on the fixed area. We see very good traction so far on the mobile area. The increased competition, I think there was already quite a strong competition on the Q1. Certainly in the mobile area, you saw quite a lot of aggressive joint offer from competition. We have historically also quite strong competitive actions during the year for – and certainly at the end of the year. So the only thing I can say is, despite potentially a competitive context or whatever roaming impact, we have reiterated our guidance of slight revenue growth for the full year.

Luis Prota: But if I can follow up, are you seeing already anything from the Telenet BASE integration which is different in terms of a strategy or products or something, or not yet really?

Dominique Leroy: I think so far, they have not changed their strategy in the residential market, Bart had said that they have launched indeed the King/Kong for business, which is a more aggressive offer on mobile for the business. They have announced in the last CMD that they would come in potentially with some new convergent offer, without precising any timing, but we have also, as Bart said, anticipated increased competition certainly on the enterprise and for the rest, we will also not be inactive. So I think our plans are strong enough to be able to defend ourselves in the new competitive market. And also on roaming, we will have a price impact but we also are working on quite a lot of activities to make sure that we can compensate some of it by a volume increase. So the market will of course change, but I think we have anticipated that and it is reflected in our plans and it should be re-reflected in our guidance.

Luis Prota: Okay, that's clear. Thank you very much.

Operator: Thank you. We will now take our next question from Daniel Morris of Barclays.

Daniel Morris: Yes, good afternoon, thanks for taking the question. I wondered if you could give us a little bit more colour on the quad-play churn rates. So they are still extremely low and in fact declining year-on-year in Q1, which is impressive to see, and I just, I suppose I had expected that as your base grows in the quad-play product and maybe some of your best customers go first and more churning customers might come a bit later, and I guess, I had expected churn to start ticking up maybe on the quad-play. So I wondered if you see – is it sustainable to keep quad-play churn at a kind of 3% level over the medium term or are there stuff – are there things you're seeing with the older customers that suggest that may or may not shift up? Thank you.

Phillip Vandervoort: So yes, indeed our multiple-play strategy and our convergence approach is really showing to be quite beneficial. Not only do we see a really nice increase in customers that take all their packs with us, we see that gradually shifting from single-play to double-play, from double-play to triple-play, and triple-play to quadruple-play. The way we've structured our packs is in a way that every single service is not just a one plus one equals two, but it's a one plus one equals three because there is an additional functionality that adds some. So that makes it really, if the customer takes away a service, it really becomes a lot less. So we do see that churn rates stay very stable and we don't expect that to change. Next to that, we increase, as I said, we increased the households that are fully convergent year-over-year, increased the households that are in triple-play and quadruple-play packs both almost double-digits for several quarters in a row, and we see an RGU growth. So I think it's a confirmation of the right strategy.

Daniel Morris: That’s helpful, thank you.

Operator: Thank you. We will now move to our next question from Vikram Karnany from UBS. Please go ahead

Vikram Karnany: Yes, thank you. I've got a couple of questions. Firstly, a clarification on the group expenses. The Q1 opex was driven by BICS, it was significantly up versus last year. Is this investment kind of one-off and how should we think in terms of the payback period going to come through in terms of those investments? And secondly on mobile data monetisation, your average 4G usage was for the first time over 1 GB, and looking at your Smart Plus portfolio, there seems to be like a significant potential in terms of upselling from your 15-year offer to the 25 with just €10 additional for 1 GB of data. Or is the strategy over here from your side going to be to increase the allowance maybe for a small price increase? I just want to get your thoughts around data monetisation, how you think about it?

Daniel Kurgan: Good afternoon. I will answer for BICS on the opex. I guess two main parts. First, I remind you that if you compare to last year Q1, it was favourably impacted by a foreign exchange gain that we don't have this time. And then on the other hand, we are investing to expand the business, to grow the business, to extend the portfolio, the segments, so in various areas, in people, in network, in systems, and this is also partly reflected in the opex increase that you see year-over-year. So it's a balance of these different elements where we feel comfortable that we keep improving the mix, we diversify value-added services above the core transport, and that's going to pay back already over the next months and certainly over the next years, but we are not talking about a massive amount. So that's for the BICS piece.

Dominique Leroy: And I mean, perhaps just to complement on the Group expenses for the domestic market, I think there you really see a different strategy where for BICS there are some once-offs but for the rest, there is also a key strategy of growth strategy in new geographies, new product lines. For the domestic business, we know that our cost structure is more expensive than our peers. So on the domestic market, we have clearly the ambition to decrease our costs. The early leave plan, where we have received agreement upon from the unions recently, is one part of it but we will also make sure that we continue to simplify our business, to rationalise the business, to digitalise the business, and therefore be really aggressive in terms of cost reduction. So globally, you should see decrease on opex for the domestic business and you will see an increase on expenses for BICS to fuel the growth in new geographies and new product lines.

Phillip Vandervoort: On the mobile services revenues, there's two components in your question. One is where we are incentivising today and the other one is where we see upselling potential. We are not incentivising through any means today the data usage on mobile. So the growth that we see to above 1 GB today is organic. So that's still upside potential for later. And if you look at how we're monetising it and the upselling potential, I think you can see that if you compare Q4 mobile service revenue to Q1 2016 mobile services revenue, where we see that nicely taking up, again in August of last year, we increased the data volumes in our packs in our mobile offer. And so we've reduced the out-of-bundle, but we see that growth and we see it monetising, we see our monetising capability there again, through joint offers, we are continuously driving higher tiering. And there is the postpaid/prepaid switch that also makes sure that the customer stays longer with us. So there’s still many opportunities to monetise data and to incentivise the use of data.

Vikram Karnany: If I can just follow up in terms of clarifying within your packages, the four popular ones, the Smart 25 is the one that you highlight in the website is the most popular one, where you have a majority of the customer base or is it Smart 15?

Phillip Vandervoort: So on the Smart 15 we have 1 GB and of course that's a large amount of the customers on there. Then we have the Smart 25 where we have 2 GB, we have the Smart 45 with 4 GB and Smart 65 with 10 GB.

Vikram Karnany: Yes. But it's more skewed towards Smart 15? Okay, that's very helpful.

Phillip Vandervoort: Of course, yes, the market is skewed toward Smart 15. Our joint offers are skewed towards driving up-tiering, and that's quite successful.

Vikram Karnany: That’s clear, thank you.

Operator: Thank you. We will now take our next question from Nicolas Cote-Colisson. Please go ahead.

Nicolas Cote-Colisson: Thank you. I've got a few question on Scarlet please. If you can give us an indication where Scarlet is more predominant currently, whether it’s in Flanders or Wallonia. And do you see any internal churn with Proximus plans upgrading to Scarlet or downgrading to Scarlet to save on their bills? And I've got another question on MVNO competition now that JIM Mobile and Viking are changing hands. What do you – how do you see this MVNO market and do you see that as a threat generally speaking? Thank you.

Phillip Vandervoort: So Scarlet popularity is something that with communication above the line and different communication in north, south and Brussels, different actions were really to drive up across the country, so we have a national approach – well, we have a regional approach but that is across the various regions – and to drive the brand awareness and brand preference. on your second question on the churn from Proximus, we see very little churn from Proximus customers to Scarlet.

And MVNO competition, I think you're talking JIM Mobile…

Nicolas Cote-Colisson: Yes.

Phillip Vandervoort: Mobile Vikings. We see that quite stable and not changing that much. Probably the change of ownership has something to do with that. But for the moment we do not see that as a threat, but we are watching very closely how they evolve their packs, or their offers.

Nicolas Cote-Colisson: Thank you.

Operator: Thank you. Once again, as a reminder, to ask a question, please press *1. We will now take our next question from Usman Ghazi of Berenberg. Please go ahead.

Usman Ghazi: Good afternoon, everyone, thank you for taking my question. I just have one question please. In mobile, going back to Vikram's question, if the majority of the customer base is sitting on a Smart 15 tariff, I mean the next price point, there is almost a €10 difference. Do you see a risk that people have been happy using a lot of data and then suddenly now if there are a wall of customers that need to decide to spend €10 to upgrade to the next tier, that now instead of upgrading, they suddenly start cutting down on their data usage or doing more Wi-Fi substitution or something? Why not lower the gap between these price points to continue to encourage people to use data without any worry and monetise it better? Thanks.

Phillip Vandervoort: Well, I would like to link that to one of the previous questions on our convergence strategy. If you take your up-tiered mobile into your pack, you get discounts. So that is the way we bring, that's the reason why we have the bridge and that's the reason – that's what drives our convergence in packs. That's also what drives the revenue-generating units in packs. So, that is our strategy on that and we have not seen – and the data, the 4G data consumption rates confirm that – we have not seen that people cut down on data usage. We see a steady increase in data usage and a steady increase in mobiles in pack.

Usman Ghazi: Thank you.

Operator: Thank you. As there are no further questions, I would now like to hand the call back over to your speaker for any additional or closing remarks.

Nancy Goossens: Okay, thank you very much for participating in this call to everybody. If anybody would have follow-up questions, you can obviously contact the Investor Relations team. Thank you very much. Bye bye.

Operator: Thank you, ladies and gentlemen. That concludes today's call. Thank you for your participation, you may now disconnect.