Event transcript KPN Q4 2024 Results

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KPN Q4 2024 Results

Operator: Good day, ladies and gentlemen. Welcome to KPN's Fourth 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. Good afternoon, ladies and gentlemen. Thank you for joining us today. Welcome to KPN's fourth quarter and full year 2024 results webcast. With me today are Joost Farwerck, our CEO, and Chris Figee, our CFO.

As usual, before turning to our presentation, I would like to remind you of the safe harbor on page 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 harbour.

Let me now hand over to our CEO.

Joost Farwerck: Thank you, Matthijs. Welcome, everyone. Let me start with some highlights from the fourth quarter and the full year.

We have delivered on our 2024 outlook. Throughout the year, we've consistently grown our Group service revenues. And within that mix, Consumer saw another quarter of solid commercial momentum, especially in broadband. Business continued to perform strongly with all divisions contributing. And Wholesale inflected to growth in the second half of the year, driven by mobile, especially.

Together with our joint venture Glaspoort, we added another 574,000 fiber households to our footprint this year, and we connected more households than ever before. For 2025, we expect service revenues and adjusted EBITDA AL growth of approximately 3%, CAPEX of approximately €1.25 billion, and Free Cash Flow of approximately €910 million. Our dividend per share is expected to grow by 7%, and we intend a share buyback of €250 million in 2025. And with this, our total shareholder return is projected to grow by 10%.

All in all, we're making good progress with the execution of our strategy, and we are set to maintain solid service revenues and adjusted EBITDA growth, in line with our mid-term financial ambitions. We're investing in the digitalization of the Netherlands. And from 2027 onwards, we foresee a significant step down in CAPEX, resulting in a material inflection in Free Cash Flow. As usual, Chris will give you more details on our financials and the 2025 outlook later in this presentation.

We delivered on our 2024 outlook. Service revenues grew more than 3%. EBITDA came in north of €2.5 billion. CAPEX at €1.25 billion was slightly higher than originally anticipated. Free Cash Flow came in at €900 million, slightly ahead of guidance.

We reiterate our dividend commitment, and we will pay a regular dividend per share of € 0.17 over 2024 following AGM approval in mid-April.

As a reminder, our Connect, Activate and Grow strategy is supported by three key pillars. We continue to invest in our leading networks. We continue to grow and protect our customer base, and we further modernize and simplify our operating model. Together, these priorities support our ambition to grow our service revenues and adjusted EBITDA by 3% and our Free Cash Flow by 7% per annum on average in the coming years, or simply put, our 3-3-7 CAGR framework.

ESG is linked to our strategy closely as we shared at our ESG webinar last November hosted by Chris. We focus on three areas: responsible, inclusive and sustainable. And in a nutshell, the core of our ESG strategy is to make our networks even more reliable and secure by design. Expanding our fiber network is key in this strategy. With this, we connect everyone while promoting social and digital inclusion. We do this in the most sustainable way as we aim to be net-zero in the entire value chain by 2040.

With this, we will create a 'Better Internet' where everyone in the Netherlands enjoys seamless access to a responsible, inclusive and sustainable internet powered by fiber and 5G.

Now I will walk you through the business details.

We continue to lead the fiber market, and we see more and more customers benefiting from the next-generation infrastructure. Together with Glaspoort, we now cover 63% of Dutch households with fiber, and we are gradually progressing towards our target of roughly 80% by the end of 2026. In 2027, therefore, we foresee a material step down in our CAPEX dropping to below €1 billion.

And to sustain our network leadership position, we further optimised our roll out process, and we increased our focus on connecting fiber households and activating customers. This approach is delivering tangible results with a record delivery of homes connected and ongoing new fiber broadband net adds.

Let's have a look at the Consumer segment.

Consumer service revenues increased more than 4% year-on-year or 1% corrected for Youfone, driven by fixed and mobile. Our commitment towards customer centricity has been paying off with customer satisfaction trends improving. That's important because NPS remains leading in the Dutch market when it comes to KPN, and it's an important target for us. So improvements on NPS.

This week, we launched our Household 3.0 strategy. With this, we will take the next big step in convergence, and we give access to an even broader range of digital services and best content in households, demonstrating our focus on effective base management. In this respect, we recently secured the exclusive broadcasting rights for highlights of the Dutch Football League, Eredivisie. These rights enable our customers to have access to the best sports content.

A deeper look into our KPIs.

On the back of active base management and strong commercial execution, we saw a quarter of solid broadband base growth with a healthy inflow of new fiber customers despite the intensified competition in the fourth quarter. This, combined with a growing ARPU, led to continued growth of our fixed service revenues.

Fiber service revenues continued to grow well above 10%. Our postpaid base increased by 30,000, while the postpaid ARPU, excluding Youfone, declined by 2.8%. And combined, this resulted in only 0.3% mobile service revenue growth.

The year-on-year growth trend slowed down sequentially mainly due to lapping of price increases implemented in October 2023, less out-of-bundle revenues in the fourth quarter and some negative one-offs. Going forward, we expect this growth trend to recover. Chris will give you more details later in the presentation.

Let's now move to B2B.

B2B delivered another strong quarter with solid commercial momentum in postpaid and organic growth across all the divisions. Our business Net Promoter Score remains stable, and that keeps us the clear leader in the Dutch market.

Well, first of all, SME remains the main growth engine of B2B, driven by strong growth in Cloud and Workspace and supported by continued solid commercial momentum in mobile and broadband. LCE recorded another quarter of growth, mainly supported by the continued good performance in our IoT business and IT services. KPN’s enhanced security portfolio, which is called Extra Safe Internet, has also started to contribute to LCE's growth.

Lastly, Tailored Solutions, this continues to deliver as planned. Year-on-year, growth dropped a bit, mainly due to a one-off contribution to revenues in Q4 last year. While this business always remains subject to timing, we will always show some variability in reported growth rate. Most importantly, underlying growth here is solid and performance and margins continue to improve steadily.

Our Wholesale service revenues continued to improve, mainly driven by mobile. Broadband service revenues were broadly flat despite a declining base driven by higher fiber service revenues. Mobile service revenues came in strong, driven by higher performance from sponsored roaming partners and messaging revenues. Next to this, we recently extended the contract terms of some of our largest Wholesale partners.

Other service revenues declined, mainly due to lower regulated tariffs leading to a decrease in low-margin interconnect revenues and lower volumes on traditional voice.

Now a bit more on ESG.

On this slide, you can see our progress on carbon reduction, circularity and diversity. We are dedicated to enhancing energy efficiency to minimize the carbon footprint of KPN across our entire value chain. And to support this, in 2025, we began sourcing solar energy from a solar farm in partnership with Eneco, further advancing our green electricity goals. This initiative, as well as the energy supply we will use from the windmill park as from 2027, is also important for ensuring energy supply at lower cost.

Next to this, on the ESG part, we made further improvements on our diversity target, reaching 31% of women in our senior management, and this brings us close to our ambition to reach at least 35%.

Now let me hand over to Chris to give you more details on our financials.

Chris Figee: Thank you, Joost. Let me talk you through our financial performance. Let me start by summarizing some key figures for the fourth quarter.

First, adjusted revenues increased 1.7% year-on-year as service revenue organic growth across all segments outpaced lower non-service revenues. Second, our adjusted EBITDA after leases grew 3.1% in the quarter or plus 2.3%, excluding all Youfone contributions. And by all we mean, not only the acquired EBITDA but also the Youfone growth during the quarter. Our EBITDA margin increased by 60 basis points to 43.6%.

Third, the full year Free Cash Flow increased by €14 million compared to compared to 2023 to €900 million, driven by EBITDA growth. We'll give you some more detail on underlying cash developments later in this presentation.

In the fourth quarter, Group service revenues increased 2% on an organic basis. And in this mix, Consumer service revenues grew by 1% organically, excluding again all Youfone contributions. If we had included Youfone on a pro-forma basis, this would have added around 30 basis points to the year-on-year growth rate, which is close to the real trend for Consumer.

Going forward, we expect Consumer service revenue growth to recover towards 1% to 1.5% in the first quarter of this year, supported by base growth and further commercial improvements. From the second quarter onwards, we see further gradual improvement, reaching about 2% service revenue growth year-on-year.

Business recorded another strong quarter, underpinned by growth in all divisions. As expected and communicated, the reported year-on-year growth rate was a bit softer in Q4, due to a small one-off and a tougher comparison to Q4 last year. Adjusted for these items, on an organic basis, B2B showed similar growth to that seen in the first half of the year, and expect it to continue to do so in the first half of 2025. This means for the full-year 2025, we expect B2B to grow well north of 3% year-on-year.

Finally, Wholesale grew 2.3% organically in Q4, driven by the ongoing success of our international sponsored roaming business. For 2025, we see continued good growth in mobile, mainly due to our sponsored roaming and travel SIMs business, especially in the first half of this year.

In broadband, we will benefit from the implemented inflation adjustments that roughly matches the declining base. Finally, we'll see the lapping of the cut in termination rates. With this, we expect also Wholesale to grow north of 3% as well for the full year 2025.

For the full year 2024, adjusted EBITDA grew 3.6% or 3.1% corrected for Youfone, driven by higher service and non-service revenues. Remember, we increased our initial guidance of EBITDA of €2.480 billion to €2.5 billion to include Youfone contributions. From both perspectives, our guidance was met.

Our EBITDA margin of 44.5% was broadly stable compared to last year despite our cost base increasing significantly by about €100 million year-on-year. The increase in our direct cost was mainly driven by higher third-party access costs driven by Glaspoort, higher content costs and the service revenue developments in B2B. The increase in our indirect cost base was driven by wage indexation and other inflationary headwinds, partly mitigated by continuous cost measures. We are pleased to see that our cost focus has driven a decline in the number of internal and external staff of about 2% in the last six months of 2024.

For 2025, our direct cost base will continue to be impacted by our increase in third-party excess costs, of course, mostly to our 50% owned JV Glaspoort and service revenue mix effects.

Our indirect cost base will be mainly shaped by wage indexation, which will be offset by natural attrition, cost efficiencies and lower energy costs.

Our total energy spend is expected to be about €10 million to €15 million lower year-on-year in 2025. With all of this, we foresee a flattish indirect cost base development in 2025. Our Operational Free Cash Flow continues to show healthy growth, increasing by about 7% year-on-year, in line with our CMD guidance, driven mainly by EBITDA growth. CAPEX was marginally higher than the prior year due to some CAPEX that was related to fiber acquisitions. So the business that we bought mostly Kabeltex.

For 2025, we expect to see a similar growth rate in Operational Free Cash Flow, driven by EBITDA growth and effectively stable CAPEX. Obviously, if it hadn't been for the gradual normalization of our taxes paid, the Operational Free Cash Flow would by and large be trickling down into our full Free Cash Flow.

With this, let's focus on the moving parts of our Free Cash Flow.

At €900 million, our Free Cash Flow was around 2% higher than last year. This is mainly the result of EBITDA growth, partly offset by higher cash taxes and change in Working Capital, stable CAPEX. We managed to keep our cash interest expenses stable, and there was a delta in other mainly relating to the timing of lease payments.

Our cash margin over revenues remained broadly stable at 16% of revenues, and we ended the year with a cash position of €762 million.

KPN remains focused on creating long-term value, which is evidenced by the strong return on capital employed. Our ROCE improved approximately 40 basis points year-on-year to 14.4%, due to an increased operational efficiency.

For the coming years, we see scope to further enhance our ROCE, reaching our mid-term financial ambition of 15%, consistent with continuous creation of shareholder and stakeholder value.

We continue to run with a strong balance sheet. At year-end, we had a leverage ratio of 2.4x, below our self-imposed ceiling of 2.5x and also our interest coverage remains very strong. Our average cost of senior debt decreased 33 basis points year-on-year, mainly due to the sterling bond tender executed in the first quarter of 2024, the senior bond redemption in September and lower floating interest rates.

Our gross exposure to floating rates remains low at around 15%. Our liquidity of around €1.8 billion remains strong, covering debt maturities until end 2027. And on a side note, please note that the carrying value of our joint venture Glaspoort on our balance sheet is now well over €500 million.

Let's turn to our outlook and ambitions. Note that our outlook excludes any contribution from the Tower Company that we intend to acquire since it is still subject to ACM approval, even if we expect this approval to come in relatively short notice. The potential EBITDA contribution from this tower business on a full year basis on a 12-month basis will be close to €30 million. So this could mean a substantial uplift in our guidance for 2025. But then again, we can only really make this upgrade on a pro-rata basis, of course, if and when full regulatory approval has been obtained.

Organically for 2025, Group service revenue growth is about 3%, driven by all segments. We expect the adjusted EBITDA after leases to come in at around €2,580 million or about 3% growth, mainly driven by service revenue growth and a stable indirect cost base. Our quarterly EBITDA is expected to follow broadly the same pattern as in 2024.

For Q1, we expect EBITDA growth between 2% and 3% and Q2 substantially higher. Also note that we expect a similar amount of IP sales in Q2 as we had last year. CAPEX will remain stable at around €1.25 billion. We expect Free Cash Flow of around €910 million, which represents a small increase compared to 2024 since we face higher cash taxes and interest payments, countering continued strong growth in operating cash generation.

Free Cash Flow generation will be stronger in the second half of the year due to the timing of tax and interest payments that will be mainly recognised in Q1.

Finally, over the entire period until 2027, we reiterate our financial ambition to grow our service revenues and adjusted EBITDA by 3% and our Free Cash Flow by 7% per annum on average, as reflected in the 3-3-7 CAGR model. Note that our 2025 guidance and our daily trading are both in line and on track with this multi-year ambition.

Our financial framework is aimed at long-term value creation for all stakeholders. In this respect, we are committed to returning all our Free Cash Flow to our shareholders. We intend to pay a regular dividend of €0.182 per share over 2025, which is up 7% compared to the €0.17 in 2024 and in line with our mid-term ambition.

In addition, we intend to execute a new share buyback programme of €250 million in 2025, which includes a small carry-over of about €40 million retained Free Cash Flow from 2024 to ensure we continue to distribute all our Free Cash Flow to our shareholders.

Effectively, this means that total cash shareholder distribution will increase by about 10% compared to 2024 and is representing an attractive yield of about 7% at today's share price.

Let me briefly wrap-up with the key takeaways.

KPN again delivered on its outlook with consistent organic Group service revenue growth. We delivered adjusted EBITDA and Free Cash Flow growth slightly above guidance despite a cost headwind of about €100 million. We saw solid commercial momentum in Consumer and Business. We continue to lead the Dutch market on fiber with accelerated delivery of fiber connected homes and the overall progress made in 2024 demonstrates the successful execution of our strategic plan, paving the way for future growth.

With that, we are confident in our ability to deliver on our mid-term 3-3-7 CAGR financial ambitions, including shareholder distributions and have announced full-year 2025 financial targets that are completely in line with this multi-year plan.

Thanks for listening. We look forward to your questions.

Matthijs Van Leijenhorst: Thank you, Chris. Before we move to the Q&A, I would like to remind you to please limit your questions to two, please. Operator, over to you to 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 keypad. First question is from Keval Khiroya from Deutsche Bank. The line is open now. Please go ahead.

Keval Khiroya (Deutsche Bank): Thank you. I've got two questions, please. Firstly, you spoke about an expected improvement in Consumer service revenue growth, particularly beyond Q1. Can you elaborate what's going to drive that? And to what degree you're dependent on base growth in mobile and broadband?

Then secondly, on the OPEX side. We saw a bit less OPEX pressure in the quarter than in the first nine months. Is this just phasing, or is it a bit more cost-cutting focused, whilst perhaps the revenue backdrop in some areas is a bit weaker? Thank you.

Joost Farwerck: Well, let me start and then hand over to Chris.

Yes, on the Consumer service revenues, first of all, we don't expect negative one-offs in the first quarter. And we also adjusted our portfolio in two ways. In one way, we excluded a lower-priced attractive bundle introduced in the discount battle in Q4, so that we took out, to be honest.

The second one is that we introduced a plan that is called "More for More", which is all about the low-end base in the full Consumer mobile base, we offer more, but also for €1.25 on top of what they paid. That was introduced in 1st January. That will have positive impact. Chris?

Chris Figee: Yes, Keval. Well, what happened in the fourth quarter, reported mobile service revenues were affected by three one-offs. One-offs in iPhone credit that we talked about and some lower actually billing issue in our system, small point. That means underlying mobile service revenue growth is around 1% if you correct for those.

On top of that, we saw some lower out-of-bundle traffic, lower uncommitted ARPUs. I think it has to do with our double data solution that we give to customers. And as I said, we went relatively deep in an acquisition discount in December.

Now in Q1, of course, those one-offs will not reoccur, the acquisition discount has been terminated and the double data offer that will lapse. It's still there, but will lapse so that the year-on-year effect will fade away. So basically, with all this, it means that we expect Consumer mobile in Q1 to grow 1% to 1.5% year-on-year. So go back to that growth rate.

As I said, excluding any Youfone benefit, so we exclude all of Youfone, not just the acquired business, but also the growth of the business, which is about 0.3% in mobile and 0.4% in total Consumer revenues, which means Consumer mobile in Q2 should go back to about 2% growth. So that's kind of the growth dynamics that you saw in Q4 up to Q1. So underlying growth in mobile in Q4 is around 1%. Will go back to 1% to 1.5% in Q1, and we think towards 2% in Q2.

Fixed will be at this level roughly. There's some base growth assumed, but our guidance is pretty limited, pretty conservative when it comes to base growth, which means that the Consumer market will be around 1% to 1.5% total growth in Q1.

As to your second question, actually, this is actually a quite decent outlook, consistent with the 3% CAGR that we see for KPN as a whole.

On your question on OPEX. Yes, OPEX was gradually getting better. There's not a short-term response to failing revenue trends. No. We are taking OPEX measures, but they take a bit of time to land. So we started working on our OPEX in the second and third quarter of this year more intensively. You saw our total FTE base dropped by about 2%, about 200 people in the second half of the year. Those are the results of initiatives we started to take in Q2 and Q3 and then they gradually land.

There was not a hand break as a response of revenues, no more the consequence of measures we started to take in the middle of last year. And we expect those OPEX benefits to gradually also fade into 2025 with a total flat cost base. Hope that’s clear.

Keval Khiroya: Yeah, thank you guys.

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

Luigi Minerva (HSBC): Yes. Good afternoon, and thanks very much for taking my question. So the first one is really on capital allocation. Well, I'm interested to see how you think about the trade-off between the share buyback and the effort that will take to consolidate Glaspoort when the time comes. So is it an either/or, or you think you can actually afford to do both within your leverage ratio constraints?

The second question is on the CAPEX outlook, particularly as we go into 2027. Now obviously, that's super important part of your multi-year guidance. Consensus is gradually moving towards your ambition of much lower CAPEX. Obviously, you are reiterating this guidance, so you believe in it. But I just wanted really to kind of get more color on the degree of your confidence. Obviously, the fiber deployment will reach its target. But how can we really be sure that nothing else will pop up, whether it's densification from 5G, Edge computing, AI, data centers, I mean, you name it. The history of the sector with CAPEX is pretty mixed, as you well know. So it would be interesting to hear how confident you are that you can actually bring CAPEX sustainably to that lower level from 2027 onwards. Thank you.

Joost Farwerck: Yeah. So that, of course, is a very relevant question because much of our plan is built around 2027, where we will lower our CAPEX. Why we are so confident is that we are, in our view, a bit of overinvesting against what is usual for telco in this country. We're building a fiber network. And related to that, we do €1.2 billion, €1.25 billion per year. And we're pretty good on trying to meet the target of 80% end of '26. Will be 80%, I don't know, could be 82%, could be 78% because also the number of households are changing in the Netherlands.

But that is probably not the most relevant part. Most relevant part is that we are building our plan around lowering the CAPEX again back in or looking forward to '27. And since so much is related to fiber, but not everything, we are pretty sure that we're going to do it. It's not that we are squeezing all kind of other investments to make the fiber network work. So we're investing in Edge computing. We built our 160 metro core locations to facilitate that.

We built the best mobile network in the world. We consider 5G as a very interesting development to manage networks in a super-efficient way, but we are very prudent by introducing all kind of services, especially in Consumer market.

We only do that when it's supported by a business case that works. So it's not that we are underinvesting in some areas to cover up for the fiber investments. And I think that in 2027, we will step down in CAPEX, therefore. Well, Chris knows even more about CAPEX than I do, so he will elaborate on this.

Your question on capital allocation. I mean, it's very important for us because some of them are in there for a long time to reward our shareholders. Capital allocation is important. So dividend and on top of that, share buybacks. And also when we enter the year of '27, that will be the formula as I look at things.

Glaspoort consolidation is not really cash involved. That's a flip of one share and then we consolidate Glaspoort. But it's not that heavy cash involved.

Chris Figee: Yeah. Luigi, on your first question on CAPEX. Look, when you run a telco and you ask around the company, how much money do you want to spend? I mean the bottom-up calculation always adds up to €3 billion of CAPEX that people invest every year, right? So there is always a management decision. So we were in control of the CAPEX that we spent. It's pretty clear that the step down will come of a step down in fiber.

There's no magical squeeze of CAPEX somewhere else or a fantasy productivity increase. So it's the gradual phasing out of the fiber projects. So that's fully in our control. It doesn't mean fiber falls off the cliff, we will continue to work on fiber, but at a much lower pace than what we've done so far. And we see other projects like whether it's 5G or at edge locations. We'll be able to fit in that still at the CAPEX that we guided for, which is in the guidance, we still be – the average capital intensity is not a really low number.

So within that, we should be able to fit the remaining CAPEX that we want to do. So we are comfortable with that. And as you said, it's a management decision.

When it comes to Glaspoort. We will see we continue to do buybacks and Glaspoort. Technically speaking, and I'll give you a long answer. If you take EBITDA today, you compound the 3% per annum and you keep our debt stable, then basically our leverage ratio at that time would be 2.2x to 2.3x. So well able to absorb the Glaspoort consolidation, which adds about 0.2 times and you still be at 2.5x, given the fact that your leverage ratio increases.

And then again, at that time, we're done with fiber. So our fiber spend is much lower. We have a balance sheet that consists of the most modern assets. We've got much more cash flexibility. So you could argue we can even sustain a bit of more debt in the 2.5x or less only than is today coming in 2028. It doesn't mean we're going to go reserve and go massively above 3x. But if our leverage ratio drifts up by 0.1x at that time, that would be fairly manageable to us.

So long answer to say, look, we are confident that our CAPEX will drop. It's in our control and all the other programs are embedded in that planning. And we thought about it before. And secondly, the consolidation of Glaspoort and capital return should go hand in hand.

Luigi Minerva: That's excellent. Very clear. Thank you.

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

Joshua Mills (BNP Paribas Exane): Thank you. Two questions from my side. The first is just a bit of a follow-up on CAPEX. And I know we're splitting hairs here. But at the CMD, you guided for around €1.2 billion of CAPEX a year out to 2027. And clearly, '24 and '25 are going to be a bit above that. So my question is, is that additional €50 million or so of CAPEX driving faster fiber roll out speeds than you've anticipated, i.e., are you going to get to that 80% coverage perhaps slightly quicker if you maintain this run rate? Or is there something else in the CAPEX budget, which is driving a slight increase there? I'd be very interested to hear the answer.

And then the second question, now that you've had Youfone for a few quarters, and perhaps a bit more focused on the sub-brand or value segment of the market. Could you give us an idea about how you're seeing the mix shift within your own customer base from main brand to sub-brand and perhaps where you think that will go over the medium term, just so we can think about the underlying ARPU development? Thanks very much.

Chris Figee: Yeah. On CAPEX, the €50 million or so extra, it's effectively wage inflation showing up in CAPEX. I mean that's the other side of it. And the wage inflation really takes place mostly in the fiber area, where the cost to work here has gone up. The fiber professionals, especially the ones who can do homes connect are obviously in high demand. So the cost per hour of these people has gone up.

So you think the €50 million is in all fairness not going faster. It's becoming slightly more expensive. We see wage inflation, especially in the construction sector, which also means that we're pretty confident this will fall out when you stop doing fiber because it's really in that area.

On a side note, when you look at the fiber business case, however, it doesn't change the case. I mean if you do a fiber IRR, it doesn't really matter how much a home passed costs. It's all about penetration and ARPU uplift. Those are still there. So the €50 million, I'd rather not have it. It's kind of unavoidable if you want to continue to do fiber. It will fall away when you stop fiber, but the fiber case itself is less vulnerable to this amount.

Joost Farwerck: Yeah. And Youfone, first of all, we're very happy with the fact that we welcomed Youfone in the KPN family. In the past, KPN decided to eliminate Telfort. In hindsight, I'm not sure if that was a good decision. But looking forward, it's a very good decision that we now have Youfone with us.

In the Dutch market, our main competitors, they all run a flagship brand supported by some flanker brands, and that's working quite well. And we can strengthen our KPN proposition by introducing Youfone in the market. That's what you also currently see in the base and revenue development. So KPN Unlimited is becoming more and more important, especially combined with fixed, especially focusing on households to serve our customers, but that is expensive for a lot of people. So there is a no-frill segment that is quite significant and that we cover much better with Youfone in a very successful way.

There's also all kind of discussions coming from Dutch politicians on the pricing of internet in the Netherlands and of people who can't make both ends meet and can’t pay for internet, but we position Youfone excellent in that area, and we see it working quite well hand-in-hand.

So good inflow of unlimited. And against that, a good inflow of Youfone on the mobile side and also fixed good inflow on KPN's fiber, but also Youfone is working quite well. So all in all, that was a great move that we could make the last year to consolidate Youfone.

Joshua Mills: Great. Sorry, just a follow-up. If you take Youfone and Simyo together now, how much of your base actually from the mobile side today is on the sub-brands rather than the main KPN brands, if you're happy to share it?

Joost Farwerck: Well, probably I start a bit of guessing now. So that's a bit of tricky. I'll get back to you. But of course, KPN is our main brand, low prices and high prices on the same brand. So still a lot of that in the base. So the main base, of course, is KPN, but Simyo is doing quite well, which is a smaller part and Youfone as well.

So probably one-third, 25% of Simyo-Youfone, but then I'm guessing, so I'll check it.

Joshua Mills: Got it. Thank you.

Operator: Thank you. We will take the next question from the line, Ajay Soni from JP Morgan. The line is open now. Please go ahead.

Ajay Soni (JP Morgan): Hi there. Thanks for taking my questions. The first one is on interest costs, which came in flat year-over-year. I think the CMD guidance increased by €35 million. So I just wanted to understand has that changed? And what's the trajectory going into 2025 and beyond? Second one, is around CAPEX. Are you expecting CAPEX in 2026 to be pretty similar to what you've guided in 2025, given the inflationary cost you mentioned on your fiber?

Then my last one is just on shareholder remuneration. You mentioned you aim to pay out 100% of Free Cash Flow. Given this, if you look at, say, 2027 consensus, there's definitely headroom there to do more than your guided €1 billion of share buybacks over the '24 to '27 period. So just wanted to understand your views on that, whether you could actually beat that guidance you gave at the CMD on the buybacks? Thank you.

Chris Figee: Yes. Firstly, on interest cost. Indeed, I think we outperformed in 2024 interest costs. Next year, rates will go up. The number to model for is €215 million. €215 million is the expected interest going out. So let me take the question a bit broader. So what are the building blocks of our Free Cash Flow?

What I expect our operating Free Cash Flow, EBITDA minus CAPEX to go up about 7%. And then interest charges will go up to €215 million. Taxes will be around €180 million. And then the remainder will be Working Capital and all the other, and then you get to €910 million Free Cash Flow. I hope I make your modelling life a bit easier, but this is kind of what we expect to happen.

On Free Cash Flow, €1,250 million in Capex in '26, I think it's a fair assumption to keep it stable at that level. Obviously, we are very much aware that there is an inflationary pressure up, and it's our job to keep it stable. So our aim is to have €1,250 million in Capex really as a ceiling and keep that at level.

And the third one, let me answer first and Joost can complement. I don't exactly know what consensus has on shareholder remuneration 2027. Our current thinking is we return all of our Free Cash Flow to shareholders or effectively all of it in a mix of dividend and share buybacks.

In the CMD last year, we increased the share of dividends to also stick on our confidence and to come to the expectation of some of our shareholders. The mix, it depends a bit on where the share price is at that time, depends a bit on how we look at the world. But current thinking is, yes, I see no reason given the balance sheet that we have to stop returning cash to shareholders.

Joost Farwerck: No, I agree. And it's not our intention to disclose the 2027 guidance today. But of course, the whole idea is that in 2027, Free Cash Flow will improve. And due to that, shareholders will benefit from it. How we work it out, we will design next year. And of course, we'll first sign up with our boards. But the whole idea is, of course, that in 2027, shareholders will benefit from the improvement of our Free Cash Flow.

Ajay Soni: Great. Thanks very much.

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

Siyi He (Citi): Hello. And thank you very much for taking my questions. I have two questions. It's all about market competition. Actually, the first one is on the Consumer market. I think in your report, you mentioned that you see increased competitive environment. But at the same time, you reported probably one of the best broadband net adds. Just wondering if you can comment on that. A similar question goes to Wholesale. We see that Wholesale broadband decline has worsened a bit this quarter. Wondering if you can comment on what you see on the infrastructure competition side. Thank you.

Joost Farwerck: Yeah. So we are operating in a competitive market for years now, and it will stay like that I assume, compared to other countries. By the way, it's especially on mobile until now pretty okay. But we have to deal with competition and there's also a bit of a traditionally, I should say, Q4 is always a very hot market.

I think what we did good is launching Youfone in the broadband area. We booked in a lot of fiber customers. I think Chris explained quite well how service revenues developed and how we look at Q1 following Q4.

On the broadband net adds, we consider this as a very good quarter. It's not that we now count for 10k per quarter, but I must say the combination of Youfone and KPN worked quite well.

Chris Figee: Yeah. I mean, as Joost said, Q4 tends to be a competitive quarter typically around Black Friday compared to our main competitor. We continue to have a positive order balance in each of the last months and also in the intense fourth quarter months. So I think the team did well.

As Joost said, it's kind of careful not to multiply that number by four and add it to the 2025 net adds. But Q4 was a good number. Some of our initiatives really worked well.

In Wholesale, yes, there's Wholesale competition on broadband. That leads to some shrinkage in Wholesale. Basically, the effect is that we have copper churn like we have copper churn in our regular business as well. So we take all of the copper churn. And then for our main Wholesale customers, we take one-third of the inflow. So we used to have all of the inflow because we were the only broadband Wholesale player in town.

Now there are multiple. So we take a chunk of the inflow, but we have all of the coverage. So that means there will be, I guess, some decline in base in Wholesale broadband. But then again, we've implemented a price increase this year. Part of the churn actually is turned to Glaspoort to our own customers. So that's officially external, but it feels like internal. We serve those customers as well when we serve the active layer.

The combination of that small decline in Wholesale broadband lines to broadband competition and shift to Glaspoort, but then again, the revenue increase from price increases and from the Glaspoort active services mean that I would think that Wholesale broadband service revenue should be around flattish, maybe small decline, small positive around zero. And then we're left with growth in Wholesale mobile both from national carriers and from sponsored roaming carriers.

So, the business is changing a bit in Wholesale, but I think the team is responding well with the new initiatives also in the mobile space.

Siyi He: That’s very clear. Thank you.

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

Andrew Lee (Goldman Sachs): Good afternoon. I just had a question on your cost efficiencies. Basic question is, do you think there's more to be done or that can be done in cost efficiencies? I appreciate that you talked about flattening indirect costs in '25 versus '24 and also that you have the Glaspoort access headwinds as well as wage indexation. But in the context of some of your peers that have announced big cost-cutting exercises in the Nordics, for example, in recent times and your top line that looks like a high structural quality company at 3% growth, but the kind of operational gearing is not quite delivering to that level yet. How should we think about your ability to manage costs and your ability to outperform on that front? Or is there even risk to the downside? Thank you.

Chris Figee: Well, Andrew, good question. Look, on the operational gearing, obviously, we're getting charged about €30 million more Glaspoort cost every year. So that's about 1% of EBITDA. So there is operational gearing at KPN. It will only show up after we consolidate Glaspoort. But it's in there. So that's on that part.

On the cost side, look, I think the challenge we have, of course, you have to absorb the CLA increase. We'll have a CLA increase in 2025 of a little over 3% starting 1st January. And obviously, you have a CLA increase that came in 2024 in two buckets and a chunk came in for us per half year. So there's a CLA, let's say, headwind in cost, which lasts basically for the first six months of 2025. The remainder of the 2024 CLA increase and the CLA increase in year one.

Against that you need to reduce staff. As said, we've reduced staff by 200 in the last six months, and we expect to continue to decrease our staff at the same rate during the year, at least that's the plan. We've got some better energy expenses, energy prices coming down, but that was compared to plan. So is there more to be done? Obviously, yes. But we take the more long-term view. I don't believe in just announcing a massive restructuring and hoping for the best. We do it every year. So I think our plan is to have a continued flat to declining cost base. I would say 2025 would be flattish.

If we are successful in the measures we intend to take in 2025, you could see a further impact in the year 2026. And there are always hand breaks you can pull in 2025. But in taking the wise long-term view, I would expect our cost base to gradually improve over time.

Joost Farwerck: Yes. And adding to that on the longer term, there are two big themes. One is fiber roll out. If we decline the speed and stop the program, that will also mean that we can further simplify the front end and back end of our organization. Thousands of people are working over there.

Secondly, is that we are working on transformation programs on the new KPN. We're digitalizing the front-end and the back-end while we speak. And there's also cost savings related to that. So it's not only that we are doing our organic run rate business. But on top of that, we launched last year a couple of transformation programs really based on new technologies to simplify the organization. And a bit on the longer term, six, seven quarters from now, I expect cost savings to kick in from that as well.

Andrew Lee: Thank you.

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

Nuno Vaz (Bernstein): Hi. Good afternoon. Thank you also for the opportunity to ask two questions from my side. First one is quite simple. If I put your guidance together, is it fair to assume that there will be another Working Capital of €30 million to €40 million next year? Because that will be the third year in a row where you have this positive working capital. So if we could understand a little bit better what's driving this positive working capital.

Then second question, you touched already a little bit on this when you flagged Youfone as a way to sort of combat regulatory concerns on pricing on the budget broadband. But if you're speaking about the telecom market review from ACM that came out recently, I think their main issue that they flagged is that there's a lot of dormant contracts in your portfolio. And they believe that Consumers might not be informed recently that their contract expired that they might have cheaper offers available. If you could comment on that and if you see risk of potentially some regulatory overhang being more Consumers resubscribing to cheaper plans? Thank you.

Joost Farwerck: Yes. Well, on your second question that we're in the middle of that debate. We think it's a very good thing ACM is looking at this because it's also good to have all the facts together. We have one of the best internet networks in the world, and we're investing a lot in there. So on quality, we do very good.

Also, if you compare our propositions against foreign prices, other European countries, then in the benchmark, we do quite well. We encourage our own customers to move to better propositions ourselves. And that is what we call Household 3.0, swap to the base instead of the acquisition game. We are a base company.

So we are informing our customers in a proper way to be upgraded to higher speeds and more content. So for us, it's not about lower tariffs. It's giving ‘more for more’, like I mentioned that we started on 1st of January.

I think on the real low end, people who can't make both ends meet, we started a couple of pilots with municipalities in Utrecht and Amsterdam to support the households that are in trouble on a low price basic internet kind of proposition, because that's the segment we should support. But in general, we think we are super good on the quality and also quality compared to price. And it's especially that last part that I mentioned that we should look at to solve.

For us, we're pretty okay with ACM looking at things. A year ago, they concluded that the internet market in the Netherlands is in an excellent shape and no interference needed. So yeah, I don't expect them to change that opinion, but of course they want more facts.

Chris Figee: Yeah. On the first question on Working Capital, love the question, because we make a living out of optimising Working Capital. Now we've done a lot, but really only structural Working Capital improvement. So we do some vendor financing, some handset financing, but not a whole lot. I mean there's the unused capacity, I'd like to keep it that way.

We spent the last years in improving payment terms, so receivable terms and payment terms, carefully not touching the SME sector because that's very touchy. We don't want to go there.

But if you go into your balance sheet, you always find opportunities to spend the time on where you find funny payment terms, receivable terms that you optimize. Having said that, this program obviously has a limit. So next year, there will be a small positive Working Capital contribution, but less than the number you have, less than what we have today because at some point, you want to sensible things and not go too far.

So where do the numbers add up? It's about the quality of earnings. So I think we're planning for an increase of cash earnings in 2025. So technically the line delta provisions will be better, specifically in the Free Cash Flow forecast, which has to do with the cash policy of earnings going up.

Thirdly, in 2024, we had quite some like lease payments, catching up on lease payments that will not reoccur. So in your model, it's a line item delta provision and others that make up for it with some positive Working Capital contribution, but much less than last year.

Nuno Vaz: Understood. That’s very clear. Thank you.

Operator: Thank you. We will take our final question from the line, Polo Tang from UBS. The line is open now. Please go ahead.

Polo Tang (UBS): Afternoon. Thank you for taking my two questions. The first question is just about fiber overbuild. Can you talk about the level of fiber overbuild in the Dutch market? From what I can see, the level of fiber overbuild between KPN and the ODF footprint specifically seems to be around about 0.4 million homes. But if both KPN and ODF go ahead with the stated build targets, then the level of overbuild to me seems to be about two million homes. So do you agree with these numbers? And can you talk about what you're seeing in terms of competitive dynamics in the areas where there is this fiber overbuild?

Second question is just really about your postpaid mobile ARPU. I'm conscious that you kind of gave an explanation in terms of some of the moving parts. But if you actually look at your postpaid mobile ARPU, it's been stuck at around about €17 for several quarters.

Now given that you have CPI-linked pricing and also upsell to Unlimited bundles, I would have expected some modest growth over time. So therefore, can you maybe just talk about what the offsetting factors might be in terms of why mobile postpaid ARPU has been stuck at €17, what are the puts and takes? Thank you.

Joost Farwerck: Yes, Polo, on fiber. So we built a plan at the end to do 80%. Delta is one of the main fiber builders beside us, partly building outside our footprint is not – one of the reasons we came up to 80% is that we're less building in Delta areas. And Delta is also trying to sell part of their network to Glaspoort. So all in all, you could say that Delta is trying to – well, to be successful in their own original footprint, to put it that way.

ODF is in the larger cities where we plan to build fiber as well. It's more or less our final fiber wave because our copper network is there in a really good shape. Well, they announced two or 2.5 million. They stop now selecting new areas. So you mentioned 1.4 million. Probably they are somewhere landing on that point. I don't expect them to go further than that and to end up around 2 million households.

So max overbuild ODF, unless they change strategies, but I mean, it comes out in the Netherlands that overbuild is working from our side, but less from the other side. So if we come into an area where they start with a customer base of 0% and they come into an area where Ziggo is above 40%, KPN 39%, it's very difficult to build up a base above 30%, the penetration is very important for your business case.

We bring in immediately 30%, 39% of customers. So we are very strong there. So I think the message is clear in the Dutch market. Delta stopped, ODF stopped, selecting new areas, and that's where we are. Let's see how everything will end up. So there is overbuild, but until now, one million on one side, a bit more than a million on the ODF side, and we're trying to keep it that way.

Chris Figee: Yeah. Polo, on the mobile ARPU, I think it's committed and uncommitted. So basically when you look at our ARPU, the committed ARPU is behaving as planned. So all the price increases land. And there's always a bit of leakage over time due to renewal delta front book and back book. So you increase your price and float a bit during the year.

And obviously, we're battling that. We've got now over 50% of our mobile clients in contract. 30% of our base is Unlimited. We're giving initial security solutions to our mobile clients to limit that renewal delta, but the real development is on the non-committed part, the lower value of the lower interest part, which is the outside bundle calling and is gradually reducing. I think it's also a function of our customers are moving to Unlimited to a certain extent. So basically, the swap between uncommitted and committed that keeps the total ARPU stable.

And there might be a small mix effect between KPN and Simyo. It is obviously a number ex-Youfone but there might be a small mix between KPN and Simyo, but really is the committed ARPU is behaving as we planned and then uncommitted outside of bundle calling is actually going down gradually.

And the final question that you didn't ask, but I still want to answer which is around timing of cash flows and results. I want to make sure we are all on that page. Then you guys, look, service revenue growth in 2025 will be 3%. Consumer will bounce back in the first quarter, 1.5%. B2B will be substantially north of 3%. I'd expect the one-offs in SME to revert.

SME will be north of 5% to 6%, also recovering. So CAGR of revenue growth in the year will be around 3%. EBITDA in the first quarter around 2% to 2.5%, but then substantially higher than that in the second quarter. Free Cash Flow will be back-end loaded because the rates and taxes will be paid in the first half of the year.

Remember, in 2024, we paid interest and taxes more in H2. This year, we'll pay interest and taxes more in H1. So in the year-on-year comps, you'll see Free Cash Flow muted in the first half and then come back in the second half. But most importantly, and I was very proud with the question you didn’t ask, these are all quarterly wobbles in a bigger plan. The master plan is 3% CAGR over time and a cash flow uplift in 2027. And that's, I think, the most important anchor that we're working against.

So wanted to give you some clarity on how the quarterly valuation numbers will evolve. But that's again all in the bigger picture of delivering for the fifth year in a row and to deliver for the sixth year in a row as well towards the 2027 cash flow uplift.

Yes. I cannot make any better than this, guys.

Matthijs Van Leijenhorst: Okay. Thanks, Chris. And thanks everyone for your questions. That concludes the call for today. If you have any further questions, please reach out to the IR team. Goodbye.

[END OF TRANSCRIPT]