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PRESENTATION

Operator

Hello, and welcome to the Proximus Q3 2025 results conference call. My name is Serge and I'll be your coordinator for today's event. Please note, this conference 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 - Head of Investor Relations

Thank you, ladies and gentlemen. Welcome to the Proximus third quarter results webcast. We will begin with our presentation. And it is my pleasure to introduce our new CEO, Stijn Bijnens, who will walk you through today's highlights. Our CFO, Mark Reid, will then present the financial results. A Q&A session will follow with Jim Casteele, the consumer market lead also participating, Handing over now to Stijn for the highlights. Please go ahead. .

Stijn Bijnens - Proximus NV - Chief Executive Officer

Also welcome from my side. I'm honored to present my first round of Proximus results to you today. As you have seen in our published report this morning, Proximus continued its robust domestic performance despite the intense competitive environment.

This is reflected in both the strong financial and operational quarter. Network leadership remains at the core of the success with 5G coverage now over 85% and fiber in the street covering more than 47% of the Belgium homes and businesses.

We're pleased that the Belgium Competition Authority announced the launch of the market test and our proposed gigabit network collaboration in Flanders, while the negotiations in Wallonia are ongoing. The Proximus Global segment continues to experience challenges related to SMS CPaaS and indication issues, prompting a reassessment of ambitions, which will be addressed later in this presentation.

And finally, we concluded the sale of Be-Mobile, keeping us well on track to realize the EUR600 million asset sales program. Based on the results and current projections, we've updated our outlook, which I'll discuss shortly.

Moving to our key financial results now. For the Domestic segment, we closed the third quarter with stable services revenues. Thanks to a favorable revenue mix, driving higher margins and costs turning stable year-on-year.

We closed Q3 with a domestic EBITDA growing 1.8%. For the global segment, the direct margin was down by 12.2% at constant currency, caused by the headwinds previously mentioned. This resulted in an EBITDA decline of 22.3% despite cost synergy realizations.

This brings our group EBITDA to EUR475 million for the third quarter, a decline by 1%. Our CapEx for the first nine months was EUR826 million. And the free cash flow, we ended the first nine months with EUR428 million in total. Excluding the proceeds from asset sales, our organic free cash flow was EUR159 million, a strong improvement year-on-year. Let's have a look now at the operational results.

Despite the intense competition, the operational performance was very song with mobile postpaid, adding 45,000 cards and our Internet subscriber base growing by 12,000 lines. Our convergent base continued its steady growth, adding 12,000 residential customers in the third quarter.

The solid commercial performance was supported by the portfolio changes of the Proximus brands, attractive mobile joint offers and ongoing convergent strategy. We also continued focusing on innovation and optimizing the customer journey as we launched our new features to help customers onboard via eSIM.

Regarding the B2B unit, which closely aligns with my professional background, Proximus holds a robust position in the market today, and we are developing strategies to capture growth opportunities. I'm committed to shape Proximus B2B future and to drive growth, leveraging the strong network assets of Proximus while exploring new layers of innovation, our focus is on solvency and next-generation AI opportunities.

To make this happen, we will be collaborating with leading technology partners to validate impactful use cases. We will elaborate on this during the Capital Markets Day in February. As previously mentioned, the high-quality network is an essential contributor to the success of Proximus. Across Belgium, we have now a total of almost 2.5 million fiber homes, meaning a population coverage of over 41% and including fiber in the street we are at 47% coverage. The fiber network filling rate progressed to 33%, up from 30% one year back.

At the end of September, the base of active fiber customers totaled 684,000, including 39,000 added over the third quarter. We're pleased with the announcement of the Belgium regulators on the start of a market test, assessing our proposed gigabit network collaboration between Wyre, Telenet and Proximus in Flanders.

The market test will conclude on Friday, November 21. At the same time, fiber negotiations in the South are ongoing. As a last point on the domestic side, I would like to highlight the progress made on the disposal program of non-core assets. As was announced at closing, the sale of Be-Mobile was completed early October and leaves us very much on track for the EUR600 million ambition that we have set for the end of '27.

Turning to the full year guidance. For domestic, we reiterate our outlook given end of July, with domestic EBITDA expected to grow up to 2%. This despite the impact of the Be-Mobile divestment and not having renewed the football contracts with [the zone]. Taking into account the ongoing headwinds regarding the Proximus Global segment, we expect the EBITDA of Global to be lower year-on-year by around minus 10%.

We have lowered this year's guidance for a growth CapEx to approximately [EUR1.25 billion]. This is because the integration of Fiberklaar is leading to more effective and efficient fiber rollout some lower project-related CapEx and less investment needs for Global. This combined with not having renewed the Belgian football contract leads to organic free cash flow expected to land to around EUR100 million. And finally, the projected 2025 net debt-EBITDA ratio improved to around 2.8%.

We also confirm our intention to return an interim dividend of EUR0.30 per share, payable on December 5, post final approval of the Board scheduled later this month. For Global specifically, we have reassessed our growth projections for the coming year. While new growth initiatives have been launched and cost synergy delivery is progressing, high exposures to the legacy B2B voice and messaging and as well as SMS CPaaS is expected to continue having a significant impact.

Therefore, the '26 global ambition is being adjusted. The preliminary review for 2026 indicates Proximus Global EBITDA will be in the range of EUR100 million to EUR130 million. In collaboration with Seskin Arikan, the new Global CEO, a strategic plan is being developed with the objective of resuming growth from 2027 onwards. An update on the plan for Proximus Global will be provided at the Capital Markets Day.

I hand over to Mark now for the detailed financial results.

Mark Reid - Proximus NV - Finance Lead, Member of the Executive Committee

Thank you, Stijn. Let me start by taking you through the financial sections of the domestic business. Starting with our domestic revenue. As illustrated on the chart, services revenue grew slightly. And when including revenue from terminals, and IT hardware, the total revenue remained broadly stable year-over-year.

The third quarter growth was mainly driven by continued increase in the services revenue of the residential unit. This, thanks to the January 2025 price indexation and ongoing convergent customer growth. Revenue from terminals was only slightly lower year-on-year, in contrast to the previous two quarters.

The most valuable part of the residential revenue, customer services revenue is growing by 1.8% with converged revenue up by 4.5 percentage points year-on-year. The [park] continues to show a positive evolution, growing 1.2%, including the price indexation effect and the benefit of a continued increase in conversion customers and fiber upselling.

Turning to the business unit. The B2B, the total revenue declined by negative 0.8%, essentially due to a decrease in service revenue of 1.1%, which resulted from the continued headwinds in fixed voice and moderate decline in mobile services. The decrease is partially offset by a 1.5 percentage increase in products revenue.

Taking a closer look at the B2B revenue from services, the third quarter included higher revenue from IT services growing 2.8% year-over-year, driven by growth in recurring services. Fixed data revenue recorded a limited decrease of negative 0.9% year-over-year. This resulted from the decline in traditional data connectivity services, nearly offset by continued strong revenue growth from Internet services.

Despite the competitive intensity, the B2B unit maintains a solid mobile base and sees the mobile revenue decline sequentially stabilizing to 2.1% negative year-over-year. Fixed voice continued its steady decline due to a lower customer base, while value is managed through price increases resulted in a sustained positive ARPU trend.

The wholesale business posted a revenue decline of 11.8% due to the ongoing erosion of Interconnect revenue with no margin impact and a decline in wholesale services revenue by 4.6% from an exceptionally high comparable base from revenue in the prior year.

Moving to domestic OpEx, which, as you can see, illustrated on the graph, continued its favorable trend, and for the first time since several quarters ended the quarter stable on a year-over-year basis. For the third quarter, inflationary and other cost increases were fully offset by our cost efficiency program. With OpEx stable and direct margin growth, the domestic EBITDA rose by 1.8% in the third quarter.

Turning now to Proximus Global for which we closed the third quarter with direct margin down 12.2% on a constant currency basis. The product group communications and data was impacted by the ongoing decline in the CPaaS SMS market, especially in the onetime password domain.

Moreover, the margin from P2P voice messaging was down, reflecting structural trends in the legacy market. Whereas synergy delivery for go-to-market is delayed. We have realized cost synergies successfully improving the OpEx for Global by 8.4%, again, on a year-over-year basis. This could only partially offset the pressure on direct margin and led to a decrease in EBITDA for the Global segment by 22.3% on a constant currency basis.

Turning to group CapEx. We closed the first nine months of the year with EUR826 million compared to the same period last year. CapEx was lower mainly due to reduced customer related CapEx as a result of, among other things, higher refurbishment rates, increased self-install rates and improvements in operational processes.

Fiber-related expenditures were slightly up with the rollout in dense areas coming down, while Fiberklaar continued expansion in the mid-dense areas. This brings to free cash flow for the first nine months of the year, as illustrated on the graph, the organic free cash flow for the first nine months of 2025 was EUR159 million, strongly improving from one year back, thanks to lower cash CapEx and growing EBITDA. Our imported free cash flow of EUR428 million includes the net proceeds from the sales of our data center business and the Luxembourg mobile towers.

I'll now turn it over to Stijn for the conclusion.

Stijn Bijnens - Proximus NV - Chief Executive Officer

Thanks, Mark. Just five things to conclude. Being just over two months in the company, it's clear for me that we are a strongly performing domestic segment, especially the residential unit is in very good shape, considering the changed market structure. Proximus maintains a solid B2B position, but there's still growth potential, and we are developing strategies to capture it.

Secondly, oximes has performing networks and the expanding fiber network provides Proximus a strong head start. Firstly, we've been successful in realizing CapEx efficiencies for this year. which is supportive for an improved estimated for the group organic free cash flow. Fourth, in contrast, to the successes domestically. It is clear we have challenges with the global segment. And with ongoing pressures anticipated, We have reset as a result of targets for 2026.

And as a final point, we will present our new strategic cycle for the Proximus group together with the full year results on February [27]. I'm sure you understand that given this context, I'm unable to share insights regarding the strategy at this time. However, we welcome any other questions you might have and I'm pleased to address them now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Ganesha Nagesha, Barclays.

Ganesha Nagesha - Barclays Services Corp - Equity Analyst

Hey, thank you for the opportunity to ask questions. A couple of questions from my side. The first one on the global division. So following the recent downward revision to the global segment EBITDA guidance, could you share like what factors give you confidence in the stability of this outlook going forward? And could you also provide some color on what specific integration challenges that still remain, which impacting realization of the expected margin synergies?

And my second question on the CapEx guidance. So your CapEx guidance for the current year implies like EUR50 million savings achieved in the current year. You earlier indicated that the CapEx would remain stable around EUR1.3 billion over '25 to '27. So do you still see a potential for further savings in '26, '27 as well? Or is this just one-off CapEx savings in the 2025. Thank you.

Stijn Bijnens - Proximus NV - Chief Executive Officer

Well, thank you for the question. I'll take the first one and give the CapEx question to Mark. About global, as an initial outcome for a broader planning process, we have done a new estimate for 2026. That has been a bottom-up exercise on a product line basis. So there are product lines that grow as you know and other product lines that declined.

And in absolute terms, the growing business lines are still smaller than the declining business lines. So at the moment, we think and believe in 2027, there will be an inflection point of the current small business lines that are growing offset the decline.

So the business lines that are declining our ATP SMS, B2B voice, and it's offset by business lines that grow like cloud, omnichannel, IoT, travel SIM and digital identity. So we've done that exercise, and that's currently the best estimate we have on the business.

Mark Reid - Proximus NV - Finance Lead, Member of the Executive Committee

Ganesh, thank you for your question. And on 2025, look, we're pleased with the ability to have kind of taken those CapEx savings and the effect that had on our free cash flow. I think as you -- as Stijn said in the presentation, we're all in the process of co-creating that strategy, and then we'll come back at the Capital Markets Day with the future outlook on CapEx. So I think unfortunately, we have to answer that today. Stijn, do you want to add to that?

Stijn Bijnens - Proximus NV - Chief Executive Officer

Yeah. The second part of the first question, on integration issues. It's a different level. So we had some churn of executive leadership. We strongly believe we have a strong CEO now who comes from the CPaaS market, He knows the business.

So integration issues are on the one hand in the go-to-market, and we're fixing that. Also in the product portfolio, we do understand the challenges and are actively improving the operations and the operating model to handle these challenges. Thank you.

Operator

Paul Sidney, Berenberg.

Paul Sidney - Joh Berenberg Gossler & Co KG - Equity Analyst

Yeah, good afternoon. Thank you very much for taking the questions. I also had two, please. Just firstly, on Global. You've chosen to give the global guidance for full year '26 today. Should we view this decision as in your intention to set a floor for global profitability ahead of the February strategic update as you sort of think about how the business looks beyond in 2026.

And then secondly, on domestic, Digi appears to be having little impact on the Belgian mobile market even at the extremely low price points that they've come in at? And what are you seeing in the market in terms of Digi maybe revamping their offers or doing something different? And do you expect the other operators also to do anything different going forward? Thank you.

Mark Reid - Proximus NV - Finance Lead, Member of the Executive Committee

Paul, thank you for the question. On Global for 2026, clearly, we've done an estimate. We were conscious of the market consensus was higher than what we disclosed today. And therefore, with Stijn and [such an] arriving, we accelerated that kind of bottom-up planning process for that period of '26 and start of '27.

And so that's our estimation and we're confident with it. It is a fairly wide range at this point, but that's where we wanted to inform the market today. So that's how we thought about updating that specific number. Jim, do you want to take the Digi question?

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

Yeah. So indeed, on Digi, they're in the market with quite aggressive offers for the moment, I would say that the visibility on their marketing campaigns is rather limited. That said, the value market since the arrival of Digi has been very competitive with the B brands of the competitors also being active with assertive promotions.

So in that sense, I'm really happy to see that our multi-brand strategy with Mobile Viking, Scarlet and Proximus addressing the different price points in the market is delivering on our strategy, not only allowing us to realize again very strong commercial results, but at the same time, also keeping value in the way that we do that, as you have seen and the further growth of our service revenues.

Paul Sidney - Joh Berenberg Gossler & Co KG - Equity Analyst

Thank you. Can I just have a quick follow-up. In terms of when you say growth, returning to growth within Global in 2027, just to clarify, is that revenue, EBITDA, free cash flow or all of the above?

Mark Reid - Proximus NV - Finance Lead, Member of the Executive Committee

It's at the level of EBITDA.

Paul Sidney - Joh Berenberg Gossler & Co KG - Equity Analyst

Perfect. Thank you very much.

Operator

Roshan Ranjit, Deutsche Bank.

Roshan Ranjit - Deutsche Bank AG - Analyst

Good afternoon, everyone. I've got two questions, please. And maybe just touching on the domestic point, Stijn, you mentioned the good performance that you've had. And if we look at the KPIs coupled with the fact that you announced a price increase for '26. How should we think about kind of the future evolution of your product revamp, sorry. You've been quite successful over the last I guess, two years on those campaigns.

What made you kind of choose the products where you have allocated those price increases to? Is that a case of trying to migrate customers away from the legacy products? Or are you still kind of run in with those multi-brand options within the Proximus bundle, so the different packs within Proximus? And as an aside, you've got Scarlet and Mobile Vikings, as you said.

And secondly, we're obviously getting to the end now of the collaboration -- finalization of collaboration in Flanders. Has that given you more confidence or the insights on how the discussions with Orange Belgium in Wallonia is going as well, please? Anything you can say there? Very helpful. Thank you.

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

So thank you for the question. So I will start with the price increase. So indeed, we continue to do price increases also in January next year. The way we do that is on the one hand, trying to understand where are the products where price sensitivity is a bit lower. Next to that, of course, we recently launched our Flex+ new convergent offer in April.

And then, of course, when you launch a new offer, you put it at a price point that you think is going to last for a longer period in time. So it's obvious that those tariff plans are not part of a price increase eight months after launch.

I would say, at the same time, what we do is when we do price increases, we also try to do a more-for-more approach, not necessarily always at the same time, but definitely in a short period before or after, depending on market conditions, of course. And so that's how we've been able to manage our price increases over time while keeping our customers satisfied.

Of course, also always looking at the level of inflation as a sort of reference point for those price increases. It's true that we also look at management of the back prices and trying to see if we can leverage price evolutions to move people from older products to newer products, which helps them to simplify your IT systems, but also operationally makes life easier for our salespeople.

And then in terms of future portfolio evolution. As always, we look at the market to make sure that we stay competitive. As I mentioned also in my previous answer, we do this from a very value-based perspective. So if you see, for instance, October 1, we updated the midrange of the Proximus mobile offer. Because by doing that, we also anticipate that we can create additional value for the company.

And we always look at how the three brands are positioned in terms of segments and price points. So that's a bit the pricing strategy that we've been executing on over the last years. And I'm happy to hear that you think this has been successful. So thank you for that.

Stijn Bijnens - Proximus NV - Chief Executive Officer

About your second question about the fiber rollout in Belgium. So the North and the South, in the North in a few weeks, we will have the outcome of the market test. We're confident in that and that once the black box get opened, we can make a detailed CapEx plan and rollout. In the south, it's kind of three months behind that cycle. It's the same cycle where we need to go to.

We first need to finalize the agreement with Orange and then go to the market authorities to do that. But we're fully confident that all these deals are on track at the moment with the different timings that I just mentioned.

Roshan Ranjit - Deutsche Bank AG - Analyst

That's great. Thanks, guys.

Stijn Bijnens - Proximus NV - Chief Executive Officer

Thank you.

Operator

Kris Kippers, Degroof Petercam.

Kris Kippers - Petercam SA - Senior Equity Analyst

Yes, good afternoon. Thank you for taking my questions. Firstly, just going back to Global again. I haven't heard the mentioning of the EUR100 million improvement in synergies that initially was communicated. Is that a number that could alter now that the scale has changed? Or what should we see in that?

And then secondly, classical one, perhaps, but I'm quite pleased to see indeed that also in the domestic side, the workforce expenses have been declining. Is this something we should continuing in the quarters ahead? How will -- could you guide us a bit more on the reduction in FTEs. Thank you.

Mark Reid - Proximus NV - Finance Lead, Member of the Executive Committee

Yes, thanks for the question on Global. So first of all, on Global, I think, again, you've seen for disclosures today, we -- the operating costs continue to kind of deliver probably a bit ahead of plan. So in terms of our operating cost synergies and our direct COGS synergies there kind of as we've said before, I think the cross-sell, upsell synergies that are go-to-market related or really alluded to in terms of our integration phasing and that's taking a bit longer.

Look, I think we'll come back in Capital Markets Day and allude to that as Seckin gets to grip with what the phasing of that looks like. So I think that's where we are today. But we, as I said, we're very pleased with the cost synergies there fully on track. The go-to-market ones will come as part of the strategy update when we get there.

Stijn Bijnens - Proximus NV - Chief Executive Officer

Regarding the second question on workforce, so we're very pleased about this quarter that OpEx stays flat. We have a strategic workforce planning and management is executing well on that plan. We're currently reviewing things and I'll come back on that in the -- on the Capital Markets Day, once we have our strategy crystallized and then we will also give more guidance on that part of our business. Thank you.

Kris Kippers - Petercam SA - Senior Equity Analyst

Okay. And then if I just made just a small follow-up regarding the fiber communication when the market test would be finished on November 21, do you intend to communicate directly to the market at that day? Or what is the -- what should be the time frame for that? And regarding, do you provide an update as well? Thank you.

Stijn Bijnens - Proximus NV - Chief Executive Officer

So when the market test ends on November 21, it's actually the competition authority that has to assess it and analyze it and they will come with a communication. Once that's done, we can move forward. So it's in their hands, regarding communication. And it will be the same process in the South as it are the same people at the authority level. Thank you.

Kris Kippers - Petercam SA - Senior Equity Analyst

Okay. Indeed. Very clear. Thank you.

Operator

(Operator Instructions)

Michiel Declercq, KBC Securities.

Michiel Declercq - KBC Securities (Budapest Branch) - Analyst

Yes, hi, and thanks for taking my questions. My first one would be on the global business. So you mentioned that, of course, we have the SMS part is declining. And then I assume the OTT and digital identity is growing. Can you maybe remind us what the split of revenues is here or in terms of profitability, given that you mentioned an inflection point in 2027?

And as a follow-up on this, of course, the non-SMS business is growing. Can you maybe elaborate a bit on how this compares to competition because I see that competitors are also growing, but in terms of market share, are you improving here? Or are you losing customers?

And then the second one is maybe for Stijn specifically, you recently joined, of course, from Cegeka, an IT group, of course. But what experience can you bring in. In the beginning you also elaborate a bit on the opportunities that you see within the B2B. Can you maybe explain a bit what opportunities there are here for -- to unlock?

Mark Reid - Proximus NV - Finance Lead, Member of the Executive Committee

Michiel, thank you for that. .So I think if you look at our disclosures, you kind of see a little bit about our kind of split of the overall direct margin revenue split between Global is kind of our legacy voice and messaging business and then CPaaS and data, which is effectively a mixture of traditional CPaaS A2P omnichannel where you can think of kind of RCS, WhatsApp, Viber, e-mail type products and then digital identity, which is more kind of our fraud protection products.

We don't disclose the mix of that. But clearly, the A2P SMS part of that business is the majority -- and as we said, the element that we've been exposed to is we do a lot of international OTP traffic there. The rate of change of that business towards omnichannel was a little quicker than we expected, but Proximus Global was always set up to manage that transition.

But clearly, the two parts of the business are different scales, but we are seeing growth in the omnichannel part, the RCS, WhatsApp, Viber e-mail part of the business. And so that is really -- as we start to look forward through the end of this year into '27 -- the first part of '27, that's really where we see the inflection point of that part of the business starting to be contributive and return to growth from an EBITDA perspective. I hope that helps. We don't disclose the exact detail.

In terms of market share, again, we don't talk about the specific market shares. Clearly, at the moment, in the last couple of quarters, it's been a difficult market for us there. But again, as we effectively get these integration problems behind us and the products and go to market, we clearly believe that we will have a competitive advantage given the structure Proximus Global, our cost base and our product portfolio to go to market and be successful in capturing that growth going forward.

Stijn, do you want to take the --

Stijn Bijnens - Proximus NV - Chief Executive Officer

Yes, Michiel. Regarding the second question, Proximus today as a market leader in B2B at the connectivity level. Of course, we intend to stay that. And it's also due to our strong footprint and network superiority. But there are additional services to be offered that Proximus is currently doing, but I do think there is an opportunity to grow further in everything that has to do in cybersecurity, cloud.

I strongly believe in hybrid cloud. So a combination of strong partnerships with the hyperscalers but also having our own sovereign cloud solution. There is an increased interest. And I think Proximus is a superior position in Belgium to capture the part -- the cloud in hybrid cloud.

Also, AI will go towards the edge. You see a lot of announcements if you look at NVIDIA and Nokia. So we kind of own the edge real estate in Belgium from a telco perspective. So we see many opportunities. It will take time to capture those opportunities, of course, but I do think we have the team and we will build the organization to unlock that value that we really leverage our telco infrastructure in those new buckets of growth. Thank you.

Michiel Declercq - KBC Securities (Budapest Branch) - Analyst

Very clear. Thank you.

Operator

Thank you. There are no further questions. So I'll hand back to your host to conclude today's conference.

Nancy Goossens - Proximus NV - Head of Investor Relations

Thank you for joining us today and thank you for your questions. As always, should there be any follow-ups you can address those to the Investor Relations team. Bye.

Operator

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