Event transcript

Q4 & FY 2019 Results

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Q4 & FY 2019 Results

Operator: Good day ladies and gentlemen, welcome to KPN's fourth quarter and full year 2019 earnings webcast and conference call. 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, at which time, if you'd like to ask a question, you may do so by pressing star one on your telephone. Please note that this webcast and conference call is being recorded.

I will now turn the call over to your host for today's webcast and conference call, Bisera Grubesic, Head of Investor Relations. You may begin.

Bisera Grubesic (Head of IR, KPN): Thank you Operator. Good afternoon ladies and gentlemen and welcome to KPN's fourth quarter and full year 2019 results presentation. Before turning to the core of the presentation, I would like to draw your attention to the safe harbour statement on page two of the slides, that also applies to any statement made during today's presentation.

In particular, today's presentation may include forward-looking statements, including the company's expectations with respect to its outlook and ambitions, which were also included in the press release that we published this morning. All such statements are subject to the safe harbour statement.

I would now like to hand over to our CEO, Joost Farwerck.

Joost Farwerck (CEO, KPN): Thank you Bisera and welcome to our fourth quarter and full-year results presentation. 2019 was an eventful year in which we made good progress on the execution of our 2019–2021 strategy and we have delivered on our outlook for the year. Jan Kees will elaborate on this later in the presentation. We are building future-proof infrastructure in the Netherlands. We started with a fiber rollout strategy and the modernization of our mobile network and we're moving to all-IP. Furthermore, our strategy is focused on profitable growth segments. In Consumer, 2019 marked the start of strategic actions around our brand strategy and our new, converged household proposition. In Business, we are taking strategic actions that have a short-term negative impact on revenues but at the same time, enable us to simplify and digitalize our operations. And in Wholesale, we are growing and that is due to our Wholesale Broadband Access portfolio.

We are accelerating the simplification of KPN, contributing to a sustainable increase in opex. And we are focusing on core activities, which has led to the announced divestments of four subsidiaries in 2019. The Dutch landscape remains competitive. In fixed, we've seen an increase in competitive activity, with three players now focusing on converged customers. Two of these players have their own fixed access network and one operates via a wholesale model on the network of KPN. In mobile, the market has remained competitive. In the lower end, we've seen some small steps towards more rational behaviour.

Let's move to our infrastructure strategy. We aim to connect an additional 1 million households with fiber, covering more than 40% of households by the end of 2021. We are performing a full mobile network upgrade to make sure that we have a flexible, future-proof technology which is ready for 5G. And we're moving to 100% all-IP by the end of 2021. We will do this within a stable Capex envelope of € 1.1 billion per year. And there will be a substantial shift towards increased access investments, while we spend less on, for instance, IT-related Capex.

In 2019, we started ramping up our fiber rollout. We connected 120,000 additional households to our fiber network last year. Compared to the target of 1 million households, 120,000 may not seem much but we are ramping up in a steep pace. We added 50,000 in the fourth quarter and we are currently active in more than 70 new projects and we are in talks with the vast majority of Dutch municipalities to obtain permits.

Last year we announced to deploy the latest PON network architecture and also we announced a 1 gig[abit] proposition, as of March 2020, available on fiber. And this gigabit proposition contains a guaranteed minimum access speed, which is completely different to cable infrastructure and this makes our offer very competitive in the Netherlands.

We have nearly finalized our fiber-to-the-cabinet rollout in 2019 by upgrading almost 400,000 additional households with VDSL. This will enable improved access speeds for our customers as well.

Fiber is the future-proof fixed network technology. Obviously, we need to make a good return on our investments and this is underpinned by improved metrics on fiber when Consumer customers join our fiber network. Customers are happier and the NPS is higher on fiber. Fiber customers generally have more products in their households, such as IPTV, video-on-demand services, which drives higher ARPU. And we also see more customers taking a combination of fixed and mobile services on fiber. And because the experience is better, customers are more loyal, resulting in lower churn. And these improved metrics are also visible in our fiber net-adds. We added 14,000 broadband customers on our fiber network in Q4 and all this makes fiber important for the future and an important part of our targeted household strategy in Consumer.

We have started the modernization of our mobile network in September last year and we upgraded 640 sites, which is 13% of our mobile network. The network modernization enables us to run capacity in a far more efficient way, to dynamically manage and allocate spectrum, and it makes our network 5G ready. Download speed is improving, with over 30% on modernized sites and this enables us to deliver an even better mobile experience to our customers.

The Dutch government released a consultation document on the upcoming multi-band auction. 700, 1400 and 2[100]Mhz bands will be auctioned in the coming quarter, Q2 and this auction is expected to be finalized by the end of June this year.

The Consumer Association recognized us, again, as best mobile provider in the Netherlands and we consider this to be an important metric and we have to make sure that we keep that reward.

We are making strong progress with our ambition to have all our customers on all-IP by the end of 2021 and we announced the end of PSTN and ISDN 1 and 2 services in 2020 and all remaining ISDN services in 2021. Currently, only 175,000 lines are left in our legacy portfolio, just one quarter of what we had at the beginning of the year. And by migrating our customers to this future-proof, all-IP portfolio, we can simplify our propositions on our network architecture, and we are able to shut down a lot of legacy.

Let's now move to the Consumer segment. We run a targeted-household approach, with clear focus on delivering value. And to summarise, we want to offer the best household access and customer experience. We aim to grow our converged base, both in the number of converged households and in SIMs. And we aim to deliver sustainable value through our continued focus on the high-value KPN brand and by lowering our cost-to-serve.

We've made solid progress last year, adding 59,000 converged households. Half of our broadband base now is converged. Converged households were slightly negative in the fourth quarter. Since we no longer accommodate the lower end of the broadband market, we see fewer additions here negatively impacting our base. Our lowest broadband price now is € 42.50, compared to € 35 previously.

We are confident our strategic actions and 1 million additional fiber households will drive further growth in convergence. We added 189,000 converged SIMs in 2019, 63% penetration of our postpaid base and for the high-value KPN brand, this is already 73%.

Our convergence strategy is based on three key developments. First, focusing on the strong KPN brand will allow us to strengthen household relationships, drive simplification and make it easier to innovate. We announced our brand strategy in early 2019. We closed all Telfort shops and started with the migration of Telfort customers last May. We also made preparations for the technical migration of our XS4ALL customers to the new platform.

Second, we're moving from a product portfolio targeting individuals to a converged product portfolio, targeting households. We launched our KPN Hussel proposition in October last year and this is a proposition designed to grow the converged customer base and increase product penetration.

And thirdly, we are moving from a complex customer journey to a simplified ecosystem and these strategic actions and our accelerated fiber rollout are aimed at taking the next steps in convergence.

Our strategic actions are reflected in our KPI trends. In the quarter, we saw an increase in fixed ARPU of 5.2%, year-on-year, driven by the price increase introduced in June 2019, a higher inflow ARPU as a consequence of integrating the Telfort brand and a continued declining base of fixed voice and DVB-T customers, who have a below average ARPU.

Broadband net adds turned negative in Q2, as we have stopped acquisition on the Telfort brand as of May last year. In the fourth quarter we saw a decrease of 16,000 broadband customers and we aim to turn this trend around this year.

In mobile, postpaid ARPU was around €17. This compared to around €18 in 2018. This is a decline of 6.9% year-on-year, which is partly related to customers that are renewing their subscription. We only have a small base left on these older propositions today.

Our focus on the high-value KPN brand resulted in 28,000 postpaid net adds for the KPN brand in Q4 and 80,000 for the full year. Our brand strategy and ongoing competition continued to impact our total postpaid customer base, showing a decline of 14,000 customers in the fourth quarter.

Let me briefly touch upon our total market position in the broadband market in the Netherlands. While we saw a declining broadband base in Consumer, we saw a solid performance of our Wholesale segment and this contributes to a strong and stable broadband network share in the Netherlands of around 52%. We are investing heavily in our fixed infrastructure and all of our customers are benefiting from those investments.

Let's now move to the Business segment. Let's summarise our strategic priorities in Business. Our target in Business is clear: stabilizing end-to-end adjusted EBITDA after leases this year. And we focus on three strategic pillars: we are accelerating the migration of SME and LE customers to the target portfolio and we expect this to be completed this year. We have a clear value-over-volume approach in LE & Corporate, focusing on customer retention, while increasing the share of wallet and we are building a lean and digital operation by simplifying our IT infrastructure and by focusing on core activities.

So, in Business, we are transforming the back and front-end of our organization. Our go-to-market strategy in Business is based on three client segments: small business, SME and LE and corporate customers. And for each of these segments, we've introduced a simple target portfolio, offering standardized building blocks to remove complexity and improve efficiency. Moving customers to a future-proof target portfolio, like KPN EEN – KPN One – will improve NPS significantly, reduce churn and lower the cost-to-serve.

We made strong progress in the operational transformation of our Business segment in 2019. At the end of the fourth quarter, we had migrated 74% of our SME base and 53% of our LE base away from legacy services. We took low-margin business out and we only pursue lower-margin revenues, such as hardware and licences, when it's combined with a solid service contract for KPN. We also introduced a data-driven pricing model in 2019, allowing us to maximize the value per order and improve profitability in B2B.

On the cost side, we are seeing benefits from our strategic actions through simpler operations. We already realized 25% lower cost-to-serve for KPN One and this is – well, our plan was to reach this target by the end of next year.

In the year where we accelerated migrations, adjusted business revenues declined 3.7% in the fourth quarter and 4.4% for the full year. The impact of strategic actions is also visible in the organic revenue trend shown on this slide.

Proactive migrations to our target portfolio caused an accelerated decline in fixed voice services and we continue to see a highly competitive mobile market in the B2B space. On the other hand, we saw solid growth in IT Services, mainly driven by security services, our workspace services and we saw growth in Professional Services.

In Consumer, Net Promoter Score of 19 was at an all-time high record for the second quarter in a row and remains best-in-class. Our continued focus on customer experience is recognized by our customers. And this is supported by the high degree of converged households. We saw an NPS of –4 in the fourth quarter in Business. Customer migrations are negatively impacting NPS in the short term, as it might lead to a small disruption of their activities. We do not see this reflected in higher churn, but we are committed to improve NPS through various actions for these customers. We have received various awards from customers and various institutions throughout the year. For example, we won the number one Reputation Award from the Reputation Institute and we have been recognized as the strongest Dutch brand and we've received several awards, in the B2B domain.

Technology supports the simplification of our company. We will move from 20 separate IT stacks to two converged IT stacks, one for Consumer and one for B2B. We will integrate our core networks and we are simplifying processes throughout the entire organization to enable a faster time-to-market. We are also simplifying propositions like we did with KPN Hussel and KPN One. This will contribute to the €350 million of net indirect opex savings until the end of 2021.

Last year, we achieved € 141 million of opex savings, of which € 38 million was in the fourth quarter. Underlying this strong performance are many actions that we have taken, such as the move to a leaner digital operating model in B2B. We are transforming to a simpler organization, with an agile operating model. This allows faster time-to-market and enhances efficiencies. Through this digital transformation and brand and portfolio rationalization, we need fewer personnel to deliver the same, or even better services. And in addition to this, we are consolidating IT systems and optimizing platforms, like our TV platform. Our new mobile network equipment and IT systems are also more energy efficiency, allowing us to contain energy costs, while data usage is increasing.

We do our business in a sustainable manner. We facilitate secure, future-proof infrastructure. And for instance, KPN Security won a tender to offer its services to more than 330 municipalities. With respect to social and digital inclusion, we stimulate diversity and social inclusion and we also make efforts to avoid social exclusion, as a result of digital transformation. And finally, we have the ambition of becoming close to 100% circular in our operations by 2025 by using fewer materials, enhanced product lifespans and take measures to reduce our waste production to zero. Our efforts are recognized by various external benchmarks. We are on the A list of CDP and we rank second in the Global Dow Jones Sustainability Index.

Now let me hand over to Jan Kees to take you through the financials.

Jan Kees de Jager (CFO, KPN): Thank you Joost and good afternoon everyone. As Joost mentioned, we delivered on all financial guidance aspects in 2019. Adjusted revenues decreased by 2.7% year-on-year. Our revenue performance reflects ongoing competition but also negative short-term impact from strategic actions across the segments. The effect of lower revenues was fully offset by lower direct and indirect opex, resulting in a 1.2% growth of adjusted EBITDA after leases in 2019. Our Capex was stable, at € 1.1 billion and we realized free cash flow [of € 726 million]. We intend to pay a progressive dividend per share of € 12.5 cents over 2019.

Let's now look at our financial performance in more detail. First of all, let me state that the figures shown in this table are not corrected for the impact of divestments in 2019, being NLDC - the divested data centres - International Network Services and Argeweb. Please note that in this case, in the case of NLDC and International Network Services, we will continue to service customers. As a result, post closing of these transactions, we will insource the relevant services from the new owner. This will generate revenues and lead to an increase in cost of goods sold on the one hand but will lower indirect opex on the other hand.

These three closed divestments have an impact on Q4 and full-year 2018 comparable figures: a negative impact of €2 million on adjusted revenue; a negative impact of €6 million on adjusted EBITDA after leases and a negative impact of €4 million on free cash flow.

These historical figures can be found on the last page of the press release and in the appendix of the presentation.

Then I would like to highlight that net profit of € 640 million for the full-year 2019 includes book profits of the three closed divestments, a € 48 million positive DTA revaluation but also € 95 million finance expenses related to the bond tender that we did. And 2018 included a € 110 million negative DTA revaluation. Excluding these one-off effects, net profit would have increased by € 35 million, or 8.8% for the full year.

That said, let's look more closely at our revenues. In Q4, our adjusted revenues declined 3%. In Consumer, the decline was driven by lower mobile service revenues and lower not-bundled fixed revenues. Mobile service revenues declined 7.9% year-on-year, mainly driven by lower postpaid ARPU and lower mobile customer base.

Fixed revenues declined 0.9% year-on-year, driven by lower revenues from legacy services. Business revenues were considerably impacted by our strategic actions and by ongoing competition in mobile in particular.

In Wholesale, the year-on-year decline in Q4 was fully driven by € 12 million negative impact from the sale of NLDC, our divested data centres. On a full-year basis, adjusted revenues decreased by 2.7%, year-on-year. As I mentioned before, our revenue performance reflects ongoing competition but also negative short-term impact from strategic actions across the segments.

In Q4, adjusted EBITDA after leases declined 1.6%. The effect of intra-year phasing of opex, lower revenues and €6 million negative impact from divestments were partly offset by indirect opex savings of €38 million. Indirect opex savings were mainly the result of lower personnel expenses and IT/TI savings, as Joost just explained. Other operating expenses were lower, mainly due to lower lease-related expenses.

For the full year, we recorded slight growth of adjusted EBITDA after leases, as the effect of lower revenues was fully offset by savings from our strong and disciplined cost control.

Now let's get a look at our main cash flow metrics. In Q4, free cash flow was € 64 million higher, year-on-year. This was driven by significant positive impact from change in working capital, lower Capex and lower interest paid, partly offset by higher change in provisions, less cash taxes received and € 4 million negative impact from divestments.

On a full-year basis, we delivered free cash flow of € 726 million, which was 8.6% lower than last year. The main drivers of 2019 free cash flow are: change in provisions of € 51 million, this includes € 133 million restructuring cash out for the full year, and an incidental of € 20 million related to a release of revenue-related provisions in Q3. Other movements, of € 340 million, includes € 201 million book gains of NLDC, International Network Services and Argeweb.

The negative impact from changing working capital was benign in 2019, at € 9 million. Every year we see intra-year phasing of working capital. Some payments are typically paid in the first half of the year, whilst our collections tend to be, typically, higher in the second half of the year. On top of that, the effect of increased instalments paid to fiber contractors seen earlier last year was largely offset by enhanced working capital management.

Let me now briefly repeat three effects that impacted our working capital throughout the year, and which are expected to have an impact in 2020 as well. First, intra-year phasing of Capex, higher Capex in the fourth quarter leads to additional payments in the first quarter, in the year thereafter. Second, continued opex reductions result in lower opex, which in turn leads to lower end-of-year accounts payable position. And third, our accelerated fiber rollout strategy. Due to long lead times, we pay upfront installments to our contractors. For example, in IT or software, we only pay after the delivery of the product, while in the case of fiber rollout, a significant amount of the rollout cost is paid before the project is finished. This leads to lower average payment terms and as a result impacts the working capital position negatively. This effect will continue to exist and, compared to 2019 accelerate, as we are ramping up our fiber rollout in 2020. However, we believe that this is value-accretive for KPN, as we are building a future-proof network at an accelerated pace and the commercial and cost benefits of fiber are becoming even more apparent. Also, as the velocity of the rollout becomes stable, the negative effect will disappear and at some point in time, even bounce back in a positive free cash flow effect.

To just emphasise the difference in working capital movement for fiber rollout and normal Capex, let me give you the payment details of normal Capex versus fiber production. In the case of normal Capex, we typically see, on average, that we pay two months after the production and the delivery, which is roughly the same as the moment that we account for the Capex moment: two months, on average, after the production and delivery.

At fiber, it's completely different. We already pay 30% of the fiber spend ten months before the production and delivery, then another 30%, typically, is paid five months before the production delivery moment. Then another 30% at the moment of production delivery, which is normally also the moment, roughly the same, as the moment that we account for Capex. And then only 10%, typically, is paid two months after the production delivery moment.

On average, that means that with fiber production, we have a negative payment term of four months, so the average payment of one year of fiber rollout is minus four months and other Capex is plus two months, so a difference of six months in earlier cash out compared, on average, to the Capex moment.

With a stable production, like in past years, there is no year-on-year delta in working capital but when scaling up, production will hit delta working capital. Before the scale up in production, an increase in [working] capital is visible and the epicentre of that is the year 2020. But, again, this is a temporary effect and especially geared towards this year, the coming year, 2020.

So, let's move to our financial position. As of 31st December 2019, net debt amounted to € 5.1 billion, € 158 million lower compared to the end of Q3. The movement in net debt was mainly driven by free cash flow generation during the quarter and proceeds from the sale of International Network Services and Argeweb. This was partly offset by additional finance expenses related to the bond tender.

Our financial position remains solid, with a net-debt-to-EBITDA ratio of 2.2 times at the end of Q4 2019. This includes equity credit on the hybrid bonds, representing 0.2 times net debt to EBITDA. In Q4, the average coupon on senior bonds was 3.2%, 60 basis points lower, year-on-year.

We've been quite active on the debt refinancing front in 2019. This will lead to around € 67 million lower cash interest payments as of 2020. Before I turn back to Joost for the outlook, I would like to take this opportunity to say a few words on my departure. As you all know, after 5.5 years, I will hand over my role as CFO of KPN to Chris Figee next week.

I'm very pleased that Chris is on board. He brings in a wealth of experience in finance, strategy and financial markets and I'm confident that he will contribute positively to the further execution of KPN's strategy and cost management performance.

I am proud to have been part of building a more sustainable future for the company and I'm confident that KPN is very well positioned to execute on its strategic initiatives. And although I will pursue new, international, entrepreneurial opportunities, I'm committed to ensure a seamless transition and I would like to thank both the board, my team and everyone involved in KPN for their support during my tenure with KPN.

Let me now turn over to Joost again for the outlook.

Joost Farwerck (CEO, KPN): Thank you Jan Kees. Our outlook is based on a comparable basis, corrected for divestments, as mentioned by Jan Kees.

For 2020, we expect adjusted EBITDA after leases to be stable to slightly growing, compared to 2019. The cost savings measures are expected to contribute to EBITDA growth, which is in line with our ambition to deliver organic growth.

We expect stable Capex of € 1.1 billion in 2020, with a change in the mix towards more access investments. We expect to grow free cash flow this year, with at least a mid-single digit percentage compared to 2019, supporting the mid-single digit CAGR for free cash flow over the years 2019–2021, as presented in our Capital Markets Day.

The main drivers of free cash flow growth in 2020 were mentioned by Jan Kees: stable to slightly growing EBITDA, lower cash interest rate, limited taxes paid and a negative working capital, impacted by the ramp up of the fiber rollout this year.

Finally, we intend to grow the regular dividend over 2020 to € 13 cents per share, reflecting our confidence in our strategy.

So, now let me briefly wrap up today's presentation. In 2019, we kicked off the execution of our strategy and we delivered on our financial guidance, expected. We started our fiber rollout strategy, with 120,000 additional households. We aim to accelerate this further this year, to reach our ambition of €1 million by the end of 2021. In Consumer, we are executing on our brand strategy and we are committed to grow our converged customer base. In Business, our strategic actions enable us to simplify our operations, leading to stabilization of adjusted EBITDA after leases this year. In Wholesale, we are growing our Wholesale Broadband Access portfolio, contributing to a strong network share and the simplification of our company is taking shape and we are delivering significant cost savings. We are well on track to deliver on our € 350 million savings target. And we are committed to execute and deliver on our strategy again in 2020.

Now, on a final note, before I go to the Q&A, I would like to take the opportunity to thank Jan Kees for five years of leadership and his contribution to KPN. Thanks very much. I wish you, Jan Kees, every success with your future steps and now let's turn to your questions.

Bisera Grubesic (Head of IR, KPN): Ladies and gentlemen, we are ready to start with the Q&A. Could you please limit your questions to two each and in case there is time left, you can always ask a question later in the Q&A session. Operator, you can start the Q&A.

Questions and Answers

Operator: Thank you. 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 star one on your telephone. To ask a question, please press star one on your telephone. Go ahead, please.

The first question is from Mr Keval Khiroya, Deutsche Bank. Your line is open. Please go ahead, sir.

Q - Keval Khiroya (Deutsche Bank): Thank you. I've got two questions: one on Consumer mobile and one on opex. I know you don't give specific guidance on Consumer mobile but for 2019 you, quite helpfully, gave guidance of ARPUs being flat, sequentially. When we look to 2020, do you think these ARPU levels could be maintained or do you expect another step down, on a year-on-year basis?

And then secondly, moving to opex, you obviously had a strong reduction in 2019 above that implied from the annual run rate from your € 350 million guidance. Should we expect a similar rate of reduction in 2020, or are there any other reasons why the rate of opex reduction should be lower? Thank you.

A - Joost Farwerck (CEO, KPN): Yeah, thank you. First, on Consumer mobile, we showed you the difference between 2018 and 2019 on service revenue and ARPU, from € 18 to € 17. Having said that, we also stressed out that we see less customers in the former portfolio and almost all our customers are in the new environment, on the € 17 ARPU. And we also see, now a couple of quarters in a row that we are around this € 17, so for me, personally, it's very important that we stick the ARPU around € 17 in the coming quarters, so that's an important challenge.

On opex, indeed, a strong opex reduction last year of € 141 million, also a good step down in Q4, although we did some more on the direct opex side in Q4, which is more a phasing than anything else. And of course, you know KPN, I am fully focused on accelerating the cost reduction this year and we did good last year, so we will continue to do that also in the coming year.

Keval Khiroya (Deutsche Bank): That's clear, thank you.

Operator: The next question is from Mr Polo Tang, UBS. Your line is open, please go ahead, sir.

Q - Polo Tang (UBS): Thank you. First of all, just to Jan Kees, I'd like to say best wishes for the future and then, following that, [I] have two questions. The first one is really just about free cash flow for this year. Can you give more colour on the level of working capital drag and also give at least some indication of the quantum of restructuring charges for 2020? And can you clarify if both these factors are going to, basically, completely unwind, which is why you're reiterating your mid-single digit CAGR and free cash flow through to 2021?

And then the second question is really tied to Consumer. Can you maybe just talk about the competitive dynamics in terms of the promotional activity that you've seen from T-Mobile in Q4, has this continued into Q1 and how optimistic are you that trends in Consumer can improve, given that you're lapping this repricing of legacy tariffs? Thank you.

A - Jan Kees de Jager (CFO, KPN): Yeah, I will start off with your first question. First of all, free cash flow related to restructuring charges and then working capital. Restructuring charges, albeit a bit more elevated than normally, still, in 2020, we expect restructuring charges a bit less impact than in 2019. However, still a bit more elevated because we are, well, very good on our way on indirect opex savings, so we also will continue that. But the main driver, the difference – the main driver in 2020, which we are working on, obviously, also, is the fiber rollout, which is a good thing and it's a temporary thing but just keep in mind that's why I also explained the six-month difference, on average, in payment terms with normal Capex compared to fiber Capex. And although our Capex envelope of € 1.1 [billion] remains stable, the shift within the Capex envelope is really substantial, a really substantial shift. Just to remind you, we expect, roughly, this year, probably, to roll out three times more fiber than last year, so that's very significant. Six months difference on that part of the Capex envelope in payment terms, compared to other Capex: still significant. This is still, we have reiterated – although this effect, the ambition of the mid-single-digit free cash flow CAGR for the three years, because it means that underlying free cash flow performance actually will do better than that, of course, because there's still that working capital influence and also we are working in 2020, as we did in 2019, on enhancements in our working capital management to partly offset the effect of the fiber. But because we – the year has just begun, we are talking with suppliers also on this, on how to do it and of course, it has to be value-accretive for the company as a whole. We have still, at this moment – we have to be a bit prudent on that. But, again, it's a temporary effect. When the ramp up, the velocity, is stabilizing, the delta in working capital as a result of the fiber rollout is not there anymore and at some point in time in the future – of course, we expect, for many years to roll out fiber but at some point in time, we – well, we will be phasing the roll-out, also, out, then of course that effect, also, will be bouncing back. So it remains a temporary decision. But still, it's very value accretive, so that's why we do it and yes, we do also want to have a bit more room to manoeuvre if we can roll out fiber because the business case of fiber is extremely value-accretive for the company, so that's why we need this room in 2020.

That's the colour on the working capital that I can give you.

Q - Polo Tang (UBS): Yeah, so in terms of quantum, are we talking about a number of more than € 100 million, in terms of delta, in terms of working capital drag for 2020?

A - Jan Kees de Jager (CFO, KPN): I – that – I cannot say that. Of course, that – I think you should not over-exaggerate, also. So I'm explaining the numbers. I also said, very clearly, that we are working on working capital enhancements, so that number is, I think – again, I'm not pointing out a particular number but don't over-exaggerate with that kind of three-digit numbers but it is there, it is significant and the effect will be higher than in 2019. But still, we expect free cash flow to be significantly growing, also, in 2020. Keep that also in mind, even with this effect in place.

A - Joost Farwerck (CEO, KPN): Yeah and maybe adding to that, allow me to repeat what I just said during my presentation and to underline Jan Kees' explanation on free cash flow. I'm very confident in our business performance and our strategy to deliver on our Capital Markets Day’s ambitions and as we also confirmed today, the business drivers that we see are supportive to reach our ambitions. We have an ambitious fiber rollout plan, we are full speed to ramp up. This year is a very important year to reach the 1 million households and I'm confident that we will get to that level, end of 2021. It's a massive operation but it's the right thing to do and it's adding value to KPN in the longer term.

And Polo, on your other question, referring to competitive behaviour in the Dutch markets. Of course, we follow that very carefully. There's a couple of things to say from my point of view. First of all, we do not follow the lowest prices in the markets. Second, we introduced a new, converged proposition for the whole market and for our base, called KPN Hussel, only launched in October and we are sure that we are going to benefit from that. We are going to add all kinds of functionalities to KPN Hussel. Also, we lost customers on the Consumer side, 17,000, if I'm not mistaken last quarter but we added 24,000 on the Wholesale side, so we see an improvement of the network penetration in KPN's network in the Netherlands, 52% penetration.

So, all in all, it's also that we steer on value and not the volumes but of course we have a strategy to stabilize our Consumer base and that's based on fiber, Hussel and a couple of other actions we will introduce in the coming period.

Polo Tang (UBS): Thank you.

Operator: The next question is from Joshua Mills, Exane BNP. Your line is open, please go ahead, sir.

Q - Joshua Mills (Exane BNP Paribas): Thank you, team. Two questions from me and the first one, I just want to come back on the working capital point. So, I understand what you're saying about the moving parts, but could we assume that 2020 is going to be the peak negative impact for working capital in absolute terms? Because, going back to your comments around rolling out three times more fiber to the home this year, that still leaves you with 500,000-odd lines to deploy in 2021, so more than this year and potentially more thereafter, if you look at the alternative fiber operators coming into the market as well. I just wanted to get a sense as to whether this negative, call it, € 50–100 million of working capital should go up or down in 2021 versus 2020.

And then the second question, I know it's early days but on KPN Hussel. Could you give us any data points around what the incoming ARPU for customers on that product is and how it compares to your back book? Thank you very much.

A - Jan Kees de Jager (CFO, KPN): Yes, on your first point, indeed 2020 will be at the epicentre of working capital movement for two reasons. First of all, you have to look at the delta of the rollout, so coming from the number of 2019 to 2020, that's roughly, as I said, three times more, which is a bigger delta than we expect for 2021, compared to 2020. So the delta in 2020 will be higher. And a second reason is the first payment, as I said and as I indicated, is already ten months, roughly, before you have actually captured the Capex moment. So even some of the rollout that will be finished in 2021 is already, in part, captured in cash in 2020 as well. So that's why, for two reasons, 2020 will be at the epicentre. Again, I'm not guiding for a three-digit negative number for our [working] capital, don't over-exaggerate but it is significant, much, much more than in – obviously than in 2019, where we actually have been quite successful in managing working capital on the fiber, because we already saw that effect as well and we have partly mitigated that effect. We will also work, in 2020, on partly mitigating that but, as we just start the year, we have to talk also to suppliers on that, so that's why we have been prudent in our indication for both 2020 but, at the same moment, we fully underline and reiterate our ambition for the three-year CAGR, including this effect.

In 2021, there will be still some effect, also, on working capital but, even with that effect, in 2021, again, we reiterate our three-year CAGR ambition on free cash flow. So the underlying performance on free cash flow will even be better than that. But, for sure, if you compare 2020 to 2021, we expect the effect to be lower in 2021. That's also why we have full confidence in the numbers that we give you on 2021, or reiterating the ambition for 2021.

A - Joost Farwerck (CEO, KPN): Yeah and perhaps adding to that, Jan Kees mentioned three times the production on fiber this year compared to last year. That means that we have to do, like, 0.5 million in 2021 to get to the 1 million and that means that we start building next year, 2021, this year, to deliver 0.5 million in one year means that we build this year, so that's adding to the working capital question.

You also asked for Hussel. It's very early to mention anything on Hussel because we were operating six weeks last year on Hussel but I can say that, due to the inflow on only KPN [brand] and on converged services, we see an ARPU improvement. We stopped Telfort, which is the lower priced base. We migrated, last weekend, mobile customers to the KPN environment, so Telfort customers to the KPN environment and we will, in batches, migrate the broadband base to KPN as well. And we expect an ARPU improvement by our strategy, supported by Hussel because it facilitates our customers to optimise their package and expand on certain items. But it's a little bit early to already mention how good we are improving on ARPU via Hussel, so we'll do that later in the year.

Joshua Mills (Exane BNP Paribas): Many thanks.

Operator: The next question is from Ms Nawar Cristini, Morgan Stanley. Your line is open, please go ahead.

Q - Nawar Cristini (Morgan Stanley): Thank you very much. I have three questions. So, firstly, the 2020 outlook is for stable to slight EBITDA growth, despite a significant cost saving effort and other targets. Could you walk us through the different moving parts in here to better understand why we shouldn't expect the cost savings to drive stronger EBITDA growth? And related to that, there is no room in your guidance, of course but it would be interesting to talk about how the top line has been trailing, versus your initial expectations at the time of the announcement of the three-year ambition. And lastly leverage has come down at the Q4 we were at 2.2 times EBITDA, which is below your guidance of below 2.5 times. Could you elaborate a little bit on this, it would be interesting to understand how you think about capital allocation beyond the upcoming spectrum auction.

A - Jan Kees de Jager (CFO, KPN): Okay. I will start with the first and do the third and Joost will also pick up on the first question as well and do the second question.

So on EBITDA, we have different moving parts. First of all, we see, of course, underlying solid growth, as we also indicate for the three year as well. We actually – in 2021, cash flow really will be driven by organic EBITDA growth, as explained on the Capital Markets Day. But 2020 will be also the year that we finalize a lot of migrations, for example, in Business market.

There is also in the presentation, you see a sheet that we are actually now at the – in the year of completion of some of those very important legacy migrations to new product portfolio in Business market, which means that we still have some headwinds during the course of this year picking up in the second half of the year to improve. That's also why we can reiterate end-to-end EBITDA inflection for B2B during the course of this year.

But still the full year 2020 will be partly also be affected by that, although underlying performance will be very solid, but still we have, for example, because of some migrations, we will have still some headwinds there. And picking up, especially from the second part, the headwinds will be lower and lower as we are phasing out much of the legacy portfolio. And then we are on the product – the target portfolio. Actually then, we see many up-sell and cross-sell opportunities do materialize.

Then on the financial framework. Yes, we are at 2.2 times which is actually in line with our guidance of below 2.5. But also at the same time, we do have the spectrum auction later this year. We expect a benign – rather benign auction result compared to – especially to other auctions in the past in the Netherlands. But also here we want to remain some flexibility – to have some flexibility and also wait for the outcome of the spectrum auction.

So 2.2 times is a very solid – actually very solid in your financial framework, but it's also given the inflection year as well as the spectrum auction, it's good that we have some solidity there as well.

A - Joost Farwerck (CEO, KPN): Yeah. And on the top line development, let me give you some important insights there as well. First of all, we expect top line to stabilize on the mid-term, so not this year, but that's where we're working for.

On some items, we already see growth by the way. Let me first take Consumer markets. There, we still saw this year pressure on the mobile service revenues year-on-year, and it's our task to stabilize there, like we do on our broadband business. The main pressure on our revenue is still in B2B. B2B is, in fact, like I said, in my presentation, not one part of the business, but it's three segments. It's a small business, it's SME and LE & Corporate.

And there we push down the top line by migrating the customers to the new environment. So it is a struggle with ourselves, to put it that way, that we migrate customers from legacy to the lower priced future-proof portfolio, and then we can see the revenue grow again. And in SME, that's the most important segment in B2B, we migrated 74% last year. And we are fully convinced that in the coming quarters we will migrate the rest of SME, and then they're in the new portfolio. And then I'm convinced SME will grow.

Same for LE, we will migrate LE this year completely to the new portfolio. And I'm convinced that next year we can see a stabilization in LE. Important to say that in Corporate we only focus on the value. It's – what I mean there is that we only want to make deals when the volumes, the revenue add real margin. And that's why we took a hit on Corporate over the last 18 months and I'm convinced that we will create value in a prudent way on Corporate in the future.

And then there is a Wholesale segment, which is growing a little bit negatively, impacted by the sale of non-core data centres in the fourth quarter. But if you look through that then there's important growth in the Wholesale as well. So it's a couple of segments, and in those segments, product portfolio will help us stabilizing the top line and then grow again, then to take still some time to do that.

Nawar Cristini (Morgan Stanley): That's helpful. Thank you very much.

Operator: The next question is from Mr Fred Boulan, Bank of America Merrill Lynch. Your line is open. Please go ahead, sir.

Q - Frederic Boulan (Bank of America Merrill Lynch): Hi, good afternoon. Two questions, please. So first of all, you reiterated the targets around EBITDA stabilization in Business in Enterprise in 2020. So considering the current trends we're seeing at the revenue level, could you tell us a bit more in terms of drivers? I mean, you just spent some time around the recovery at the revenue level, but if we could get a bit more elements around what drive that and when you expect this? And then to come back on the free cash flow point. So if I look at the moving parts for 2020, so you say you're going to save above € 65 million interest rates of – of interest savings. If I look at your three-year CAGR, this implies a very significant pickup in 2021. Just broadly speaking about € 160, € 170 million more free cash flow in 2021. So just trying to understand what could drive that? I can see that you will have less working cap[ital] as this normalizes, but it still needs a very, very strong step. So if you could help us understand what's going to drive that? And here I'm just assuming 5% as a mid-single digit full year guidance. Thank you.

A - Joost Farwerck (CEO, KPN): Yeah. So first on the EBITDA. Last year, for the first time since a very long time, we saw EBITDA consolidated for KPN growing more than 1%. So that's a very important signal. And we also saw that we are good at reducing costs. We have this program in place and we will continue to cut cost in KPN for the coming years as well.

So following the trend, like you do in telco, one could say why not grow further on EBITDA this year and that's what we aim for. We also touch base on the competitiveness in the market. I'm not sure what our competition is going to do but we need some commercial room to manoeuvre in that arena from a marketing point of view.

So that's why we were a little bit prudent on our EBITDA guidance. We said stable to slight growth, but that's behind that. But if you look at 2019, I was pleased with the growth in EBITDA we realized for a very long time.

A - Jan Kees De Jager (CFO, KPN): And we started the [adjusted EBITDA AL] guidance in 2019 with 'in line with', so if we start now even a bit better as to the guidance.

So on free cash flow, yeah, we – our guidance, our outlook for 2020 is at least mid-single-digit compared to comparable basis of 2019. So we did not say 5%. Perhaps, could – of course, if you say at least, it could also be higher, if you say at least. But not only that. We're very confident on our three-year mid-single digit CAGR compared to 2018 – comparable basis of 2018.

Yes, working capital is large part of that. Also the – of course, the interest as well. And most importantly, organic growth in EBITDA, which is still picking up also in 2020, but 2021, if you look at our long-term ambition on the three-year mid-single digit CAGR, it should also be driving, really fuelling free cash flow growth as well.

So we are very confident on that. I hear you saying that you model for 5% for this year, but I just want to point out that our outlook is at least mid-single digit. Well, we did not say 10%, no. But we also did not say 5%. So we did say at least mid-single digit. And we also want to have some room to manoeuvre, especially on the fiber payments and the fiber ramping up this year.

And it will be really 2020 if we are able to really ramp up as we now foresee, then the impact will be much geared towards 2020. And will be extremely more benign in 2021, which together with all the other drivers, will help free cash flow growth in 2021, of course, very significantly.

So that's why we can be very confident on that. But still on 2020, also there as on EBITDA, we wanted to have a bit more prudence in our guidance so that we are not fixed with our backs to the wall if we want to make business decisions, for example, on accelerating fiber roll-out, which is not Capex in this year but could be cash out this year already.

A - Joost Farwerck (CEO, KPN): Yeah. And like I already said, to stress that again, I understand the questions on free cash flow. We gave a clear guidance on Capex. We are clear on stable to slightly growing EBITDA. There is a lot of backwind coming from [interest] optimization. So it's really about what is this working capital going to do related to fiber rollout. But I'm very confident in our business performance and our strategy to deliver on our free cash flow ambitions, as we stressed out today and we presented on our Capital Markets Day.

Frederic Boulan (Bank of America Merrill Lynch): Okay. Thank you very much.

Operator: The next question is from Mr Michael Bishop, Goldman Sachs. Your line is open. Please go ahead, sir.

Q - Michael Bishop (Goldman Sachs): Yes, thanks. Two questions please. Firstly, on Capex. You've really focused on the call about ramping up the fiber Capex and stepping away from the working capital debate and just thinking about when you actually book the Capex. How can you still be confident that you'll maintain around € 1.1 billion in 2021, given all the commentary? Could you just remind us essentially what is going to fall out of the Capex budget to allow for that booking of the extra fiber Capex and the big step-up? And then the second question is just around the Capital Markets Day guidance of adding 300,000 converged new households. Given they went slightly negative in terms of net adds in the fourth quarter, could you just update us on what actions you think can drive that 300[,000] number, or is that looking a bit ambitious now? Thanks very much.

A - Joost Farwerck (CEO, KPN): Yeah. Thank you for your questions. On Capex, we do € 1.1 billion per year in the Netherlands, which is still a very high Capex compared to our revenue. And we are clearly shifting from investments in IT projects to assets – access assets in our network, mainly fiber.

Over the last year, we built two important systems, new BSS and new OSS, to simplify our organization, our product portfolio and we really benefited from that. The former cost reduction program was heavily supported by these huge IT programs. And we are finalizing the most important one this year.

And that Capex that we invest every year in these huge IT programs will be shifted to fiber. So that's the most important switch. And we stopped doing a lot of non-value revenue in B2B, related to a lot of hardware we deliver to our customers. So we will do less on hardware, which is also reflected in Capex.

A - Jan Kees De Jager (CFO, KPN): Yeah, and to add on that, as we are completing, as Joost said, the simplification program, not only IT Capex in itself will be lower, but we also see the simplification, which is, for a big part also Capex. The simplification program is also now in – like a – or not completely phasing out, but at a much more benign basis than we have seen in the last few years. So it's simplification Capex, IT Capex, some customer-related Capex as well, both in B2B as in B2C because we're also more efficient in-home Capex as well.

And a third element, just to remind that big part of the fiber-related cash out will be Capex next year, but Capex of a cash out already this year. Because of this, the payment terms that I just explained, you take the Capex at the moment – roughly around the moment of production delivery but many of the – a lot of the fiber rollout then already is being paid. So that's why this effect is very significant, and that's why we also see that even at € 1.1 billion stable Capex we can ramp up fiber a lot, partly because we see lower Capex in other elements, but also in part because it's already also for 2021.

A - Joost Farwerck (CEO, KPN): Yeah. Maybe giving one example of the IT environment we built, to step down on customer Capex in the Dutch market is we built a new base for – our broadband base, all our 2.3 million customers are now in a new IT environment and that is bringing a paradigm shift for KPN on how we run our broadband base.

So until this year, last year, when a customer wants an upgrade, wants to move from one household to the other or wants to move from Telfort to KPN or XS4ALL or the other way around, we use to send out new hardware to the customers, including a field engineer, to change.

Now we can support our customers from a distance while keeping the hardware where it is. We can migrate XS4ALL to the KPN platform. We can migrate the Telfort base to KPN without replacing hardware. And that is very important because that's really new for us. So it pays off. It took a lot of investments over the last three years to build this system, but it's simplifying a lot for the future. And so that's why I would like to give you that example.

Now you also asked for our target to add an additional 300,000 on converged households. Like I said, we have 2.3 [million] broadband customers. We started the convergence game in the Netherlands. Netherlands is becoming more and more a convergence market. And currently, 50% of the total base is already converged in KPN, so that's above 1.1 [million]. And we would like to add 300k, which is as far as I'm concerned, a sensible target.

Last year, we did 60,000. So that's not adding up in three years to 300k. But that's because we slowed down in the second half of this year. And due to Hussel, fiber rollout, and some strategic actions in the market, I'm convinced we will lock in more converged customers in the coming two years.

Michael Bishop (Goldman Sachs): Okay. Thanks very much.

Operator: The next question is from Mr Luigi Minerva, HSBC. Your line is open. Please go ahead, sir.

Q - Luigi Minerva (HSBC): Yes, good afternoon. First question is on the Business segment. We noticed the deterioration of NPS now falling to minus 4. And I was wondering what measures you have in mind to bring back the NPS towards a positive trajectory. And the second question is on the Wholesale segment, which is working well so far. But I was wondering if your view remains that the cable wholesale access regulation will have a limited impact looking into 2020-2021. And finally, best wishes to Jan Kees for the future. And thank you.

A - Joost Farwerck (CEO, KPN): Okay, thank you. Yeah. First, your question on NPS in B2B. To be honest, I'm completely not satisfied with a minus 4 NPS in the first place. Second, this had to do with the way we migrated our customers, especially in the LE environment to new portfolio. We stopped the way we did that in the past and we improved the way we migrate our customers with the way we communicate to our customers. And we will do more to make sure that we will get to a reasonable level during the migrations. So that for me is a very important target, and also for the whole company, when it comes to rewards.

Wholesale. We're growing in Wholesale. It's a very important part of our business. It's little bit a reflection of what we do in Consumer. It's also happening in the Wholesale segment. So like I said, 52% penetration on our broadband network serving the Netherlands.

Yeah, cable. VodafoneZiggo, they have to come up with a wholesale access service. And currently that's not really happening. They have a price list, they have a service, but they do not have a real model. But I think that regulation of cable in the first place is too late. Maybe 10 years ago, would have make sense. But now we have a very mature broadband market of VodafoneZiggo on one side, KPN on the other side and T-Mobile serving customers on our network.

So I think now entering a new model in the Dutch market on cable is probably not what the market is expecting because on wholesale, we are not that much serving our customers. On the regulated portfolio, we made commercial deals, more co-invest kind of deals. They give us a higher amount in an upfront payment. And then we offer them access more on the active layer, which is far more efficient for both KPN and the Wholesale customer.

And I think, it's very difficult for third parties to move away from that model. We also have a lot of legal cases ongoing around regulation. Of course, VodafoneZiggo on their side. And there is also one coming up in the next month around fixed regulation in the first place because we think that the definition our regulator uses around both KPN and VodafoneZiggo being regulated due to joint dominance is, from a legal point of view, a strange conclusion and we think that we should fight that.

Behind it are more cases based on the tariffs and regulation on access in the second place. But all in all, the Wholesale market is a mature market on our network. And I think also, we are regulated of course. On the passive side, we will keep growing on Wholesale.

Luigi Minerva (HSBC): Thank you so much.

Operator: The next question is from Ms Siyi He, Citigroup. Your line is open. Please go ahead.

Q - Siyi He (Citigroup): Well, thank you very much for taking the questions. Just have quick two questions, please. And the first one is on your TV proposition. You started to charging TV separately. And now we see in the Netherlands market T-Mobile is pushing for broadband plus mobile without TV product. I just wanted to ask you, how comfortable you are thinking about to be able to keep your current TV base and maybe grow from there? And second question is really regarding your ambition on fiber rollout. Even with the one million target, you are reaching a 43% of nationwide cover. And given that recently, we see a rising interest from infrastructure players, and I wonder your thoughts on bringing some of infrastructure partners to help you further accelerate the roll-out. Thank you very much.

A - Joost Farwerck (CEO, KPN): Yeah. So our TV proposition is very successful in the Netherlands. For us, it's not to make money on TV, for us, it's all about convergence. So when we give our households broadband mobile and TV together, we found out that it really reduces churn. And we have a powerful TV proposition, we rebuilt the whole platform. The quality is the highest in the Netherlands, and we're also planning to change the interface for our customers.

What T-Mobile is doing is offering mobile and broadband but that's also doable in KPN Hussel. One of the reasons we introduced Hussel is that customers can combine services tailor made as they would like to have it. So we have a proposition in the market that could compete against that, only against higher quality.

On Fiber-to-the-Home, yeah, my first target is the one million, and that is a very important one. And like we already described to you where we have to ramp up this year to meet the one million next year. And that is a massive and huge infrastructure project in the Netherlands. And then we will do more than 40% of the Netherlands on fiber. Today, we cover one-third.

Are there more possibilities in the market? Very interesting to consider. But let me first give you an update on the one million. And if we have more news on what we could do to get more fiber in the Netherlands, we will for sure, give you an update on that. But for now, it's the one million we focus on.

Siyi He (Citigroup): Okay. That's very helpful. Thank you very much.

Operator: The next question is from Mr Usman Ghazi, Berenberg. Your line is open. Please go ahead, sir.

Q - Usman Ghazi (Berenberg): Hello. Thank you for taking my question. I've got two questions related to fiber and then one follow-up on the trade-off between Consumer and Wholesale, please, if that's okay. So on fiber – and I can see that the regulator allows KPN to earn a return of up to 10% on its investment. So I can understand where you want to accelerate deployment and that's all fine. But just the two questions I had was, number one, you said yourself that there's a legal – there's a court challenge on cable/as well as the joint dominance regulation. And there is a fiber pricing review I understand currently available in the spring. So do you see a benefit in accelerating fiber deployment before you have the outcome of those cases? And if so, why? And then the second question is just directed to Jan Kees, please. So I can understand, when you say that the ramp-up in FttH deployment in 2020 has to go to close to, let's say, 400,000 versus the 120,000 that you've done. And then in 2021, there is a little bit more ramp-up to, let's say, 500,000. But the biggest ramp-up, like you said, is in 2020. Now if you have to pay 60% of the Capex related to the ramp-up 15 months before the Capex is accrued, then that – I mean, I don't know. When I look at it, that means that the bulk of the Capex working capital headwind is actually happening in '19, not in '20, right, because you've got the ramp-up, but you're paying 15 months – 60% of that Capex, 15 months in advance. That actually comes – the headwind comes in '19, not in 2020. So just want to understand where I'm missing something here. So those are the fiber questions. And then just on your strategy on Consumer versus gaining in Wholesale, I can see that you're effectively gaining two wholesale customers, losing one retail customer. And when I look at the wholesale rates versus the Telfort ARPU, it seems like that's a net margin accretive outcome. I just wanted to confirm if that is around the right way of thinking about it? Thank you.

A - Joost Farwerck (CEO, KPN): Yeah. So to start with your second question, like I said, we look at value creation, not always at the volumes. Although adding to that, of course, we have a retail strategy. But you're right, some of the outflow is more the Telfort – the former Telfort lower priced base and the inflow was more based on KPN.

And on the Wholesale side, we also do decent margins. And we see 24,000 coming in while we lost 17,000. So all in all, we leverage the decline in the Consumer base for a part on Wholesale. And yeah, I'm not sure if it's important to ramp up fiber with respect to all the regulatory discussions we have in the Netherlands. We have to ramp up fiber anyway. So that is what we do to meet our production targets and to roll out to Netherlands and to avoid others to start fiber projects in our regions.

So it's very important that we ramp-up this fiber machinery in the Netherlands, and we roll out fiber to improve the Netherlands. Most importantly, on these Wholesale tariffs on fiber is that the more attractive services we deliver there on the Wholesale side are more commercial deals. So like I said, you can plug in on two areas in the Netherlands, and then we can deliver a Wholesale service to providers, on every household in the Netherlands, a broadband connection. And that's on the active broadband layer.

Regulators more focus on the passive network layer. So then our customers have to roll out backhauls to a fiber point of presence to enter a certain region, which is very capital intensive for other players in the market and very efficient for KPN as well. So that's why we have these commercial wholesale models decently working. Of course, some of our customers are complaining about the height of our fiber pricing and we are currently discussing this with our customers. But if you look abroad, then our fiber pricing is high but decently priced compared to what's happening, for instance, in Germany. Yeah, maybe Jan Kees on fiber rollout and working capital.

A - Jan Kees De Jager (CFO, KPN): Yeah, just to start with the payment terms again, because you are referring to 15 months. But again, if we look at the break-out of the payments, it's 10 months, the early payment before the production/delivery of 30% and five months another 30[%] – before the production/delivery, another 30%. Then 30% on the production/delivery. And then two months after the remaining 10%, on average, in general, with a typical installation of fiber.

That is, on average, a minus four-month payment term compared to the moment of production/delivery, which is roughly the same as the moment where you account for the Capex. That four months, on average, will take place not in '19 because we are now at a moment of ramping up 2020. So you will also see in 2020, the phasing of that like roughly 3 times more than in '19, also during the course of the year. So we did not do – we did do some, but not very much payments in '19 related to the ramp up of 2020.

In 2020, we'll do by far the most payments for also the ramp up in 2020 and even partly also pay for the ramp up in 2021. So that's why the epicentre of the payments are in 2020 and not so much in 2019.

Q - Usman Ghazi (Berenberg): I see. So just to follow-up then just so I understand. So you're saying that the ramp-up in '20, you know, the advance payments for that had not been made in '19. I mean those will really be made in '20 and then '20 also has to cover the '21 ramp?

A - Jan Kees De Jager (CFO, KPN): Yeah, most of it. Some we did in 2019, also prepay obviously for what we are now starting to roll out. But the big chunk of the payments will be in 2020. Again, because on average, it's minus four months, still a big difference with normal Capex, which is plus two months payment term – after the two months after delivery/production. Here, it's four months before the delivery/production. But you do 3 times more fiber rollout with six months difference in the payment in the Capex. It's quite significant, but not so much that we already had to pay in 2019. Most of the rollout only be paid for a minor part of the rollout in 2020. The big chunk will be paid also in 2020 for the rollout ramp-up in 2020. And even some of the ramp-up in 2021, we will pay in 2020 as well.

Usman Ghazi (Berenberg): Thank you.

Operator: The next question is from Mr Roman Arbuzov, JP Morgan. Your line is open. Please go ahead, sir.

Q - Roman Arbuzov (JP Morgan): Thank you very much for the opportunity. Just two quick questions, please. So firstly, just going back to costs. You – Joost, you sounded quite positive on the prospects of continuous cost cutting in 2020, and it sounds like you want to continue or even accelerate the pace that you've delivered on in 2019. So why not upgrade your cost guidance with this three-year one, the € 350 million target, please? That's the first one. And then the second one is just on the heightened competition in the convergence environment in the fixed space in the Netherlands. Do you think of this – and kind of the pressure that you've seen in Q4. I guess it's hard to read competitors action, but nonetheless do you think this as a temporary kind of marketing-related pressure around product launches, or do you think this is a more structural shift that we'll see a lot of more in 2020? Thank you very much.

A - Joost Farwerck (CEO, KPN): Yeah. On opex, last year, we did like € 140 – € 141 [million] to be quite exact, reduction. And I'm truly convinced, knowing KPN very well and being involved in a lot of cost-cutting actions in the past, that we can do a lot on opex reduction in this year and the coming years as well. And that is because I know how we simplify the organization and how we are building a new company, where we need less infrastructure from the IT side and less people.

Last year, we stepped down more than 1,000 FTE, while we hired 400 new ones. So gross, we released down a lot of people, and we are very good in helping these people from where they work in KPN to a place outside KPN. But that's a very important signal that we are simplifying our company. And it is my true belief and also our strategy that we can do a lot more here.

Why not giving you a new guidance on opex? We do – we have a guidance out in the market for three years, € 350 million. I recognize that the amount because in the past we also had a reduction progress of € 350 million. We ended up there at the end above € 400 [million]. We did € 141 million [in 2019]. It comes by batches. But I think it's reasonable to expect from us that we give you an update somewhere in the coming quarters on the opex reduction scheme. And like I said, I'm convinced that we will keep on reducing opex in the near future.

Convergence in the Netherlands, this is about our competition, but also about us. Of course, VodafoneZiggo is focusing on convergence, that's why they merged in the first place. We have – yeah, T-Mobile in the Netherlands, trying to do convergence on their own mobile network and on our broadband network. That's more complicated. And we do it. And we are the leading operator in the Netherlands on convergence.

But we did two things, this year. We stopped Telfort and we moved from KPN Compleet to Hussel. And that is impacting our inflow in a negative way over the last quarters. And I expect us to improve there as well to get back on a replacement of the Telfort proposition in KPN and to improve Hussel on the same time and roll out fiber. So yes, it will be tough because the Netherlands is a highly competitive country. But knowing where we are and what we build, I think we will grow in convergence.

Roman Arbuzov (JP Morgan): Thank you very much.

Operator: The next question is from Mr Ulrich Rathe, Jefferies. Your line is open. Please go ahead, sir.

Q - Ulrich Rathe (Jefferies): Thank you. First question would be on the B2B sort of side. You're making a point that you're sort of reaching the end of the migration in parts of your customer base. Do you have impression that the Dutch industry as in your customers are ahead or behind the European sort of trend there, because I do remember that VodafoneZiggo, I think, at their Capital Markets Day suggested that the Netherlands is actually sort of a bit behind. And you seem to sort of be indicating that is actually closing into the last stretch here. So I'd just like to get a bit of a colour on that from your point of view.

And my second question is on the Wholesale side in fiber. You highlighted that there's sort of this regulatory process going on, and you also have commercial deals. Could you just specifically state whether you have access seekers who close commercial deals with you on the Fiber-to-the-Home side separately? I think on the DSL side, you do go, right, and I think that's known. But on FttH, I'm not entirely sure. Do you have negotiated deals on a commercial basis for Wholesale in fiber? Thank you.

A - Joost Farwerck (CEO, KPN): Yeah. On the Wholesale fiber, I can tell you Wholesale is part of our fiber business case. And in fiber areas, we do really good, including Wholesale. So we have wholesale deals out on fiber, and we have wholesale broadband access tariffs listed on our Wholesale [web]site available. And these are quite good ARPUs when it comes to broadband. So yes, we have a couple of providers on our fiber network delivering via wholesale model broadband access in the Netherlands.

In B2B, I'm not sure you referred to a competitor of ours saying something of – about the Netherlands being behind. I think the Netherlands is frontrunner when it comes to networks. The Netherlands is frontrunner when it comes to certain parts of digitalization. I know that VodafoneZiggo complained about the Netherlands being behind on the spectrum auction on 3.5 gigahertz, that's only coming up in 2021 in the Netherlands. I don't regret that by the way. I think it's good that we first can see how we can make money out of 5G and starting pilots and look around the world how other telcos make money out of 5G before we start buying the spectrum. So I think that's good.

But on the migration of our customers to – from legacy to new environment, I'm not sure if we're behind. At least in SME, I think we do very good. This is the most profitable segment in B2B, by the way, so the mid-sized customers. And yeah, there, we migrated 75% of the base currently to the new environment. So I think we made a good step there last year.

Ulrich Rathe (Jefferies): That's helpful. Thank you very much.

Operator: The next question is from Mr Emmanuel Carlier at Kempen & Co. Your line is open. Please go ahead, sir.

Q - Emmanuel Carlier (Kempen & Co): Yes. Hi. Good afternoon. One question left from my side. Have you changed your view on the added value that splitting the company up in NetCo and RetailCo has? And if so, why would that be? Thank you.

A - Joost Farwerck (CEO, KPN): Yeah. To be – there has been a lot of discussions in the telco industry about splitting up your company. I think what KPN is doing implicitly is simplifying the company in such a way that at the end in three to five years from now, more or less, we are logically organized in two companies. We are completely rebuilding our network organization by rolling out a lot of fiber, simplifying the whole IT and simplifying our customer interface. And on the other hand, we have a very adult Wholesale market, with market conform wholesale rates.

And we are simplifying the whole customer environments, leading to a simple service provider. And we've taken out brands, leading to a much more simple, focused, service provider. I think that it doesn't make any sense to split up a telco in an artificial way, like you see in some countries. And then with artificial pricing between the NetCo and the ServeCo, creating only a vague model.

I think what we are doing is that we are simplifying the company in such a way that in the future, it could be if it's interesting that you do a split with market conform wholesale rates because artificial rates are never good, but that's a choice for the future. So for today, I'm not worried about that. I don't think it's the time to start discussing splitting up KPN. It could be. But if we were, keep on working on what we're doing, and simplifying the company like we're simplifying the company, then we do a lot better than any other countries where they start splitting up telcos in an artificial way.

Emmanuel Carlier (Kempen & Co): Thank you.

Operator: The next question is from Mr Konrad Zomer, ABN AMRO. Your line is open. Please go ahead sir.

Q - Konrad Zomer (ABN AMRO): Hi. Good afternoon. Two questions please. The first one on your Business division. Do you have a sense when the 25% reduction in the cost-to-serve will have a bigger positive impact on your results than – and will more than offset the loss of revenues because of the migration of SME? And my second question on your € 350 million of cost savings target over three years, how much of that do you think you can retain within the company? And how much of that might be lost due to competitive pressures or higher investments elsewhere? Thank you.

A - Joost Farwerck (CEO, KPN): Yeah. Very important thing we're doing this year in B2B, that is, by the way, a moment in time we are already waiting for a very long time. We promised ourselves that 2020 will be the year that we inflect [adjusted] EBITDA end-to-end in B2B. And the cost-to-serve reduction is adding to that target and to that value.

So we have a B2B organization and an organization in operations serving B2B. And for us, it's very important that with everything we do on cost reduction, despite the pressure on revenue, we can show you inflection there in second half of this year. And cost-to-serve is adding to that, so that's a very important target for us. € 350 million opex reduction is [adjusted] net indirect opex. So that's not related to direct opex related to revenues.

So I'm fully convinced that this € 350 million will really come in as a value driver for KPN. And that's how we organize this program and how we focus on this Opex as a [adjusted] net indirect opex.

A - Jan Kees De Jager (CFO, KPN): Yes, absolutely. But also the – behind the question, there's also the question, of course, will some of that will leak in to our customers because, for example, competitors can also capture some of that same opex savings as well. And then the interesting point is that, if you look at our most important competitors, they are already operating in some areas at a lower cost. So we are getting there, and a lot of the opex savings is getting rid of, you could say, somewhat excessive cost for KPN. And on the other hand, typically costs related to a telco incumbent moving towards fiber, software-defined networking, etc., which is also less apparent for our most important competitors.

So whilst, of course, always some, macro-economically, of the cost phasing could leak away not into your P&L, but to your – to lower price in your customers. We are quite confident that a significant part could be captured towards our P&L because a lot of those cost savings actually are quite typical for KPN. And not easy to replicate by our competitors.

Konrad Zomer (ABN AMRO): That's very interesting. Thank you very much.

Operator: The next question is from Mr Paul Sidney, Credit Suisse. Your line is open. Please go ahead, sir.

Q - Paul Sidney (Credit Suisse): Great. Thank you. Good afternoon. Just two follow ups really. Quick follow ups. Firstly, on competition. I think you said a few times that you want flexibility in 2020 to retain the commercial room to manoeuvre. I was just wondering is that related to KPN initiatives you may look to launch, or are you particularly worried about competition picking up over the year? And if so, which competitors are worrying you the most? And then just secondly on point of clarity on B2B. You said SME revenues to grow and stabilization of LE revenues. Were you referring to 2020 with those comments? And should we read across from that that we should see improving trends in the overall business revenues over the next couple of years? Thanks.

A - Joost Farwerck (CEO, KPN): Yeah, when it comes to competition, of course, what I meant is that we need – yeah, flexibility in what KPN is doing. I already think it's a competitive market. So I don't expect a lot more to happen there, but you never know. I can't predict what competition will do in the Netherlands. But knowing where they come from and what they invested, and knowing their customer base, I think they have to protect value as well as we have.

But always when you're in the situation that your consumer base is under pressure, I just want some flexibility to have room to manoeuvre from KPN's point of view.

On B2B, my real point is that the inflection will be in EBITDA, before you – we show you inflection on the top line. So when I talk about end-to-end inflection in B2B, this will be in margin first, and then the years to follow, per segment, we can show you inflection on top line as well. That's very important for us. But it's first on EBITDA and then on the top line.

Q - Paul Sidney (Credit Suisse): And yeah, just a follow-up there. So inflection of EBITDA mid-2020 is still a target on B2B?

Joost Farwerck (CEO, KPN): Could you repeat your question, please?

Q - Paul Sidney: You're looking for an inflection in EBITDA mid-way through 2020. Is that still the target?

A - Joost Farwerck (CEO, KPN): Yeah, in the – that for us is a very important goal in the business segment end-to-end inflection in B2B.

Paul Sidney (Credit Suisse): That's great. Thank you very much.

Joost Farwerck (CEO, KPN): Yeah, thank you.

Jan Kees De Jager (CFO, KPN): I see that we are going to wrap up. So let me also, from my side, say thanks for all the best wishes that you have conveyed. And thanks for your cooperation in the last 5.5 years, during my tenure at KPN. Perhaps our path will cross again in the future, I hope so. And I wish you also the best – very best in following KPN. And thank you for everything. Thank you.

Joost Farwerck (CEO, KPN): Okay. Thank you, Jan Kees. Best of luck for the coming years. Thanks again. And thank you all for calling in. And let me repeat one more time that we are committed to execute and deliver on our strategy again in 2020. Thank you very much.

Bisera Grubesic (Head of IR, KPN): Thank you, ladies and gentlemen. This was the end of today's presentation. If there are still questions left, please contact our Investor Relations team. Operator, you can close the call.

[END OF TRANSCRIPT]