Event transcript KPN Q2 & H1 2024 Results

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KPN Q2 2024 Results

Operator: Good day, ladies and gentlemen, welcome to KPN's second quarter 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 star one on your telephone.

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

Matthijs van Leijenhorst: Thank you, operator. Good afternoon, ladies and gentlemen. Thank you for joining us today. Welcome to KPN's Second Quarter and Half Year 2024 Results. 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 two 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: Thank you, Matthijs, and welcome everyone. Second quarter was a busy quarter in which a lot of large events took place, such as one, early April, the Youfone acquisition was closed and included in our financial statements. Two, we signed an agreement with Eneco for the purchase of solar energy, and this, combined with our previously announced wind energy deal, means that we will come from sustainable sources when it comes to our energy usage as from 2027. Three, we announced a strategic partnership with ABP to jointly create a leading Tower company in the Netherlands. Four, we issued a new green hybrid bond to support our sustainability ambitions. And finally, we obtained an attractive outcome of 100 MHz in the 3.5 GHz auction recently.

Let's now move to the performance of our Business. And first of all, let me discuss some key highlights. Our Group service revenues increased by 3.7%, or 3.3% underlying, which means corrected for the Youfone acquisition and divestments in Q1. Within the mix, we see continued growth in Consumer, driven by both fixed and mobile. We see ongoing commercial momentum in postpaid and another quarter of broadband base growth despite challenging markets. Business service revenues showed continued growth, driven by both SME and tailored solutions. And as expected, our Wholesale service revenues declined, mainly due to the Youfone acquisition. We delivered solid EBITDA and free cash flow growth in the first half of 2024. And together with our joint venture, Glaspoort, we added 168,000 households to our fiber footprint. And finally, we remain on track to deliver on all outlook items for 2024.

As usual, Chris will give you more details on our financials later.

As a reminder, our Connect, Activate & Grow strategy is supported by three key pillars. First, we continue to invest in our leading networks. Second, we continue to grow and protect our customer base. And third, we further modernize and simplify our operating model.

And together, these strategic priorities support our ambition to grow our service revenues and adjusted EBITDA AL by 3% and our free cash flow by 7% per annum, on average, in the coming years, or simply put out our 3-3-7 framework.

ESG is at the heart of what we do and is closely linked to this strategy, and we focus our efforts in three areas. Responsible: we prioritize reliability and security, and we support fundamental human rights across our entire supply chain. Inclusive: we will increase our commitment to diversity and inclusion in all respects, both as an employer and as a service provider. And sustainable: we will, for example, continue to reduce our energy consumption even in the face of upward pressure from data volume growth. And with this, we will not only deliver financial results, which enables us to continue our progressive dividend policy, we will also connect the Netherlands to a sustainable and long-lasting future.

And let me now walk you through the Business details. Together with our joint venture Glaspoort, we added 168,000 households to the fiber footprint, and we now cover 60% of the Netherlands with fiber. And we are well on track to reach roughly 80% of Dutch households by the end of 2026. And after reaching that point, we foresee a material step-down in our CAPEX, dropping to below €1 billion. That's the framework. As highlighted at our Capital Markets Day, we are further optimizing the way we roll out, connect households and activate customers. And this approach is already delivering tangible results with an acceleration in homes connected and fiber service revenue growth. In May, the joint venture, Glaspoort, announced the intended acquisition of part of the Delta fiber network, and the transaction involves around 200,000 homes passed and is subject to approval by the ACM.

Let's now have a further look at the Consumer segment. Consumer segment continues to perform well with consistent fixed and mobile service revenue growth. With Youfone now included, we added more than 50,000 broadband customers and around 500,000 mobile customers to our Consumer base. Customer satisfaction remains one of our top priorities, and I'm happy to see that we outperform against competition on the NPS, the Net Promoter Score.

Now, taking a deeper look into our second quarter KPIs, we saw another quarter of broadband base growth despite the challenging competitive environment. We are able to maintain a constant, healthy inflow of new fiber customers, and combined with a growing ARPU, this led to continued growth of our fixed service revenues. And we continue to see solid trends in mobile. Our postpaid base increased organically by 41,000 subscribers, partly driven by the ongoing commercial success of our speed tiering proposition that we launched in the first quarter. Our postpaid ARPU grew almost 2%, and, together, this led to a solid 7% growth in mobile service revenues.

Now let's move to the B2B segment. B2B delivered another good quarter and a quarter with good service revenue growth. Growth was driven by continued strong growth in SME and a solid performance of our Tailored Solutions business, and driven by higher projects and service management-related revenues in tailored solutions. Business Net Promoter Score remains positive, although slightly down sequentially, mainly reflecting overall market sentiment. SME continued its strong performance, driven by mobile, broadband and cloud and workspace base growth. And due to our future-proof propositions, we expect to deliver continued growth in SME going forward, though probably likely at a slower growth rate than we saw in the first half.

Underlying LCE service revenues, so excluding disposals in the first quarter, increased slightly, mainly driven by continued strong performance in IoT, partly offset by continued pressure in mobile and the ongoing decline in legacy. So while we are confident that we are on a good track here, and LCE still requires some work to deliver real sustainable growth.

And lastly, tailored solutions continued to perform in line with expectations. This segment caters to large customers, often with an individualized approach. Customers here are generally partners for life, and I'm pleased that we have taken important steps to improve profitability through a strong focus on standardization, value and sustainable customer relationship.

Then, Wholesale. In Wholesale, service revenues decreased 10%, or 2.7% adjusted for the Youfone acquisition. As expected, the underlying growth trend further leveled off compared to previous quarters, mainly due to a decrease in low margin interconnect revenues because of lower regulated tariffs. Corrected for Youfone, our broadband base declined with 6,000 customers. During the quarter, the decline moderated, and with the current level of fiber rollout and our attractive Wholesale portfolio, we are confident that performance in Wholesale broadband will improve.

In mobile, we added 8,000 subscriptions to our postpaid base.

Now turning to sustainability, this slide shows our performance on carbon reduction, circularity and diversity. As shown, by working more energy efficient, we have been able to significantly reduce our carbon footprint over the past years. We also attach great importance to diversity in our workforce, and we aim to have at least 35% of women across our senior management by next year, from the current 29%.

Now, that's it for me. Let me hand over to Chris to give you more details on our financials.

Chris Figee: Thank you Joost. Now, let me take you through our financial performance. And let me start by summarizing some key figures for the second quarter and the first half.

First, adjusted revenues increased 4.5% year-on-year in Q2, driven by continued service revenue growth and higher non-service revenues, including some spiky more one-off type results that were planned for the year but were concentrated in Q2.

Second, our adjusted EBITDA AL after leases grew by 5.6% year-on-year in the quarter, and it has behaved fully in line with the pattern that we indicated at the beginning of the year. Strong growth driven by higher service revenues and the timing of larger project-related revenues and asset monetizations. The EBITDA margin of KPN increased 50 basis points to 45.2% despite higher costs. So overall, we saw strong growth and are confident in our ability to reach our EBITDA AL target, but expect, of course, some fluctuation of this number during the quarters ahead. Net-net, it's fair to assume that Q2 and Q3 combined will result in the average EBITDA growth around 3%, in line with full-year guidance.

Third, free cash flow increased 3%, or €11 million, compared to the first half of the year, fully driven by higher EBITDA. We'll give you more detail on underlying cash developments later in this presentation. Underlying Group service revenues increased 3.3% year-on-year, mainly driven by Consumer and Business. Our Consumer service revenues increased by 4.3% year-on-year, driven by consistent growth in fixed and mobile service revenues and especially solid base developments in mobile. Youfone started to contribute to earnings and growth.

Business service revenues also grew by 4.4% year-on-year, mainly driven by the continued strong performance in SME, but also with good progress in our Tailored Solutions business, even if margins in this business are lower than in classical telco connectivity. Adjusted for Youfone, our Wholesale service revenues declined 2% year-on-year, mainly impacted by lower regulated tariffs which have little or no margin impact.

Our adjusted EBITDA AL grew 5.6% compared to last year, as we said, driven by continued Group service revenue growth and the positive impact from projects of tailored solutions and asset sales, which provided significant tailwinds. The increase in cost of goods sold is mainly driven by third-party access costs, such as Glaspoort, service revenue mix effects and higher non-service revenues, such as handsets and hardware. Our indirect cost base was mainly affected by wage indexation. Our Other cost items were broadly stable compared to previous year, all in all, translating into €10 million higher indirect OPEX.

Our operational free cash flow increased by about 3%, fully driven by EBITDA growth. Our total CAPEX was €38 million higher, mainly related to intra-year phasing. For the remainder of the year, we keep a strict eye on CAPEX to ensure it stays in the same zone as last year and in a narrow margin around €1.2 billion.

Now let's focus on the moving parts of our free cash flow. With €364 million, our free cash flow was 3% higher than last year. This improvement was mainly a result of the EBITDA growth, driving the improving operating free cash flow as per our plan and improvement in working capital. We paid more interest than last year, and so far our tax increase was relatively muted. The cash margin of revenues remained stable at roughly 13% of revenues.

Finally, we ended the quarter with a cash position of €1.1 billion, absorbing the Youfone acquisition, the final dividend over last year, and the completion of the 200 million share buyback.

Then, on return on capital, our focus to create long-term value is evidenced by a strong return on capital employed. Our ROCE improved by 75 basis points year-on-year to 14.4%, mainly driven by increased operational efficiencies. We continue to run a very strong balance sheet. At the end of June, we had a leverage ratio of 2.4 times, still below our self-imposed ceiling of 2.5 times. Our interest rate coverage remained strong as well. For the year, we expect our leverage to stay below 2.5 times, also helped with the relatively benign outcome of the spectrum auction. Our exposure to floating rates is less than 15%, and the average cost of senior debt decreased to 3.9%. Credit rating agencies acknowledged our strong balance sheet and market position, which is evidenced by solid ratings and a stable to even a recently upgraded positive outlook.

Total liquidity remained robust and consists of about €2.1 billion in cash and short-term investments, including our undrawn revolving credit facility. This provides ample flexibility for the spectrum payment and pursue other opportunities as they may arise. In early June, we issued a new green bond, a hybrid bond and put out a tender on the outstanding Euro hybrid. The successful placement, in combination with the tender, enabled us to protect the hybrid equity credit from our rating agencies whilst optimizing interest cost.

So we are on track to deliver on our 2024 outlook, which we provided to you in April. In May 31, we completed the €200 million share buyback program and bought back 60 million shares, of which about 58 million will be cancelled. And of course, and finally, we reiterate our mid-term ambitions as provided at the Capital Markets Day in November last year.

So let me wrap up with a few key takeaways. Solid progress has been made in a busy quarter, with many strategic events improving our longer-term position. We see consistent Group service revenue growth driven by Consumer and Business. And we see ongoing commercial momentum, especially in Consumer postpaid, with a healthy inflow of postpaid net adds. We grew our broadband base despite the challenging competitive environment. Going forward, we see the acquisition of Youfone contributing to realizing our growth ambitions. Our fiber program remains at a solid pace with an increased focus on connecting homes and has a proven attractive return profile. And our return on capital employed is strong, reflecting shareholder value creation.

Finally, and as expected and planned, we had a relatively strong first half compared to previous year, especially in terms of EBITDA generation and are confident in our ability to reach our outlook. So it's clear that we'll see some fluctuation in reported quarterly EBITDA growth rates in H2. Overall, we remain fully on track to reach our full-year outlook on EBITDA and cash and also to meet our ambitions for 2027, as we disclosed during the CMD.

Thanks for listening. Now let's turn to your questions.

Matthijs van Leijenhorst: Thank you, Chris. And before I move into the questions, as usual, I would like to ask you to keep your questions to two, please. Operator, over to you and to start Q&A.

Questions and Answers

Operator: Sure. 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. We'll take the first question from line of Keval Khiroya from Deutsche Bank. The line is open now. Please go ahead.

Keval Khiroya (Deutsche Bank): Thank you, and I've got two questions please. So firstly, roughly half your Wholesale base and only 38% of your B2C base is on copper. Could you give us a sense of to what degree this copper base sits within your current and planned fiber footprint, rather than ODF and Delta, as I guess you have a quite good chance of recapturing through Retail and Wholesale fiber where the copper is actually within your fiber areas.

And secondly, as you mentioned, Glaspoort reached agreements by 200,000 homes from Delta's footprint. The prior deals had been smaller. Do you see scope for further similar deals to the recent Delta one or even large-scale consolidation of fiber infrastructure? Thank you.

Joost Farwerck: Yeah. So, on the planned acquisition of Glaspoort, between Glaspoort and Delta, of course, that's quite an interesting opportunity. And let's first wait and see what the outcome will be. And it's really something currently being taken care of by the regulator and presented by Glaspoort to our regulator. So we, at a distance, look at this, but if – we always look at opportunities to see if we can buy or build fiber in the Netherlands.

So we did that in the past. This is an interesting one and looking forward, perhaps new opportunities will be in scope. But let's first wait how this ends.

Chris Figee: Yeah. On the first question, on how much of our own copper will we overbuild with fiber, well, obviously we have an aim to cover 80% of the country with fiber. Today we have got 60% of the country covered with fiber, which was roughly 80% of our copper base will be covered with fiber, and today we're at 60%. Not all of our copper customers have been moved to fiber yet. That's a gradual process, but ultimately, in the end, all our copper customers that have fiber lines will move over. So think about in the end, about 80% of our business will move to – will be – copper lines will be covered by fiber. The remaining 20% will look other solutions. Obviously, that's something to work on beyond 2027. And these other solutions might be continuing selective fiber rollout, might be we continue to, say, run off the asset base for as long as we can, or find other solutions. But it's clear that the vast majority of all the copper will be covered with fiber.

Keval Khiroya (Deutsche Bank): So just to follow up on that second point, just within your existing – appreciate you'll overbuild the copper with the fiber. But just in terms of your existing copper customers, do you have a sense of to what degree they're going to be within the fiber areas? Because, I guess, some of these will also be within the 20% as well. I'm just trying to get a sense of to what degree that copper base will actually protected by moving to fiber.

Chris Figee: I don't have the exact number, but I think it’s – the estimate right now we are around the 80%. I don't have an exact figure.

Joost Farwerck: 62% of our broadband customers is on fiber. And of course, we aim to migrate all customers in fiber areas to fiber ASAP. And when we come closer to the year 2027, currently we're all also working on a plan how to cover the rest of the Netherlands and, of course, to serve 100% of the Netherlands. But currently 62%, then we aim for 80% of the base on fiber in midterm.

Chris Figee: Fiber growth is outstripping copper decline. Right? And if you look at customers or service revenues, the fiber growth, both in net add terms or euro terms or percentage terms is outstripping the copper decline. And we would expect that dynamic to gradually improve. As our fiber base becomes larger and the copper base becomes smaller.

Keval Khiroya (Deutsche Bank): That's clear. Thank you both.

Operator: We'll take the next question from line Andrew Lee from Goldman Sachs. The line is open now. Please go ahead.

Andrew Lee (Goldman Sachs): Good afternoon, everyone. I just had a couple of questions around the EBITDA growth. So for the first quarter, you said on the call that underlying EBITDA growth would be quite strong in the second quarter with underlying growth above 3%. And obviously, we're having to strip a few things out, so Youfone clearly and also the asset monetization. And if we do that, it looks like the underlying EBITDA growth in 2Q is 2.5%, so lower than the first quarter. So I guess the question is what, if anything, has changed on an underlying basis versus your initial expectations? And I know, Chris, you mentioned that you'll see 3% EBITDA growth across Q2 and Q3 combined.

But if we strip out all the asset monetizations, Youfone, and actually just look at underlying, what do you see as the – what's the EBITDA growth in that on that metric? And how do you see EBITDA growth in the second half of the year? And if you could give us – just as an extra question, if you could give us just a bit more detail on what exactly the asset monetizations were in the second quarter, this quarter, that €10-15 million, and how much we should be anticipating each year from now on. Thank you.

Chris Figee: Yeah. Well, Andrew, you could start stripping out all sort of elements. I think the EBITDA growth is around 3-3.5% and Youfone will be there, obviously is going to be structurally part of the EBITDA growth that KPN delivers.

On the asset monetization, let me — what we did, we sold IP addresses, IPv4 addresses. We had a big portfolio of IP addresses that were on our balance sheet at a value of zero, so were not valued, but we were able to sell those. We'll also sell a chunk of those next year, that's already agreed on. And we also expect, we can sell a chunk of it in 2026, maybe not the same quantum, but a significant amount. So asset monetizations have always been part of our plan. It's actually more or less – feels like more of a wholesale type of business than anything else. We booked it at Network but it's more like a wholesale business where you sell or give access to some of your assets to third parties. So it was in the plan. It was a bit bigger and earlier than we anticipated. So it's always part of the plan, and we continue to do that next year for sure, it's in there, and it will also happen probably in 2026. So it is, to some extent, a recurring income stream.

For Q3, I expect EBITDA growth to be 1-1.5%. So the two quarters together should be around 6.5-7% in order of magnitude together, giving you around 3.5% total EBITDA growth over those two quarters together. So I think that's how we look at the business.

What is underlying, what is not, as I said, some IP sales were planned, were always planned to take place, it’s just that they were all concentrated in this quarter. So I'd expect the underlying EBITDA growth is around 3-3.5% in this quarter. And if you add the two quarters together, you still at that level in line with where the year aims to be.

Andrew Lee: Thanks, Chris. So, if I can just clarify, so you're saying ex – you think the underlying growth was 3-3.5% this quarter stripping out Youfone or is that including the benefit of Youfone and that 1-1.5%?

Chris Figee: I would say 3-3.5%, including Youfone – Youfone was always part of the plan. We announced it last year. So I would be inclined to include Youfone, because it was part of the plan and will be structural from quarter to quarter. So with that, you're looking at a solid 3% growth rate in the second quarter, including Youfone.

Andrew Lee: And the 1-1.5% in Q3 includes that as well – includes Youfone as well. There's definitely an argument that that's not — that's inorganic for this year at least.

Chris Figee: Yeah, that's the way of looking at it. It's part of the plan, and part of the plan to get to the 3-3-7 guidance that we gave and giving you part of the ambition for 2027, as far as I'm concerned.

Andrew Lee: Thank you. Thanks, Chris.

Operator: We will take the next question from line Polo Tang from UBS. The line is open now. Please go ahead.

Polo Tang (UBS): Hi. Thanks for taking the questions. I have two. The first one is, can you maybe talk through what you're seeing with competitive dynamics in terms of the Consumer business? So specifically, are there any signs that VodafoneZiggo is being more promotional on broadband ahead of getting Champions League rights in August? And can you also comment on how your recent broadband price rises have landed with customers?

Second question is really just on B2B, because in your remarks, you mentioned in terms of SME, it has been a major growth engine for the unit. But in your remarks, you highlighted that that would slow in the second half. So can you just explain what's happening and what's driving this? Thanks.

Joost Farwerck: Yeah. So, the Dutch market, it stays competitive, although with three main player market with two, yeah, newco's on fiber on the side, but fixed especially is similar to previous quarters and remains challenging. And there's a lot of aggressive promotional activity from Odido, Ziggo and Delta. Odido continues to position itself as a challenger on our network, mainly when it comes to broadband, VodafoneZiggo preparing an update on content strategy. That's obvious. We decided to only follow selectively with promotions, and we really make the shift to focus on base management. More and more, fiber's becoming a large proportion of our base. So for us, we play a different ball game, and we're in the transition to that new ball game that is really focused on lower churn to create the highest value.

And on the mobile side, which is still a relatively healthy market, I must say, competition mainly in the low end, no frills part of the market. But now we consolidated Youfone, we also there have good position. So all in all, more or less the same as previous quarters, and, indeed, us playing asset heavy game via the fiber rollout and Ziggo a bit under pressure trying to position itself as a content player. Having said that, there's not that much difference to the content package of KPN and Ziggo. And even when you mention European football, yeah, we were able to distribute that to our customers as well. In the worst case, we also resell Ziggo Sport.

Price increases were accepted in the Netherlands by our customers in a pretty okay way. We increased 3.8%, which was well explainable. Consumer Association made some remarks, but having said that, our regulator, ACM, investigated the whole market six or seven months ago. And the outcome was that there's no reason to interfere there, that it's a healthy market and there's a lot of propositions out there against the different price points. And even also, when you look at the 1 gig price compared to other countries, it's pretty fair what we have in the market. So I think well received by our customers, and we were not negatively impacted by that.

And on B2B, yeah, SME is doing good and will continue to do so. On the mid long term, I expect 10% double-digit growth to slow down a bit, just to be on the safe side. Meanwhile, I see LCE doing better, and especially corrected for the divestment, we're more or less flat a bit on the positive side on LCE. So, of course, we want to uplift the whole thing, when it comes to B2B, to a higher number and better revenue growth. And I think we're on a good track there. And it's our attention not only to be supported by SME, but by the whole thing. So that's why we anticipate on SME going to do a bit less, but LCE compensating more on that, to put it that way.

Polo Tang (UBS): Thanks.

Operator: We will take the next question from Nuno Vaz from Bernstein. The line is open now. Please go ahead.

Nuno Vaz (Bernstein): Hi. Good afternoon. Thank you for the opportunity. Also two questions from my side. First, I want to focus on the Wholesale side, which this quarter was a bit weaker. Just want to understand a little bit better on the broadband side, in terms of net adds, you were similar to Q1, but the growth rate was much – quite a bit weaker. So trying to understand if potentially there's a one-off there we should be aware of. And then on the mobile side as well, also curious, organic why was weaker versus Q1?

Then second question, probably a bit simpler, but just want to understand the integration of Youfone, because we didn't see much of a dilution in terms of postpaid ARPU after Youfone. But when I tried to back-of-the-envelope calculate the ARPUs of Youfone, they're quite significantly lower. So just trying to understand why there was no dilution in ARPU, postpaid ARPU this quarter. Thank you.

Chris Figee: Yeah, on Wholesale, I'll give you a broader view on what's happening in the Wholesale business. Obviously, there is a bit more wholesale competition before with Delta and Open Dutch Fiber also offering wholesale broadband solutions. With that, I think we need to put the decline a bit in context. The euro impact underlying ex Youfone is about €4.5 million year-on-year. So it's actually something that is manageable. The decline is about 6K in the quarter out of a 1.1 million base. So that's relatively manageable. We do not see any active migrations away from us. It's really – it's a matter of copper churn. So what you see is that fiber at Wholesale is still growing. Fiber is growing nicely. Our fiber Wholesale business is growing by about 15% year-on-year. Also growing quarter on quarter. When we look at our client base, our largest clients are still growing. We've got some smaller fiber clients that are also growing in these months. There's one or two clients who are more in runoff modus, especially in the current competitive market, and they shrink. And you've got copper churn. So in the broadband balances, the clients that are committed to broadband and to fiber, the larger ones and the smaller ones are growing. And then the ones who are more in the asset milking strategy are declining. And then you've got the copper switch off, and it's that balance that actually changes a bit as there's a little bit more wholesale competition. But it means in terms of service revenues, broadband service revenue growth is still at 1% plus. The decline is taking place in Mobile and in Other, which is affected by interconnect tariffs, which is regulated and very low margin business, and the discount that we've given to some of our MVNOs in exchange for multi-year extension of their contracts. And those feed into the numbers.

But given the fact that we'll see, at least next year, an improving price environment with CPI going up, that we're seeing underlying growth in mobile – so net adds in mobile are positive even if you strip out Youfone – given the fact that the broadband trends are kind of stable, we hope and expect at some point to return. I would expect also to go back to service revenue growth in Q3 and Q4. That's the Wholesale background.

When you look at your question on ARPU, Youfone obviously has a lower ARPU. The KPN ARPU excluding Youfone, if you exclude would have been around 17.3 is my estimate if I strip out Youfone ARPU. So that small decline for the year, but fully in line with the plan.

So KPN ex Youfone, which – at some point we will stop disclosing that. But on a like-for-like basis, mobile ARPU is around 17.3 in the quarter, which is a small decline, which is more a function of what I call the non-committed ARPU, so top-ups, etc., roaming revenues. The committed part of the ARPU is growing nicely. It's growing north of 5%, roughly in line with the price increase and improvement in our bundle mix. So on ARPU side, it's mostly the non-committed side which is the top-ups, out-of-bundle calls, roamings that we've seen decline a bit. The committed part is going up.

Nuno Vaz (Bernstein): Thank you. That's very useful. Thank you.

Operator: Thank you. We will take the next question from line Luigi Minerva from HSBC. The line is open up. Please go ahead.

Luigi Minerva (HSBC): Yes. Good afternoon. Thanks for the presentation and thanks for taking my questions. The first one is on – really on getting your feedback on your experience after introducing the speed tiers tariffs in mobile. So how is that working? And then, if you think medium term, how will speed tiers lead to upselling opportunities? I guess, my thinking is that the Netherlands is quite an advanced market with early technology adopters. So people will – if the quality of network is good, will naturally go towards the highest speed tiers. And then once they are there, how will you manage the upselling over the medium term?

And the second question is more a clarification on network operations and IT revenues, which were stronger in H1 ’24 compared to last year. I think €34 million this year and €11 million last year. So how should we think about it in the second half of the year? Thank you.

Joost Farwerck: Yeah. So we invested a lot in our mobile network. And by the way, we all do in Netherlands. We're a small flat country, and it's easier to roll out a mobile network in the Netherlands than, for instance, in Switzerland. So we built the best mobile network in the world, followed by one of the best mobile networks – and so we're all in the top, what is it, five or top ten. So we – in the Netherlands, 100 mbps download speed is not unusual, and it's difficult to differentiate yourself only on the quality of the network. We really try to differentiate ourselves on the quality of the service, end to end, and introduce speed tiering has been an important one. And we're moving more and more high-speed mobile unlimited to the fiber broadband proposition, which is you pay for the download speed and the speed itself – and the capacity is unlimited. And that works quite well in the Netherlands because we have such great networks. So it's us doing it. But also Odido is playing this game very carefully.

So what we see is that we introduced speed tiering on an average download speed, and now customers pay for higher download speeds, just as they do at home on fiber. And that's leading to more customers on unlimited. And at the end, also in that base upselling to higher download speeds. And that's what we try to play very carefully. And also introducing the new spectrum we just acquired in the auction, 3.5GHz, enabling us to really activate superfast internet. In some areas, we now have 1.4 gbps download speed on mobile. And that of course, is very interesting hand in hand with speed tiering. So the more and more customers choose for fast download speeds and are willing to pay €10 or something like that, more for it. So that will be an important one also in the coming years for us.

Chris Figee: And your second question on the revenues in network which is affected by IP sales. It's a wholesale type of business, but it lands in the network because that network actually owns these assets. So the delta that you see are mostly those asset monetizations.

I don't expect them to reoccur. We actually planned these things to happen more gradually over time during the year, and they all concentrated in the first, especially the second quarter of the year. So it's more of a concentration of these things than anything else. So that it was part of the plan, part of the effort, but they all happened in the first and especially the second quarter.

Luigi Minerva (HSBC): Okay. Got it. Yeah. Thank you. Very helpful. Thank you. Thank you both.

Operator: Thank you. We will take the next question from line Joshua Mills from BNP Paribas. The line is open now. Please go ahead.

Joshua Mills (BNP Paribas): Hi guys. I think most of my questions have been answered, but maybe just a couple of quick follow-ups on the Wholesale question. So the first is if I look at slide 13 where you break down the different business areas – broadband, mobile, other – with the growth rates year-on-year, could you just give us a sense of what the underlying broadband and underlying mobile growth was, adjusted for the Youfone transaction? That would just be helpful on one side.

And then secondly, if I go back to the CMD last year, when you were talking about Wholesale expectations for 2024, you were discussing a 1-1.5% revenue growth. Now, even if you adjust for the Youfone acquisition, the run rate for the first half is negative and well below that. And I take the point about an improvement coming in in Q3 and Q4, but it looks like you're going to miss that target. So my question is what has either changed in the Wholesale business outlook, or if things simply got worse than expected versus the message which you gave at the CMD? And if so, what has changed? Thanks.

Chris Figee: Yeah. Good point. On the underlying growth rates in mobile ex Youfone – I'm talking service revenue terms is -2.8%; on broadband is +3%. So in terms of service revenues, it's mostly – on mobile side, it's the cost for the extension of the MVNO, and then you have got the other, where the interconnect revenues are landing. So ex Youfone, there's still growth. Wholesale, as a whole, ex Youfone is a 1.8% decline. Right? So if you reflect back to what we expected at CMD and what has changed, obviously I think it’s mostly more broadband competition and less broadband new inflows. So copper churn was still relatively high, and we saw a bit less broadband inflow compared to the expectations.

So in the plan, the mobile decline is taking place almost according to plan. We knew this was going to happen in terms of interconnect revenues. We knew it was going to happen in terms of cost – the one-off cost of extending MVNOs. We expected more broadband inflow. The inflow is there. It's still positive on fiber. There's no migrations in – of active migration of copper, but is less inflow in broadband. At the same time, compared to the initial plan, the Consumer side is doing better than plan, even ex Youfone. Business is doing better than plan ex Youfone. So I think KPN as a whole is on track. But obviously you launch a plan, and, in practice, things are different from reality. Two businesses are better, and one is a bit worse. That means in Wholesale, we have to focus on supporting the existing customers, signing up additional customers, and that's what we're doing. But you know the Delta and Wholesale competition is I think what's changed. But then again, as I said, you've got winners and losers every year. And this year Consumer and Business are beating the plan and Wholesale’s a bit less. But we've also have seen years where it was the opposite.

Joshua Mills: That's very clear. And in the introductory comments, you made the point that broadband trends have been improving through the course of the quarter and should improve through the end of this year. Just thinking about the net add numbers, do you think it's fair to assume you can get back to stability at some point in 2024? Or are we likely to continue to see declines?

Chris Figee: In Wholesale?

Joshua Mills: Yes, in Wholesale broadband specifically, net adds.

Chris Figee: What I see is different clients showing different behaviors. So the ones who are clearly committed to broadband are back to growth. A bit lower growth than we used to have, but they are still growing, whether it's the larger or largest customer or whether it's smaller customers. You see one or two customers that are more in run-off mode, and they decline. And it is that balance. So I think the portfolio is healthy enough. I think probably, in all fairness, Q3 will probably still see a small decline in broadband net adds in Wholesale. And Q4 is hard to see what happens, but I think it's fair to assume that Q3 will give you probably a similar number as now. That’s a conservative view, and from there it can only get better.

Joshua Mills: Great. Thanks very much.

Operator: We will take the next question from line David Vagman from ING Belgium. The line is open now. Please go ahead.

David Vagman (ING Belgium): Yes. Thank you. Good afternoon, everyone, and thanks for taking my question. Just maybe first on the IP and the assets that you plan to sell and that you're selling, could you give us a ballpark figure on what you think is their market value? You've said that there's zero book value. So, that's my first question.

And then second, on the copper broadband base that you have and your net adds performance, to which extent – and I think you've partly answered my question, but to which extent are you seeing regional difference in this performance? So, and by that I mean in particular for the Delta footprint area, do you see more losses of copper clients in that area, given that you faced Delta with fiber and then probably also Vodafoneziggo, with cable? Thank you.

Joost Farwerck: Well, first of all, on the IP version for asset sale, we know what's going to happen next year because we more or less made the deals, like Chris said. So that's locked in. And for the years after, we're a bit cautious by giving you numbers on market value because this is a new market and the market value is changing overnight, before you know. It was intended to phase out IP version 4 addresses and all move to IP version 6, something KPN did, like, more than five or 10 years ago, or something like that. But seeing what comes out, it's still needed in the market, and therefore we can use this position. But others woke up as well. So I think for the coming year, like Chris said, we will do a transaction more or less in line with what we did this year and also working on 2026 already. That's, I think, Chris, what we can say about this.

Chris Figee: We've now effectively committed to sell about a million addresses this year and next year. And we used to own eight. So we still have a big chunk of our businesses that are valued at nil. So you could argue some unlocked hidden value, but it is just hard to add a number to it because these prices are volatile. But in any case, valuing a material is also, again pretty conservative and would only get better from here, on the upside.

So we still have a significant chunk of these addresses left that are not really valued. Again, it's difficult because prices do fluctuate. So the bulk is still in our portfolio.

On your question on regionals, look, I think when you look at the order balance that we have, I mean, to our estimate, the order balance for the main cable competitor is still positive despite their commercial actions. We still are net winner from them in terms of broadband. I think you're right, there where we have copper and someone else has fiber are our most challenging areas. Yeah.

Joost Farwerck: For us, we play the game more and more really in a regional way. So we played area per area, and we differentiate on tariffs and we differentiate on services. And sometimes we defend and sometimes we attack. When we see ourselves rolling out fiber, even in the areas where others try to roll out fiber as well, it's clearly that KPN is attracting most of the customers. And like Chris said, when we face fiber against copper, then we differentiate on other levels, or we use the combination of fixed and mobile to counter. And more and more for us, the challenge is to really play this game on a regional, on a local level to strengthen our position.

David Vagman: Thank you very much. And a very quick follow-up on this very point, you mentioned that you might take decision as from 2027. So does it mean that for the Delta footprint, we shouldn't expect a big strategic move before that time?

Joost Farwerck: Well, yeah. No, we have a rollout plan, and that's leading to 80%. Around that plan, every now and then we see an opportunity popping up, and we're always happy to look at projects to improve the value of KPN and accelerate our strategy. But the way I look at things is that the most powerful weapon we have in our hands is to continue the rollout, and then – but not for nothing, we aim for 80 and not for 100%.

Chris Figee: When the opportunity came up, that Glaspoort could acquire the 200,000 from Delta, as a parent company, we were obviously keen to support that acquisition. Right? So you need to be opportunistic and deal driven. But it's a case by case. As Joost said, the plan A is to be organic, and to our own strength and be organic and roll out fiber and actually be very competitive. And as in this situation, that actually also triggered an interesting response to which Glaspoort reacted, and we were keen to support that.

David Vagman (ING Belgium): Thank you very much.

Operator: We will take the next question from line Maurice Patrick from Barclays. The line is open now. Please go ahead.

Maurice Patrick (Barclays): Yeah. Good afternoon, guys, and thank you for taking the question. Just building on the last one, please, on the fiber acquisition, the Glaspoort fiber acquisition of 200,000 homes. Is it possible that some of the – if you look at these acquisitions opportunistically, this will take you beyond the 80% target of coverage. I see you obviously you target 80% is your organic target. I'm wondering if these bolt-ons are adding to that as opposed to replacing existing build. And I guess related to it, just philosophically, in buying homes from Delta Fiber, you're probably avoiding overbuild, whereas if you plan to go there, otherwise you'd have been the second network. So how do you think about the economics of effectively buying someone who's there rather than being the second person to build the fiber there? Thank you.

Joost Farwerck: Well, yeah. First of all, yes, every now and then, such an opportunity is about - we can do in the plan, 80%, and sometimes could also be that we can go beyond the 80%. So that depends a bit on the infrastructure we're talking about. So, could be that we are accelerating our rollout, and it could be that we are expanding our footprint. That depends.

And, well, with respect to that Glaspoort 200K thing with Delta, yeah, Delta appears to steer away from overbuild, and that supports healthy market development. That's their decision. And of course, that's – we encourage that. But if needed, we can also roll out fiber in areas where they are already present and then overbuild. But in this respect, avoiding overbuild is a positive effect.

Maurice Patrick: Well, just as a quick follow-up, were you planning to roll out in those 200,000 homes that you've acquired?

Chris Figee: Where we planning to roll out?

Maurice Patrick: Yeah. Were you planning – were the 200,000 homes sitting inside your 80% number, as in, like, they were part of the planned KPN fiber buildout?

Chris Figee: Put it this way, there were homes that were on our list, but not yet – so we didn't have any contractors committed or contracted yet. So it will be homes that probably at some point we'd roll out, but they were not on the immediate rollout calendar, and we did not have any construction companies contracted for that.

Maurice Patrick: Got it. Thank you so much.

Operator: Thank you. We will take the next call from line Siyi He from Citi. The line is open now. Please go ahead.

Siyi He (Citi): Hello. Good afternoon. Thank you for taking my questions. I have two, please. The first one, I just want to go back to the fiber deployment. I think in the previous quarters, you always mentioned that you encountered Delta and ODF on fiber deployment in the past, but now it seems that – at least from the press, it seems like the over – the deployment by your competitors has slowed down. Just wondering if that's the case. Or do you expect that since the land grab is finishing and they could put more focus on increase the penetrations, which could mean that the competition could step up further for your Wholesale business?

And my second question is on the EBITDA growth, I think you suggest that 3-3.5% growth this year includes Youfone. Just looking into next year, given that the price increases could come down a little bit and you're still expecting 3% growth. And just wondering if you can elaborate on what could be the driver to make up the difference. Thank you.

Chris Figee: Well, let me take the question, will we see the fact that the others – indeed, what we've seen is, certainly on Delta, retreating from some of their commitments, withdrawing in some areas, stopping building streams. Obviously, doing a transaction with Glaspoort, I think it's a positive, a positive for us, in essence. I don't see that as another – as a bigger threat to wholesale competition. I think actually it's supportive to KPN, the fact that we have less areas where we'll have immediate Delta fiber competing with our fiber or competing with our copper. So I think the areas of competition will be less. I think they're retreating to their core areas where they have already made quite significant penetration levels.

So I would see it actually as a positive towards this and less of a wholesale threat because there are less areas in which they'll be present.

Joost Farwerck: Yeah. And then adding to that, they originally announced both a rollout of roughly 2 million households, and now they clearly stated in the market that they moved back to a footprint of between 1 and 1.3 million households. So that's a big difference between what they promised to market earlier.

Chris Figee: So we see it as definitely a positive and actually a reduced threat of wholesale competition rather than a bigger threat, because it means it will be less new areas. And they will focus on areas where the penetration is already high.

On your question on growth rates, maybe it's good to take a little step back, also response to Andrew's questions, I'm merging Andrew's question and yours into one, as to what's happening in Q3, Q4 and next year. I said Q3 will be a bit less, and maybe I should be a little bit more clear. That also has to do with the year-on-year comps and timing of CLA increases and timing of price increases. So last year, if you recall well, we moved from Q2 to Q3 from a flat EBITDA to suddenly a jump to 1.8% last year in Q3. There're a little bit more one-offs in last year's Q3 numbers, so that challenges the comps a bit. And secondly, we have in the second quarter or in this quarter, our CLA increase, the second chunk of the CLA increase kicking in, and the mobile price increase only kicks in Q4. So in Q3 of this year, you have slightly more difficult comps. You have a labor cost increase affecting your CLA base. And the mobile price increase only kicks in in Q4. So that means Q3 will be a bit more muted in growth. Q4 will be will be well north of 3%, I expect. Also, you have to have – you have to be there to get to the €2.5 million – billion of EBITDA. So Q4 EBITDA growth will be back north of 3.5%. And that's to then provide also the right run rate into next year. This year, obviously, we also included Youfone into our guidance. We increase the guidance for the year to €2.5 billion, including Youfone. So all the quarterly numbers and the full-year numbers obviously are in line and are including Youfone. So including Youfone, we increased our guidance for the year.

The number for next year obviously, we will give it around the full-year results, as we always do. But we've got a pretty strong commitment to staying in line with the 3-3-7 framework that we communicated, including Youfone. But as again, the Youfone acquisition has been added and included in the earnings upgrade for the year. So that gives us a bit of color on Q3 and Q4.

Joost Farwerck: And we also know that next year, the cost of labor, the CLA parts will be less than this year. This year, we have an increase of again, 5.8. And we already know that next year will be less. But, yeah, more on that in Q1 next year.

Siyi He (Citi): Thank you very much.

Operator: Thank you. We will take the final question from line Usman Ghazi of Berenberg. The line is open now. Please go ahead.

Usman Ghazi (Berenberg): Hello, everyone. Thank you for the opportunity. I hope you can hear me okay. I just had a quick one on, sorry, on Wholesale again and one on Huawei. So on Wholesale, I mean, you've given out the split between copper and fiber, both on revenues and customers for the first time. So I'm just trying to calculate the ARPU for a wholesale and fiber customer.

And I guess, surprisingly for me, both the ARPU for copper and fiber turns up at around €23, whereas I was thinking that fiber would be higher because there's this move from ODF to VULA which is obviously priced at a much higher level. So could you perhaps give some color on why the two ARPUS would be similar?

And then on Huawei, I guess, this is more of an opportunity, I guess, for you to address some investor concerns. I guess, with the changes in the Dutch government and some of the background of the politicians that are there, there's some concern that there will be a push on stripping Huawei out, or renewed push to strip Huawei out of the networks. And I was just wondering if you could give your kind of view on that. That would be helpful. Thank you.

Chris Figee: Yeah. The first question on Wholesale pricing, fiber versus copper, I think the main difference is that in the copper portfolio, you see a relatively large share of VULA WBA integrated solutions and less on passive only. And on fiber, we see a little bit higher share of ODF access. So that explains the similarity in pricing. Going forward, however, obviously, all the new buildout of fiber that we do will only be accessible on the VULA terms. So you expect, over time, the price of these two to diverge and fiber to outperform the ARPU of copper as a bigger chunk of new fiber growth should be in the VULA territory.

Joost Farwerck: On Huawei, yeah, we – already for years now, we are closely aligned with our government on how we deal with non-Western vendors. We have dual vendor or multi-vendor approach. We announced that Ericsson will build a new 5G core network. And there, well, we're in the middle of that as we speak. We selected Nokia for an important part of our domains. And we mainly keep Huawei in our radio access network, and we report to our government. I think we're fully aligned. And also, when it comes to the new government, even our prime minister, we know quite well. And he was in the middle of this whole discussion – discussions with me. We also look at what's happening in Germany, which is, for us, an interesting development, because we think we can introduce that in our approach as well voluntarily and without impacting our plans.

So, I think on Huawei, I mean, it’s always important to keep a close eye on that. But, as we speak, we're always aligning with our government on this part.

Usman Ghazi: Got it. And are you saying that you would look to proactively take the German approach in the Netherlands, or would you rather wait for the government to revisit this?

Joost Farwerck: Well, our approach has been and is that we approach our — we prefer to approach our government proactively on the plans on how we deal with things, instead of waiting until they come to us. So also, in this respect, we're very interested on what the latest developments in Germany are. And we will have meetings with our government soon to update them on our approach. But like I said, we're pretty good aligned with our government.

Usman Ghazi: Thank you very much.

Matthijs van Leijenhorst: Okay. Thank you all very much. That concludes the call for today. If there are any further questions, please reach out to the Investor Relations team. Thank you.

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

[END OF TRANSCRIPT]