Event transcript

KPN Q1 2022 Results

Friday, 29 April 2022

Operator: Good day, ladies and gentlemen. Welcome to KPN's first quarter 2022 earnings webcast and conference call. Please note that this event is being recorded. At this time, all participants are in listen-only mode. We will be facilitating a question-and-answer session towards the end of today's prepared remarks. If you would like to ask a question, you may do so by pressing *1 on your telephone.

I will now turn the call over to your host for today, Reinout van Ierschot, Head of Investor Relations. You may begin.

Reinout van Ierschot (Head of IR, KPN): Thank you, and good afternoon, ladies and gentlemen. Thanks for joining us. Welcome to KPN's first quarter 2022 results webcast. With me today are Joost Farwerck, our CEO; and Chris Figee, our CFO.

As usual, before turning to our presentation, I would like to remind you of the Safe Harbor on page 2 of the slides, which also applies to any statements made during this presentation. In particular, today's presentation may include forward-looking statements, including KPN's expectations with respect to its outlook and ambitions, which were also included in the press release published this morning. All such statements are subject to the Safe Harbor. Let me now hand over to our CEO, Joost Farwerck.

Joost Farwerck (CEO, KPN): Thank you, Reinout, and welcome everyone. Yes, we have made a good start to the year.

In the first quarter, our mass-market service revenues continued to grow, supporting service revenue growth for the group as a whole. Growth was visible in all our mass-market segments. SME continued to make a strong contribution, and we are on track to stabilize our total business segment service revenues. In Consumer, fiber and our fixed-mobile portfolio are delivering revenue growth every quarter. Mobile service revenues are growing and in fixed, the trend is stabilizing. Wholesale continued to show solid growth with revenues up 6%, supported by our successful open-access policy. We rolled out fiber to 75,000 households or if one were to include Glaspoort – the joint venture – 111,000 in the first quarter.

The investments we are making to our networks and services continue to pay off. For example, Umlaut, benchmarking expert, recognized KPN as the best mobile network, not only in the Netherlands, but even in the world.

And all in all, this quarter, we have seen encouraging service revenue developments with strong EBITDA growth and Free Cash Flow generation.

And while we see the impact from rising costs due to inflation, these have already been reflected in our outlook. So we remain confident to deliver on the full-year 2022 outlook and ambitions for 2023.

On the 1st of April, KPN informed the ACM about its intentions to amend Wholesale access terms on our fiber network for eight years. ACM started the consultation and the once declared binding by ACM, this offer will secure long-term regulatory certainty for all market participants.

We continued to make good progress against the strategic and financial ambitions of our strategy, Accelerate to grow, and we remain confident that this strategy will continue to create long-term sustainable value for all our stakeholders.

In the first quarter, like I just said, we rolled out 75,000 households. This figure is slightly lower than in other quarters, mainly due to the timing of project deliveries. And jointly, with that Joint Venture, we now cover approximately 42% of the Netherlands with fiber, and we expect to reach around 80% of Dutch households by the end of 2026. Once we reach that point, we expect Capex to come down to a much lower and sustainable level.

As we continue to roll out fiber, our growing fiber footprint will result in an improved penetration rate for Retail and Wholesale. And in fact, our Retail fiber base is likely to surpass our copper base in this quarter, Q2.

We see all this bearing fruit in our financials. Looking at our Q1 results, we currently generate about € 830m of analysed fiber service revenues, and this number is growing rapidly. In Q1, our Consumer fiber revenues increased by 90% year-on-year and surpassed our copper service revenues for the first time, driven by a growing base and attractive ARPU. All in all, fiber is clearly at the heart of our strategy to create long-term value for all stakeholders.

Now let's take a look at the Consumer segment.

Adjusted Consumer service revenues increased 1.5% year-on-year. This was supported by an € 8m one-off correction in the first quarter last year. Corrected for this one-off, adjusted Consumer revenues increased 0.3%. Since the third quarter, we have been able to show consistent service revenue growth, and this has been driven by continued mobile service revenue growth, supported by solid customer inflow and the continued success of our fixed mobile convergence strategy.

Also customer satisfaction remains one of our top priority, and it has been pleasing to see our efforts pay off in this area.

Now a deeper look into our first quarter KPIs. We saw solid fiber inflow reflected by 42,000 new fiber customers offsetting copper churn. This led to 7,000 broadband net adds. The rise in net additions was partly supported by the launch of new content in our interface, like Viaplay. Fixed ARPU increased 2.6% year-on-year. Combined and excluding the impact of the one-off correction I mentioned last year, this led to broadly stable fixed service revenues in the first quarter.

As you can see the service revenue trend is somewhat weaker than seen in previous quarters. Next to a continued decline in legacy services and lower traffic, this is also due to a shift from gross to net revenue reporting of content packages. So a small top line impact, but not on margin generation. Nonetheless, underlying trends are improving as fiber broadband service revenues growth continues to more than offset the copper decline.

We continue to see solid trends in Mobile. Our postpaid base increased by 21,000 and our postpaid ARPU was broadly stable. Combined, this all led to a 2% growth in mobile service revenues.

And now on B2B. The overall service revenue trend in Business is moving in the right direction, I would say. While there is still a slight year-on-year decline of 0.4%, this was significantly better than the previous quarters.

SME is the main driver of growth, driven by solid commercial momentum in both Broadband and Mobile. The performance in LCE and Tailored Solutions was in line with expectations and, as we highlighted already earlier, it will take us some more time to deliver the turnaround we expect to see in LCE but with all the experience we have in SME, we know that this will happen not far from now.

Business Net Promoter Score remained at a positive level of plus 4. Customers continue to value KPN for stability, reliability and quality of our networks and services. In B2B, that is a great number, comparing ourselves to competition, there the numbers begin with a minus.

To improve visibility, LCE and Tailored Solutions revenues have been restated a bit; with LCE service revenues now also including the revenues from core telco products from Tailored Solutions. And the latter now fully reflecting project related work and bespoke services.

Across the board, we are seeing improving revenue trends. And this combined with the year-on-year improvement in NPS, means that we are confident that we will stabilize Business service revenues by the end of this year.

In Wholesale, service revenues continued to grow solidly in the first quarter, mainly driven by further base growth in both Broadband and Mobile. We added 14,000 broadband lines and 26,000 postpaid SIMs in the quarter.

Now on ACM regulation. As we have said, our open access wholesale model is, as you have seen in the drivers of the fiber case, an integral part of our strategy. Through our Wholesale activities, we support the digitalization of the Netherlands by fostering competition and innovation. Wholesale also allows us to further optimize network utilization and investing in the long-term quality of Dutch infrastructure.

On the 1st of April, we informed ACM about our intentions to amend the fiber wholesale access tariffs. This initiative makes our open fiber network even more attractive for wholesale customers and, more important, offers consumers a wide choice of service providers. The amended offer secures competitive conditions and tariffs for a period of eight years. With this, we create long-term certainty for KPN and all market participants. This amended offer is conditional on ACM's decision to declare it binding. And to do so, ACM has published its draft decision two weeks ago, which has been shared with the market for consultation taking a total of six weeks.

With this, let me now hand over to Chris to give you more details on our financials. Chris?

Chris Figee (CFO, KPN): Thank you, Joost. Let me now take you through our financial performance.

Overall, I am pleased with the development of our key financial metrics this quarter. Our year-on-year growth numbers this quarter are somewhat inflated due to the € 8m one-off non-cash correction in B2C Fixed Service revenues in the first quarter of last year. We exclude this one-off number in the trend of a number of metrics to illustrate a true and fair underlying …

(no sound)

Operator: Ladies and gentlemen, please hold while we solve the technical issues.

Go ahead.

Chris Figee (CFO, KPN): Hello, it is Chris again. We got disconnected. Let me restart from the financial pages, page 12 of our presentation. Apologies for the disconnect.

As I was saying, we are pleased with the development of our key financial metrics in this quarter. Our year-on-year growth numbers were somewhat inflated due to the € 8m one-off non-cash correction in B2C Fixed Services revenues in the first quarter of last year. We exclude this one-off in a trend of a number of metrics illustrating the true underlying performance. We will refer to the term ‘underlying numbers’ to make the appropriate and fair comparison.

Now let me highlight a few key figures for Q1. Adjusted revenues increased 1.6% year-on-year, driven by growth in mass-market service revenues, partly offset by lower service revenues from LCE and Tailored Solutions. Corrected for the one of last year, the adjusted underlying revenues increased 1.0% year-on-year.

Second, adjusted EBITDA after leases increased 4.5% year-on-year for an underlying plus 3.1%. This is driven by both higher revenues and lower cost base. The EBITDA margin increased 130 basis points to 45.3%. In the first quarter, cost savings from further simplification and digitization of the company, were partly offset by inflationary effects, translating into € 8m of net indirect opex savings. Thus absorbing, for example, some of the energy cost increases. With this we remain on track to realize about € 50m of indirect cost savings in 2022.

Third, our Free Cash Flow increased almost 70% compared to last year. This is mainly due to higher EBITDA and lower Capex, and that was a result of inter-year phasing, partly offset by the phasing of working capital. More on the underlying cash developments later in this presentation.

Our sustainable mass-market service revenue growth has been driven by healthy trends across all segments. This also led to our group service revenues rising by 1.1% on an underlying basis compared to last year. This is an important proof point of our strategic progress towards sustainable top line growth for the Group.

All three mass-market segments contributed to the underlying 2.5% growth in Q1. Wholesale service revenue was up 6.0% year-on-year, mainly driven by Broadband and Mobile, and some support from several small incidentals. SME service revenues grew by 9.3%, driven by the success of our KPN EEN portfolio and partly also to a relatively easy comparison base.

In Consumer, our total service revenues grew by 0.3% on an underlying basis. Within the segment, Mobile service revenues continued to grow and recorded a 2% increase.

In Fixed, fiber service revenue growth is outstripping the decline in copper. And, as Joost said, fiber service revenues now exceed those of copper. However, the growth of total consumer broadband service revenues was still offset by declining legacy services and the effects of changing from gross to net revenue accounting for content packages.

Through this, all of it, we reported a small decline of fixed consumer revenues of -0.4%. But if we look at the two underlying numbers, we adjust for the accounting change and for the revenue recognition last year, our Fixed service revenues would have been flat in Q1, of total consumer revenues growing about 0.8%. That's a better reflection of the underlying reality at Consumer Fixed. We feel confident that our mass-market service revenues will continue to grow during the year.

At € 206m, our Free Cash Flow was substantially higher than last year and the margin improved to almost 16% of revenues. This improvement was mainly a result of EBITDA growth, lower Capex amid inter-year phasing and lower cash interest paid, partly offset by the phasing of working capital.

All in all, we started the year well in terms of cash generation. However, it is clear that we will not see a 70% growth rate in cash every quarter.

If we strip out the Capex delta versus last year that we see as temporary, we still see solid underlying and sustainable growth of free cash flow. So looking ahead, we expect to see some fluctuation in this number during the year, but simultaneously we remain very confident to deliver on our Free Cash Flow target.

Finally, we ended the quarter with a strong cash position despite redeeming an over € 600m senior bond with a 4.25% coupon in March, which will drive about € 25m of interest ratings for 2023.

We continue to have a strong and resilient balance sheet at the end of March. As a result of the bond redemption and other corporate actions we took last year, our average cost of senior debt improved by more than 40 basis points year-on-year.

In Q1, net debt declined by € 163m, mainly driven by the Free Cash Flow generation during the quarter. The leverage ratio of KPN stands at 2.2 times EBITDA, comfortably below our ceiling of 2.5 times and we further enhanced our interest cover.

Total liquidity remained robust at the end of the quarter. It consists of € 1.7bn in cash and short-term investments and our undrawn revolving credit facility. This covers debt maturities for the next three years.

Reassured by our current financial performance and good strategic progress, there is no change to our 2022 outlook nor the ambitions for 2023 we gave to you in January. We remain confident.

To summarize, KPN had a strong quarter start to the year, displaying the success of our strategy. We see positive developments in Consumer, SME and Wholesale. Our mass-market service revenues continue to grow healthily. B2B service revenue is expected to stabilize at the latest end of the year, but possibly already in H2, we are on the verge of sustainable top-line growth for the entire Group.

Our EBITDA and Free Cash Flow margins continue to develop favorably, and we feel confident about the cash generating ability of our Group. To me, KPN demonstrates healthy margin, earnings and cash flow resilience in these turbulent times. The fiber rollout run rate has maintained a good pace and has proven attractive return profile.

And with this, KPN has now put itself on a path towards sustainably growing revenues EBITDA and Free Cash Flow and corresponding growth in shareholder returns.

As such, we reiterate outlook for this year plus our ambitions for 2023 and are strengthened in our confidence when it comes to delivering on our strategy. Thanks for listening. Now let's turn to your questions.

Reinout van Ierschot (Head of IR, KPN): I would like to remind you to limit yourself to two questions each. Over to you, Operator.

QUESTIONS AND ANSWERS

Operator: Ladies and gentlemen, we will start the question and answer session now. If you would like to ask a question, you may do so by pressing *1 on your telephone.

The first question is from Mr. Keval Khiroya, Deutsche Bank. Go ahead, please.

Keval Khiroya (Deutsche Bank): I have two questions, if I may. So firstly, you have hopefully said that the inflationary effects in the business will be absorbed but can you update us on the magnitude and source of those inflation impacts across wages, energy, and any other areas?

Secondly, I appreciate the new Wholesale proposal is under consultation but with this new proposal in mind, can you provide some color on how we should think about the short and medium-term growth prospects for the Wholesale broadband revenues?

Chris Figee (CFO, KPN): Okay. Keval, thanks. On inflation, let me go through a few components. On wages, we have a CLA agreement that we set up last year in December. That talks about a 2.7% CLA annual increase plus people growing pay scale around 1.1%. So total wage costs will grow about 3.5% to 3.7% during the year. On energy, we think the net effect is between € 6m and € 8m for the year since we procured most of our energy for the year already forward. So, in terms of inflation these are the two most important components. Other costs are reasonably fixed. So when it comes to our opex, I see of course, € 6m to € 8m of energy cost increase. That is something that we should absorb but we will absorb that in the EBITDA. Other areas of inflation mostly result in Capex, not on opex, where you see higher prices for set-top boxes, modems, et cetera, but we think we can absorb it within the current € 1.2bn budget. So for this year, the impact is relatively limited. As I said, our wages are locked in and energy prices are also locked in. The remainder of cost increases, we think, we can also absorb with lower volumes. For example, our FTE base is shrinking quite rapidly. We have lost year-on-year about 800 FTEs. Natural attrition is going up, so that should help, productivity improvements should help absorb the inflation.

When it comes to Wholesale growth prospects, I would think that the lower Wholesale tariffs would support higher penetration levels. What the exact number will be, I do not know. Today, we are about 14,000 new broadband net adds for the quarter. We have been around 5,000 a month for the last six months. There was some fluctuation but on average it has been around that. So I do not have a crystal ball to see how much our Wholesale customers are going to sell more, but I think there is some upside for that number. 10% to 20% growth is not off, given the new tariffs. But of course, we need to see. It is for them to realize that.

Keval Khiroya (Deutsche Bank): That is clear. Thank you very much.

Operator: The next question is from Mr. Luigi Minerva, HSBC.

Luigi Minerva (HSBC): Good morning, thanks for taking my questions. It is on B2B. Obviously, the SME trend was very impressive this quarter, plus 9% year-on-year, so I was wondering how do you see this developing in the next few quarters, whether it is sustainable or that we should be more prudent. Then on the overall B2B inflection point, which you indicated would be in the second half of the year. Probably you are running a bit ahead of schedule, so how do you see that evolving as well? And perhaps more broadly on the impact on your B2B business, from the economic outlook, the situation is uncertain in some European countries. We are seeing signs of negative economic growth. So do you see signs in the economy in the Netherlands that may derail the turnaround of your B2B business?

And my other question is on the CPI pass-through. What are your expectations for June and July when you would increase prices?

Joost Farwerck (CEO, KPN): Well, on B2B, we are happy with the developments in SME. That is in our strategy, and we worked on this for a very long time. 9% is a very strong quarter, but looking at the quarters to come, we expect good growth as well, probably not 9%, but maybe somewhere a bit above 5%. We are doing the same thing in LCE. We started on SME because that is where 50% of the whole profit in B2B comes from. So that is priority setting and now in LCE, we are cleaning up the portfolio. We are moving to a future-proof portfolio, migrating our customers there. We are pretty confident we can turn it around. I am not sure if it is going to happen in Q1 or Q2 next year, but we are on track. With taking into account everything we do in B2B. I am convinced that we can make the total of B2B revenues stabilize and grow a bit end of the year, beginning of next year. So that is all in the run rate, I would say.

We have a very strong position in the B2B market in the Netherlands. We are the largest player there. We see our economy growing and of course, we also look at the future and how things develop. But until now, most of our customers are in good shape. They pay their bills. Of course, it can always become a bit worse but where we are today, we do not see our customers moving into trouble. So I would say that our customers and KPN are in pretty good shape and we do not expect problems there in the short term.

Regarding the CPI increase, that is, by the way, an announcement we will do next week. It is not a CPI increase; it is more a price increase we do every year. We look at what we do on the CLA and we were also looking at what is happening on the CPI. Of course, we will not follow the inflation rate of today when it comes to price increases, but we will make a step and announce that next week.

Luigi Minerva (HSBC): Great, that is very helpful. Thank you.

Operator: The next question is from Mr. Polo Tang, UBS.

Polo Tang (UBS): Hi, thanks for taking the questions, I have two. The first question is just about the phasing of EBITDA growth through the year. So you have delivered a strong quarter with 4.5% EBITDA growth prior your guidance for more than € 2.4bn of EBITDA only implies about 2% growth in EBITDA for the full year. So are there any cost headwinds or any other factors to watch out for? How should we think about the phasing of EBITDA growth as we go through the year?

My second question is really just coming back to the Wholesale regulation. You cut Wholesale Broadband pricing by between 10% to 30%, but do you see any risks that players, such as T-Mobile Netherlands, uses these lower Wholesale rates to lower Retail broadband pricing?

Chris Figee (CFO, KPN): Polo, let me take your questions. On the phase of EBITDA you are right, our growth for the year is about 2.3%. We are already ahead of that for now. That is why we have confidence with the guidance for the year. I do not have a crystal ball that is completely perfect, but I think you will not see 3.5% EBITDA growth every quarter. Next quarter will be around, I think, 2.5 - 2.3-ish, in line with the year. Q3 will be a bit lower due to a comparison versus last year and Q4 will be up again. So I think if you look at the phasing over the year, Q1 was great. Q2 will be around where the year is. Q3 a bit less and Q4 will go up again. Your question is fair whether we then would not increase our guidance for the year? Not impossible, but let's first go through Q2. As Luigi said, these are turbulent times, let's make sure we have a little bit more visibility in the year. We are confident given our EBITDA target for the year, but we see some fluctuation in the quarters.

On your question on Wholesale, what will our Wholesale customers do with the lower prices? Who knows. T-Mobile increased their prices in the beginning of the year on Wholesale, on broadband. They rent both lines from us but they also rent lines from other service providers. So I would presume that what they call the KPN tax, that will disappear. But for the rest, I think they are on a path to increase their margins rather than reduce their retail prices. At least that is consistent with the signal they gave in the beginning of the year when they increased their long-term 1gig fiber pricing by over 10%, also the non-KPN line. So, the fair answer is, Polo, I do not know what they are going to do but if I look at the recent trends and the announcement they make, I think they will take out the KPN tax, possibly keep some of it to enhance their own margins, but that will be a shrewd way for them to use our cost savings to increase their margins and blame KPN. Particularly, I would think they would stick to a margin expansion strategy. But to be fair, you have to ask them that question.

Polo Tang (UBS): Thanks.

Operator: The next question is from Ms. Nawar Cristini, Morgan Stanley.

Nawar Cristini (Morgan Stanley): I have two questions, please. Firstly, I wanted to ask about the impact of inflation on your FttH rollout. How hedged are your FttH rollout against inflation? I think in previous calls, you have stated that prices are fixed. So I was interested to hear for how long, given that the rollouts continue till 2028. Are FttH rollout prices fixed till then? Any color on this will be particularly helpful.

And then I wanted also to ask about your guidance for 2023. Clearly, you have explained that for 2022 the inflation pressure can be absorbed. For 2023, given that you are less and less hedging energy costs, I guess the main headwind for next year is around 1% of the revenue, so it could be visible at the EBITDA level. Could you discuss mitigation points for 2023?

And also, it would be really interesting to hear your own assessment of the main areas of risk to the 2023 numbers from an inflation perspective. Any other aspects that maybe we have not discussed beyond labor costs and energy costs would be particularly helpful.

Joost Farwerck (CEO, KPN): On fiber, we build a plan, which goes until the end of 2026, and we build these plans together with the building companies, the contractors. And on the future, you see some pressure on salary costs, of course, but we also are innovating a lot together with these partners to make the whole process more efficient. So it is our ambition to avoid cost increasing on fiber rollout. And we did not build a plan to connect 10,000 households but we built a plan to connect 3 million, on top of the 3 million we already did. So that is a long-term agreement we made with these contractors to create value. And the portfolio, the order inflow on their side is super important for them. So we are in a good conversation with our partners to keep the costs more or less stable on the fiber rollout, despite the inflation we currently see. On the guidance for 2023, Chris?

Chris Figee (CFO, KPN): Yes. On 2023. It is early days to confirm for 2023. At this point, we are confident on 2023. I would feel that the EBITDA guidance will be there, will be met. Perhaps the mix will be a bit different. So the mix may come more from revenues and less from cost savings if inflation continues as it is. That is something which is not completely under control. But I see our revenue trends being very favorable. They have been more favorable in this year than we expected and then the outlook for the year is also quite supportive. In 2023, if prices stay where they are, we are looking at € 15m higher energy costs. This could be higher depending on when the prices land. We need to see where our CLA ends up for next year on labor cost. But then again, revenue trends are favorable. So it means that KPN is gradually becoming a growth company rather than a cost-cutting company. And with that trend in the way our business runs, the business has evolved, I think we are pretty confident on meeting our ambition for that year. The mix might be a difference. Secondly, we have another nine months to go or to reduce our cost base, to reduce our labor force and to reduce energy consumption to compensate for those higher costs. So if the peak goes up, we should reduce the queue. But with that and a combination of good trends of service revenues, we are still confident on the 2023 EBITDA guidance or ambition to be precise.

Nawar Cristini (Morgan Stanley): That is very helpful. Thank you.

Operator: The next question is from Mr. Usman Ghazi, Berenberg.

Usman Ghazi (Berenberg): I just have one question, please, just on the fiber rollout. During the quarter, there was a development in the Hague, where the city stocked parallel deployments from KPN and ODF and basically divided the city up and told the operators to build in specific areas. I just wanted to understand if that is a development specific to the Hague or could this approach be followed in other cities and if so, what would be the implications? Could it result in more sharing of networks between the operators? Any thoughts on that would be interesting.

Joost Farwerck (CEO, KPN): Yes. Usman, that is clearly an exceptional situation for the Hague only. In the Hague, we are more or less building fiber in 80% of the city. There was a lot to do on the third party rolling out fiber, ODF in certain areas. And we overbuilt these areas for two reasons. Their prices were too high for us to make use of their network and secondly, the way they connect households is not good enough, to our conditions at least. So that gave a lot of rumor in the media. And at the end, the mayor of the city asked us to clear it out. We came to an agreement, but that was really an exceptional situation for Hague. For the rest of the Netherlands, we made our plans we are rolling out. And our plans are focusing on 80% of the Netherlands. So it is not that we are going to divide other areas with competition because we aim for 80%.

Usman Ghazi (Berenberg): Thank you.

Operator: The next question is from Mr. Ulrich Rathe, Jefferies.

Ulrich Rathe (Jefferies): I have two questions. The first one would be on the competitive situation versus VodafoneZiggo. I understand they have potentially promoted a bit harder because they lost F1 but they seem to be saying – we do not know the results yet – that they could see a worse netadd this quarter than in prior quarters and that would match what you are seeing in terms of strengthening Broadband and Retail. My question to you is, how do you see that? Is that a fair share for KPN and you would expect that to continue or do you think there is a point at which the two major players should even out a little bit? The risk, of course, is that VodafoneZiggo would start a wounded-animal type of behavior. I was just wondering how you see that situation evolving.

My second question is a bit of a clarification on the ACM settlement. I mean ACM raised issues in the broadband market. Now you made these voluntary offers, which would settle them, but how does the cable regulation side look from that? I understand it does not affect you directly, but maybe indirectly for Wholesale. I would be interested to hear how you see ACM is handling the cable regulatory side of broadband.

Joost Farwerck (CEO, KPN): On regulation, we more or less avoid a whole discussion on regulation by the move we made. It is a voluntary offer of KPN. ACM is using our offer for consultation. So they do not have to go into the whole regulatory debate with us or cable. And I think they will leave cable alone, in short. But let's wait until the outcome of the consultation process, and we will know in four weeks from now.

On VodafoneZiggo, it is always a competitive market. When we introduced Viaplay for new customers for free, that was focusing on Formula-1 watchers and that was unique for Ziggo only in the Netherlands until recently. We launched it successfully in the first quarter and now Ziggo came with the promotion. So it is always good to understand how we all feel in the market to put it that way, but it was a promotion. They launched it for a couple of weeks and then changed it again. So, yes, every now and then, we do a promotion, they do a promotion. But at the end, of course, I think the whole market is focusing on creating value.

Ulrich Rathe (Jefferies): That is helpful. Thank you.

Operator: The next question is from Mr. Konrad Zomer, ABN AMRO ODDO BHF.

Konrad Zomer (ABN AMRO ODDO BHF): Good afternoon. Thanks for taking my two questions. The first is on the fiber rollout in Q1, the 75k homes passed. Obviously, that is below your full year target, which I seem to remember at being somewhere around 450k-500k. Are you still comfortable with that number? Maybe you can be a bit more specific as to why in Q1 it was below the average for the year, the timing of certain projects. Was that because of labor not being available through sickness? Or is that because of a delay in regulation from municipalities or something?

My second question is slightly longer term. You have referred a few times to your Capex as a group coming down considerably post 2026. Can you share with us the order of magnitude that we should be thinking of? Is this like several hundreds of millions of Euros of lower Capex or several tens of millions of lower Capex? Just to get a feel would be very helpful. Thank you.

Joost Farwerck (CEO, KPN): Yes, Konrad, on fiber, you are right, it was a bit low. If we want to do what we plan for, we have to do a bit above 100k per quarter to end up on the 450k. It is a bit of a traditional approach that the second half is always better than the first half, which I regret by the way, I like a smooth rhythm of rollout of 110k–115k per quarter, but that is how construction works. Last quarter, last year it was 120k, if I am not mistaken. So Q4 to Q1, you could also say it was around 100k. Maybe they pushed it a bit too hard in the fourth quarter. But I am pretty confident we will meet the 450k and together with the Joint Venture Glaspoort we will go above 600,000 households. I like a rhythm without peaks, so that is our ambition to run the programs. But every now then it comes in batches. There is weather, at the end of the summer there is a month of holiday for construction. So for four weeks, there is no construction. So there is a bit of ups and downs. But we know we will meet the plan. So on fiber we are pretty confident.

Chris Figee (CFO, KPN): Konrad, regarding Capex post 2026, it is quite a few years out. Our Capex today is € 1.2bn, consisting of € 450m fiber and € 750m in non-fiber. We are talking big numbers. Our job is to make sure that post 2026, the fiber number get ratcheted down aggressively and that the non-fiber number stays flat. So what the final Capex number 2026 will be, I do not know, but fiber will not go to zero. There will be new builds in that time. There will be some houses that want to connect. So there will be some homes passed turning in to homes connected or activated. There will be some fiber spend. But the drop in Capex will not be 10, it should be further a 3-digit number with the assumption and our assignment to keep the non-fiber Capex around the € 750m to € 800m.

Konrad Zomer (ABN AMRO ODDO BHF): Great. That is helpful. Thank you very much.

Operator: The next question is from Mr. Steve Malcolm, Redburn.

Stephen Malcolm (Redburn): Good afternoon, thanks for taking the questions. I have a couple of questions, first of all on mobile pricing. I think the CPI is baked into your contractual mobile pricing, which I think takes effect of October. Obviously, at current levels, that would be a very, very big price rise. So I just want to hear your thinking on that and how you think about front book promotional offers because I guess you have the risk that if prices go up too much customers spend down and you create churn in the marketplace. That would be very interesting to hear.

And then just coming back to Wholesale. When we look at the volumes, it seems quite clear that most of the push is on ODF, I guess from T-Mobile. There is not a lot of growth in WBA/VULA. Do you think there has been a kind of hiatus, a strike, ahead of this offer for the ACM? If it is agreed, you think we should see an improvement in those WBA/VULA volumes, which I guess helps on the sort of revenue mix side and help us think about our medium term forecast and Wholesale. Thanks a lot.

Joost Farwerck (CEO, KPN): So on mobile pricing, more or less, CPI is included in the contracts. Of course, these are short-term contracts, so it would be not smart to do an increase of 10% or something like that in our run rate. But most of the mobile customers expect a price increase around October, if I am not mistaken. And that is more following inflation than the consumer household price increase we announced midyear.

You also had a question on the effects of the Ukraine war, if I am not mistaken. I did not hear that quite well.

Stephen Malcolm (Redburn): No, it was just how you think about at the moment Dutch CPIs are running double digit. It has been fine in the last few years because inflation has been very low and I guess consumers have barely noticed but I guess, as mobile customers are hit with a 10%, 11% price rise in October, it would be great for your short-term revenue but it might create some churn along the way. And just the thoughts you have on sort of honoring that CPI link in October would be interesting to hear.

And then just a question on the Wholesale mix.

Joost Farwerck (CEO, KPN): So on mobile, for us it is important to get a better view on the longer-term CPI development before we make a decision on the October price increase. So we will wait for that. The flip side of that is that we also do negotiations with unions on the CLA. There we also look at what is happening on the inflation rate and how we can help our people, but we do not do it in the run rate only. We also do one-offs for our own employees. So it is a bit also how far can you go on pricing to your customers and what do you pay your own employees of a price increase? So that balance is also what we look for.

Stephen Malcolm (Redburn): Do you think you might sort of flex that CPI, that contractual CPI link, you might offer the contracts and do not have any consequences?

Chris Figee (CFO, KPN): We have the contractual right to increase the CPI. I think customers will not complain if we do less. So, doing less is always at our own discretion. We have not made our call yet. As Joost said, we need to see what is fair, what is the inflation at that point? What is the inflation outlook and we look at our own cost and then we will weigh that in. But we have the discretion to go lower if we wanted to.

Stephen Malcolm (Redburn): Okay, great. Thanks. And on Wholesale volumes? Most of the volume growth we see is in ODF, which I guess is the sort of the existing footprint, but the new footprint does not really do ODF.. Are you seeing the Wholesale offer is going to hold back ahead of this agreement, do you think? And if it is settled, should we expect to see a more balanced growth in the ODF and in the VULA base, which I guess would help ARPU and would help revenue of then?

Chris Figee (CFO, KPN): On ODF certainly. It becomes more attractive to others to rent lines from us and ODF also prices are going down. We think the VULA-pricing brings the VULA in the same ballpark as ODF in terms of attractiveness, in terms of what your margin-making ability for third-party customers. We do not see them acting as of yet, but also the news has been out for two weeks, so it would be too early. But it is fair to assume that VULA now becomes a more attractive product to our Wholesale customers than it was before. So, to Keval's point whether we see penetration going up, yes, we see opportunities there. It could be ODF but there are also definitely opportunities in the VULA space.

Stephen Malcolm (Redburn): I guess improving a VULA/ODF-mix should help overall wholesale ARPUs, right?

Chris Figee (CFO, KPN): The VULA is an active product, so it helps the ARPU of Wholesale.

Joost Farwerck (CEO, KPN): ODF is old fiber and active broadband is more future fiber. We think that the market is moving to higher speeds. Customers start moving to 500Mbit or 1gig 2gig or 10gig, that is against a lower price point, but still a very good ARPU improvement.

Stephen Malcolm (Redburn): Great. Thank you.

Operator: The next question is from Mr. Andrew Lee, Goldman Sachs.

Andrew J. Lee (Goldman Sachs): Good afternoon. I had two questions. One was on B2B and the read across from what we have seen in SME and the second question is again on your ability to monetize your digital infrastructure and basically raise pricing.

On the B2B side, I guess we have all been slightly surprised by the degree of rebound you have seen in SME as you sorted out your tariffs and synthesized your offerings in some cases. So the question is, how much read across is there between what you have been able to achieve in SME going from declines to growth to that, that we are going to see in large corporate. I get that you are guiding on overall B2B, but can you just give us an insight into the readable from SME to what you can achieve in large corporate? And any kind of sense on the timing of when the migrations are fully complete, that would be really useful.

Secondly, I appreciate that you have inflation-linked pricing on the Wholesale and Consumer Mobile. We met with one of your peers yesterday who also highlighted that if inflation is going to be continuing for some time, then maybe there is scope to formalize price rises elsewhere across the customer base. And so I was just thinking about your B2B revenues and contracts as well as your Consumer Fixed.

Operator: Mr. Lee, your line is connected but we cannot hear you.

Joost Farwerck (CEO, KPN): I will start answering the questions. So I will start answering the questions while Andrew is reconnecting. Is the line still active, operator?

Operator: His line is still active, yes.

Joost Farwerck (CEO, KPN): Andrew, I trust you can hear us. Otherwise, you can always touch base with IR after the call.

Well, if you look at that slide, the team is presenting on your screen, and it is all about the run rate and how we run it right? That is why we were pretty confident that we can turn around the whole SME thing. If you look at what we did a year ago, 132 and moved up to 136 so, it is really that run rate step by step by step improving to 144 today. If we keep it stable, we already know that we will do much better than Q2 last year. So yes, that is how we look at things. We built an environment called KPN One and in that our customers can click themselves for work seats, for mobile, for connections and security solutions and the works out quite good. So we expect that run rate to improve in the line presented here. Probably not every quarter will be as good, but growth is in there for sure. So that is why we are so confident on SME. We do the same trick on LCE what is presented there below. We are a bit behind there, so we follow that run rate. We have now migrated 85% of the customer base to what is called KPN Complete and KPN Smart Combinations. I give just names, sorry for that. Same trick but a different approach and different solutions but more or less the same idea. And improving that run rate step by step will also lead to growth. And so that is how we do it. It is really telco running the run rate. The trend is your friend, I would say.

And then there was a question on infrastructure, which I will hand over to Chris.

Chris Figee (CFO, KPN): I think it was the question on pricing, whether we had formalized price increases a board or just have a more CPI-linked contract to all your customer or prices. I would love to have that. 75% to 80% of our business has some degree of an inflation link, very contractual or there is a reference too. So that could be there. At the same time, part of the business segment still experiences some price pressure, if you look at where is the most challenging thing in the LCE segment is look at the revenue decline. Half of it is our own migration the other half is some pricing pressure in the market. So we would love to do that. I would say that we need to be mindful of where the market is and the competitive dynamics there. But given the fact that about 75% to 80% of our business already has an inflation link, I think, to a large extent, we are already there.

Andrew J. Lee (Goldman Sachs): Thank you.

Operator: The last question is from Mr. Joshua Mills, BNP Paribas Exane.

Joshua Mills (BNP Paribas Exane): My first question is actually another one on pricing and the second was related to the CLA. So yesterday, it was very interesting, Telenet were talking about their own market research into where they see the opportunity to put prices up and where they believe there is a cliff in terms of customer acceptance. And their point was that when Net Promoter Scores are good you can sustain some price increases, but anything above 5%, you see a real drop-off in Net Promoter Scores. So I would be interested in knowing, firstly, how your own research into the customer base has played out and how that has maybe changed year-on-year? Obviously, the Net Promoter Score is getting better, but we do see some evidence that price sensitivities may be going up. Your thoughts there would be helpful.

The second question is just a bit more insight into how the CLA agreements work. I think last year, they were done in July. Is it July this year, that the CLAs will be discussed again? And is inflation an explicit part of the framework for the discussion or simply a reference point that your employees look to when negotiating wages.

Chris Figee (CFO, KPN): Just on pricing. It is an interesting piece of research by Telenet. We are pleased with the NPS development of KPN. Business has continued to go up quite attractively to a good number. Interestingly, in our side, we had a significant increase in number of calls and number of client interactions due to Viaplay. We kept our NPS high. Whether as a link between pricing and NPS, I do not know. I do not have that evidence, but it is an interesting point to make. Secondly, I think that probably customer resistance to price increases is not a static thing. It is dynamic. It depends on where you are in a cycle where they come to customers perceive what is fair and unfair pricing. But it is a fair point that Telenet is making. You need to wait till next week until for us to give a little bit more comment on what we want to do with pricing. So I hope you can bear to wait one more weekend and then you know. But the Telenet insight is not strange to us, to put it this way.

On CLA and what comes in there, our CLA is a discussion on many parts. There is, of course, the monetary compensation to employees, there is trading, there is education, there is time off, there is sabbatical, how we deal with the elderly population. So often it is the combination of various measures you do as an employer to deal with the employees. The wage increase is not the only component. It is an important component, but there are many more factors driving it. Inflation going up, it will certainly be a topic in the next discussion on the CLA. It will definitely have an upward push towards CLA next year, but it is not the only thing that counts. It has training, education, sabbaticals, dealing with elderly people, elderly workers is also an important part of this conversation. So it is not a one-on-one transition.

Joost Farwerck (CEO, KPN): Our people are highly motivated. We do a lot in CLA, but we also do a lot to support our people in one-offs. Because CLA increase of 2.7% is in the annual salaries, and then there is a 1.1% on top of that to grow in scale. But for instance, we gave all our employees € 50 per month additionally, to work from home. There is the bonus pay-out we do. So there is a lot we do for our own people, and we cannot look that much into the future. But we will see what happens. The CLA counts for the whole year, by the way, and not until mid of the year. Sometimes we negotiate the mid of the year, sometimes we wait a bit longer. I think this time, we will wait a bit longer because we want to know where this inflation ratio goes and how the economy is developing.

Joshua Mills (BNP Paribas Exane): Great. And maybe just one very quick clarification. Can you just remind us what the fixed line price increases have been over the last couple of years, this for reference.

Joost Farwerck (CEO, KPN): A bit of 2.5%.

Joshua Mills (BNP Paribas Exane): Great. Thanks!

Reinout van Ierschot (Head of IR, KPN): Thank you very much. That wraps up the Q1 call. If there are any further questions, please contact the Investor Relations team, thank you very much.

Joost Farwerck (CEO, KPN): And sorry for the interruption. It does not fit a company like KPN to switch off in the middle of the call, but sometimes it happens. Thank you.

Chris Figee (CFO, KPN): Thank you.

Operator: Ladies and gentlemen, this concludes today's presentation. Thank you for participating. You may now disconnect your line. Have a nice day.

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End of call