Tele2 Q2 2024 Interim Report

Wednesday, 17th July 2024

Introduction

Kjell Johnsen

President and Group CEO, Tele2

Welcome

Good morning, everyone. Welcome to this Tele2 Report Call for the Second Quarter of 2024.

With me here in Kista, I have the usual suspects: Charlotte Hansson, our Group CFO; Hendrik de Groot, our Chief Commercial Officer; and Stefan Trampus, who runs B2B.

So let us then turn to slide two for the highlights.

Highlights

I would say I am pleased that our good performance in the beginning of the year has continued in the second quarter. We grew end-user service revenue by 4% in the quarter, marking 13 consecutive quarters of organic top line growth. Underlying EBITDA grew by 3%, supported by earlier price adjustments in Sweden B2C.

We also continued to deliver a solid cash flow that kept our financial leverage below our target range at 2.44 times. Our strategy execution reached an important milestone in the quarter as we finally migrated Comviq into our modern mass market IT environment. By that, we have transformed our previously fragmented environment into only two IT stacks in Sweden, and are moving full speed ahead on our digitalisation journey towards superior customer experience.

Last but not least, we were again recognised for our hard sustainability work as Time Magazine named Tele2 Sweden's most sustainable company and 37th globally, while Financial Times named Tele2 Sweden's Climate Leader and the second in Europe of all industries.

So please move to page three.

Solid performance

End-user service revenue grew by 4% organically, driven by continued solid performance in Sweden B2C and by the Baltics. Organic underlying EBITDAaL grew by 3%, driven by end-user service revenue growth as EBITDAaL growth improved sequentially in Sweden.

Q2 was another solid quarter in terms of equity free cash flow. During the first half year, we fully covered the first dividend tranche.

In Sweden B2C, end-user service revenue grew by a healthy 4% with continued strong growth in both fixed broadband and mobile postpaid. However, as we executed price adjustments early this year than the previous, we will meet some tougher comps in the second half.

Sweden B2B grew end-user service revenue by 2%, hence lower than previously, yet fine given the slow overall economy with a record number of bankruptcies. However, we look forward to improving performance hopefully within a few quarters.

The Baltics grew end-user service revenue by 6% and underlying EBITDAaL by 4%. While the second quarter was largely driven by Lithuania, we estimate a more broad-based performance in the second half due to ongoing pricing activities.

Then let us move to Swedish B2C on slide five.

Sweden Consumer: Strong value growth

Mobile postpaid ASPU increased by 4%, mainly driven by pricing. We added 6,000 postpaid RGUs in the quarter with positive numbers from both Tele2 and Comviq.

In Fixed Broadband, ASPU grew by a strong 9%, mostly due to price adjustments. The number of RGUs declined by 3,000 in the quarter driven by single play, while the FMC base continued to grow.

Digital TV, Cable and Fibre saw some RGU net adds in the quarter. The ASPU growth came from a combination of pricing and the cleanup of RGUs that we did in Q1.

Move to slide six.

Sweden Consumer: Strong EUSR growth in connectivity

Mobile end-user service revenue grew by 5%, driven by 7% in postpaid, partly offset by continued decline in prepaid, albeit, less than previous quarters as the SIM registration requirement has now fully annualised.

Fixed Broadband once again grew end-user service revenue by an impressive 9%, thanks to the strong ASPU. End-user service revenue for Digital TV declined by a marginal 1% due to continued decline in the legacy DTT business, whereas Cable and Fibre grew slightly.

Then let us move to B2B.

Sweden Business: Continued topline growth

Economic headwinds have continued to impact Swedish companies, which in turn also has affected us as customers scale down or delays on purchases. On this basis, we consider our performance with 2% end-user service revenue growth to be good.

Mobile continues to be the growth driver with 6% end-user service growth, this time mainly driven by our fast-growing IoT business. Mobile postpaid saw solid RGU net adds, partly due to a new public sector customer, alongside continued ASPU growth.

Our Solutions business was stable, while Fixed continues to stabilise as we have now finalised the closure of the copper business.

Then let us move to the overview of Sweden.

Sweden financials: Improved EBITDAaL growth

End-user service revenue growth for the total Swedish operations remained at 4% driven by B2C. Underlying EBITDAaL growth increased to 3% driven by the end-user service revenue growth. The cash conversion of 57% is reflecting 15% CAPEX to sales in Sweden during the last 12 months.

Then let us move to Baltics.

Baltics operational highlights: Solid overall performance

The number of Baltic mobile postpaid customers continued to increase in all markets during the quarter. Blended organic ASPU grew by 3%, driven by Lithuania 7% due to the more-for-more strategy, price adjustments, and prepaid to postpaid migration.

Then let us look at Baltics financials.

Baltics financials: Strong cash flow

ASPU growth continued with some volume growth in mobile postpaid led to 6% organic end-user service revenue growth for the Baltics as a whole, whereas underlying EBITDAaL growth grew by 4%, driven by Lithuania.

As indicated in my CEO letter, we see Latvia getting back to growth following introduction of price adjustments during second quarter, after having been in between pricing cycles in the first half of the year. Cash conversion remained strong at 74% during the last 12 months, reflecting a 10% CAPEX to sales ratio due to ongoing 5G rollouts.

With that, I hand over to Charlotte, who will go through the financial overview.

Financial Overview

Charlotte Hansson

Group CFO, Tele2

Group results

Thank you, Kjell, and good morning, everyone. Please turn to page 13. So first, a few comments on the Group P&L.

In Q2, total revenue grew by 1% organically, whereas end-user service revenue grew by 4% organically. The deviation is mainly explained by lower equipment revenue.

Underlying EBITDA grew by 3% both in SEK terms and organically. And underlying EBITDAaL grew by 3% organically, driven mainly by the solid end-user service revenue growth exceeding significant cost inflation and continued margin pressure from product mix changes.

In Q2, we had an SEK8 million headwind from energy year-on-year, mainly explained by the SEK10 million of electricity support received last year. As a reminder, we also received SEK25 million of electricity support in Q3 last year.

As you can see on the slide, D&A declined by around SEK85 million year-on-year, most of which because the surplus value of the TDC acquisition has been fully amortised. Then our net financial items increased by around SEK115 million year-on-year, mainly due to a financial gain related to bond repurchase last year and partly due to higher financing costs for outstanding debt. By Q2, we had a debt mix of 59% fixed rates and 41% floating rate. And with that follows that for every 1 percentage point rate change in underlying market rates, our annualised financial expenses on loans with floating rates moved by around SEK110 million.

Following successful refinancing through bonds and a loan from the European Investment Bank during the first half of the year, our next maturity is in June 2025.

Now let us move to the cash flow on slide 14.

Group cash flow

CAPEX remained high also in Q2 due to continued intense network investments. And changes in working capital were positive in Q2, mainly impacted by a temporary increase in liabilities. However, despite the positive development in Q2, our ambition to keep working capital cash flow neutral in 2024 remains unchanged.

Taxes paid declined year-on-year as last year included some SEK125 million of withholding tax payments in Latvia, while the corresponding payment this year is expected in Q3. All in all, our equity free cash flow for Q2 ended at SEK1.2 billion and in line with last year's level.

Over the last 12 months, we have generated SEK4.9 billion of equity free cash flow, corresponding to SEK7.1 per share, and consequently, slightly above our current dividend level.

Let us move to slide 15 for our capital structure.

Leverage at 2.4x

By Q2, economic net debt amounted to SEK25.7 billion, largely in line with year-end as the first tranche of our dividend was fully covered by our strong cash flow. Our leverage ended at 2.4 times, which is below our target range of 2.5 to 3 times, and reflects our strong balance sheet.

With that, I hand over to Kjell for an update on our strategy execution.

Strategy Execution

Kjell Johnsen

President and Group CEO, Tele2

Strategy Execution at full speed

Thank you very much, Charlotte. Strong numbers. Then we can move to slide 16, which, of course, you will recognise, you have seen it before, it is a reminder of where we are in our journey from 2020 to 2026, the Strategy Execution Programme, which is going to take us to a new level in terms of our go-to-market.

We are now basically at the intersection that we see on this graph. We have done the consolidation of the B2C stacks. And as everyone who does this, there are always some early issues with it. But we are basically finished with putting them together into one platform, and we are going to shut down the legacy this year. And that frees up gradually resources for a more dynamic go-to-market, a better customer experience, and, of course, an ability to focus even more on value and not just only on volume.

That is a fundamental building block of the strategy execution plan, which is going to save us SEK600 million over the three years, but, of course, also help us to be more precise in our go-to-market so that we can build revenues that filter through to our cash flow.

We are quite happy that we have reached this milestone, and we look forward to the next stage of that work.

The IT landscape

On the next slide, you see in real life how this works, the stacks that we talked about. So consumer stacks merged. We did the cutover end of April, and now we have done the hyper care period throughout the summer to make sure that everything is working the way they should.

And then, of course, we are going to help Stefan with his issues and his stacks in B2B throughout this year and next so that he can also have an up to speed modern and efficient go-to-market model for the B2B area.

It takes quite a bit of work. But I think we are pretty much at the forefront of the telecom industry in terms of putting everything together the way we are doing now, also eliminating a lot of security risk, cyber security risks. And of course, everything is documented by 2024 standards.

So that is kind of the reminder that I wanted to go through. And then we can, of course, head to slide 18 on the SEP.

Strategy Execution Programme (SEP) update

And this will be the second update on the progress of the Strategy Execution Programme, which aims to deliver radical improvements in customer experience and value and operational efficiency.

On the B2C side, we have launched the Tele2 Chatbot, which seems to perform very well relative to benchmarks, although it is of course early days. We have also introduced a new 360 Customer Service Agent Toolbox, which is designed to minimise the time it takes to retrieve information from our systems.

On the B2B side, we have finalised a copper decommission project as well as a multiyear business intelligence transformation programme, the latter of which has delivered upgraded analytical capabilities across operations.

On the network side, we have significantly improved call set up times through the completion of our mobile core swap project.

And finally, our brand-new 5G network continues to grow rapidly. It is currently covering close to 80% of the Swedish population, despite no low-band spectrum in use.

Then let us move to the financials.

Strategy Execution Programme (SEP) update

As you know, we are targeting SEK600 million of run rate cost savings by the end of 2026. By the end of Q2, we have executed all organisational changes and network optimisations worth SEK200 million in annual run rate savings, of which SEK40 million contributed to our underlying EBITDAaL in Q2 year-over-year.

Although we are only halfway through this year, we do not expect the run rate to increase much more by the end of the year as we have now completed the planned resource reductions.

Then let us turn to slide 20 for the guidance and outlook.

Financial outlook (unchanged)

And we reiterate both our 2024 guidance and the mid-term outlook. As said in Q4, our EBITDAaL guidance for 2024 includes an estimated energy cost headwind of around SEK90 million year-over-year, of which SEK35 million relates to the energy support received in 2023. Given the outcome in the first half year and the current benign price levels, we now estimate the headwind at around SEK50 million instead of SEK90 million.

As a reminder of our CAPEX profile, in 2025, we expect 13-14% CAPEX to sales, driven by the final stage of the major 5G expansion in Sweden ahead of the 3G network closure at the end of the year.

And from 2026, CAPEX to sales is expected to come down to historical levels at 10-12% as our network expansion will return to being demand-driven.

So with that, I will hand it over to the operator for Q&A.

Q&A

Andrew Lee (Goldman Sachs): I had two questions. One on Swedish growth and then just on your EBITDAaL growth guidance for the full year.

On the Swedish growth, I guess, there is a little bit of surprise that you did not see an acceleration in the second quarter versus the first, given you had the price rises in March. I wonder if you could just talk us through why that might have been. So if you look through the consumer numbers, it looks like there is a slight improvement in growth in the second quarter versus the first, but maybe not as much as might have been expected. And then if we look at corporate, that looked like it was a bit weaker. So why do you think the price rise that you delivered has not really contributed to an improvement in Swedish service revenue growth? And how should we think about the trajectory of that in the second half of the year?

The second question is just on EBITDAaL growth guidance of 1-3%. Two factors that may come into thinking. One is, obviously, you have delivered 2.5% EBITDAaL growth in the first half of the year. So your guidance range looks quite wide now. And especially given you are now saying that you are seeing SEK50 million of energy headwinds rather than SEK90 million, why have you left your EBITDAaL growth guidance so wide still?

Kjell Johnsen: I can start, and maybe people will chip in around later, Andrew. Okay. On the service revenue trends, we do see that pricing has kicked in, in B2C. And then, of course, we have a slightly lower growth rate in B2B given the state of the Swedish economy. Now, we see customers who are optimising their relationships to us and others in B2B. Indeed, we are doing ourselves also looking through our costs.

But I do not think that is a long-term trend. I think the B2B market has a pent-up demand, especially in terms of handsets, and I think that we will see that picking up again. I would be careful not to be exact on the timing of it, but I do think there is a level of pent-up demand.

Service revenue growth trends in B2C are pretty good. And when it comes to the EBITDAaL, we had a good start to the year, absolutely. And I think that if I look at where we were in December last year compared to now, I think we are slightly better now than we started at that time where I know that we are.

So we are very comfortable about the guidance that we have on the EBITDAaL level. But I think I would leave it at there. We have not lifted the guidance, but we have good trends that we are quite comfortable with.

You want to say something on the service revenue?

Hendrik de Groot: Sure, Kjell. Just on the consumer side, Andrew, I think just two things to highlight. We do see in the second quarter the pricing coming through in a very nice way, and particularly on the core connectivity, as you can see in the ASPU. That is an improvement versus the first quarter.

There is also another element, of course, of the growth number, which is the volume, particularly on postpaid that we have taken versus last year in the first and the second quarter. So I think you need to look at the price rises and the volume on the comparison in the quarter versus last year.

Then maybe the other element just as a balancing factor to highlight is that our prepaid business, if you compare Q1 and Q2, you have a different comp versus last year. It is now stabilising but in a comparison way. That sort of is a balancing factor out on the top line numbers.

Stefan Trampus: Yes. Stefan here, Andrew. On the B2B side, I would say, I mean, Kjell alluded to this, we had a tough economic sentiment in the market and has so since Q3 last year. We have seen that our customers have been really focused on cost cutting. We have also seen that they are doing reductions in the employees, in consultancy that they are buying, etc. And of course, all of this is impacting our business.

We see that customers are pushing purchases into the future. So this is affecting, and I think it is visible in our numbers. We have had a couple of quarters with lower RGU growth due to these facts. This quarter was again a little bit better than the previous four quarters.

We also see that this affects both the Solutions part and the Fixed part. And in the Fixed, of course, you have the copper decommissioning that has affected us. But that will turn in regards to the trends going forward when we are now done with the copper decommissioning.

Kjell Johnsen: Yes, I would like to add, Andrew, that when I am thinking back to where we were a couple of years ago, now we have had a bit of a downturn in the Swedish economy and still we are delivering 2% growth at B2B. That was not the case three, four years ago, for sure. So I am quite confident that B2B will have good trends as soon as we start getting just a little bit more optimism here.

And now the balance of the group is much better. Sweden is carrying much more of the burden. We saw Lithuania doing well. We see Latvia coming back in the second half. But the Group is more balanced now, which is a good thing.

Andreas Joelsson (Carnegie): Two questions from my side. Looking ahead, can you explain a little bit what you have learned from the inflationary environment that we have been through when it comes to how you can increase ASPU further and how you can use those learnings ahead in basically any environment? And has there been any learnings or input from the new main owners, new Board members with regards to this?

And secondly, you mentioned after Q1 that there was less need for being prudent on the balance sheet, and now you have another quarter under your belt and you are still below your leverage target. Do you see a need to take any action on this short term, or would you rather wait to see the full year and be more comfortable on the 2025 outlook?

Kjell Johnsen: Well, I think one of the most important learnings from the inflationary environment for the entire telecom industry is that it is actually possible to increase prices. And like everyone else does, the share of wallet is not prohibitive in any kind of way in this market. In some markets, maybe the picture may not be exactly the same.

So I think that is an important learning to take even though we are now of course expecting significantly lower inflation. And then, of course, being able to move people to extract the value from moving to a 5G price plan, where you are now going to our unlimited price plans at SEK429. That is a price point that would not have been tenable three years ago. And we see that there is popularity around it.

Half of the Swedish population have a 5G-enabled phone. That means that many of those who do not have it today, they will have it over the next couple of years. And we want to bring them over to these price plans, which represent good value. So I think those are important learnings that we take with us.

When it comes to the new shareholders, a little bit early after one Board meeting basically to take too much of that. But like I said in an interview this morning, I had a team that participated in hackathon in France last week. And I think these opportunities to solve problems together, to address issues together are very good because it happens quicker when you do it at level three in the organisation than if you do it through lots of PowerPoints.

We do see that the new shareholder is totally dedicated to telecoms, which means that they have a keen interest and they can ask good questions and share experiences. Of course, that in itself is a positive for the business and for us.

And on the balance sheet, yes, it is clear that we have a very strong balance sheet, and we are starting to see in the not too distant future, of course, the end of the main 5G push, which will be finished by the end of 2025, and we will have lower CAPEX to sales levels in 2026. So we will have the opportunity to either make bolt-on acquisitions or to have a discussion with the Board. It is, of course, the Board that decides. It is not to me or the management, what we do if the balance sheet enters a level over time that is different from what we have said in our capital allocation policy. So it clearly opens possibilities for us.

Oscar Rönnkvist (ABG Sundal Collier): Just first, while ASPU very strong obviously in broadband, the customer growth in broadband is decelerating for, I think, the third quarter in a row now. I just wanted to hear your thoughts, sort of losing momentum due to the price increases or what you can say about the net intake?

Then, I just had a follow-up from the previous speaker just on the potential bolt-on acquisitions due to the strong balance sheet. Is it any sort of main targets that you are looking for, and what segment are you looking for?

Kjell Johnsen: Hendrik, do you want to do the first one?

Hendrik de Groot: Yes. Sure, Kjell. Oscar, on the ASPU and the broadband and the intake relationship. As you can see, we, of course, have an overall very strong performance on our broadband business for a number of quarters, and we have been building that. One of the elements, of course, is also a further inclusion into an FMC setup as we highlighted in the presentation.

When it comes to net intake, there are a couple of factors here. One, as you know, in Q1, we had a cleanup that I think has all been noted. Underlying, as we have gone through the pricing cycle, obviously, there are customers that are looking elsewhere. Of course, this level of pricing, although we have seen a very good take-up of the pricing levels, has also led to some customers leaving. That has an effect on the net intake certainly in the first quarter, and to an extent also, in the second quarter.

Secondly, we have also looked at what customers, at what levels we want to save from a margin point of view. We see in particular, in Öland that transmission costs have gone up quite substantially in the market. We are managing this business also for value and for marginality. There is a bit of a trade-off on the net intake that we want to take in and want to save honestly. It is a combination of those two factors.

If I look forward, we see of course that we are out of the pricing cycle now. There should be an improved trending going forward.

Kjell Johnsen: With respect to your second question, now of course I have been saying this for very many quarters, that we would be open for looking at assets that would help us to build convergence, whether it be in Sweden or Baltics. Without going into any more detail, of course, we have looked at a couple of assets over time, a few assets. We are quite prudent about the pricing we are willing to pay in the market.

However, I have kept repeating it because I do not want you to be totally surprised if one day we decide that we want to buy a good asset for a price that we think makes sense. Of course, on the flip side of that, if that continues to be the pattern, then of course the Board will, at some point, have the opportunity to choose differently and then look at how much shareholder remuneration we should be paying in whatever mix of ordinary, extraordinary at some future point of time, given that the balance sheet is strong and the cash flow is strong.

Erik Lindholm-Röjestål (SEB): Just one question for me, really. You had quite encouraging service revenue growth here, around 4% in the quarter. You also made some solid progress on the cost programme. However, I guess despite that, underlying EBITDA only grew 3%. Can you break down what is driving cost here in the quarter? How should we think about operating leverage in the second half as well, please?

Kjell Johnsen: Yes. I think we have pretty much said this given that we are still with our guidance. I gave you a little bit more information by saying that the outlook now is better than it was when we looked at this at the end of last year. We still remain within the span that we have talked about.

Some of these effects, of course, of the SEP programme are coming in gradually. We have pointed it out in the presentation how much that is. Then, Stefan, of course, mentioned things like shutting down of business lines like copper, and we have the prepaid annualisation that have played out. There are a couple of things that also we have to compensate for as we grow our revenues. Pretty much there we are. Charlotte?

Charlotte Hansson: Yes, I think that we can also add maybe that we also mentioned in the report that we had some provisioning for bad debt as well because we have been saying in a few quarters now that we have not really seen an impact of the more challenging economic situation. However, I think it has now been catching up on us, and so we do have some impact on that. That is also something that we highlighted. We have an extra provision there of SEK19 million.

Ajay Soni (JP Morgan): Firstly, on the Swedish KPIs. I mean, the ARPUs came in pretty strong. I just wanted to know what the general customer reaction has been since you put these through. And do you have to do many retention offers to hold on to your customer base? And then, looking forward, you have obviously had a good acceleration in your ARPUs, especially, I mean, tougher comps coming through, you should tail off towards the end of the year, or is there something which you are going to keep them elevated at these levels?

Then on the balance sheet side, you mentioned around sort of acquiring assets. I just wanted to know, would you be comfortable with your leverage going above your target range in order to acquire some of these assets? Yes, that will be it.

Kjell Johnsen: I can take the last one and maybe Hendrik can take the first one. What we have said around that is that we have the leverage band 2.5 to 3. After we sold the Netherlands, we will not have a dividend flow from the Netherlands, obviously. We would be reluctant to go much beyond 2.8. We could do it if it is an asset that generates its own EBITDA so that it plays into the multiples. However, we would have to have a very clear path to getting back to a leverage area that we are comfortable with in the longer term. That would be my approach on that.

Hendrik de Groot: Yes. On the Swedish KPIs, Ajay, I think as Kjell already highlighted, the reaction to the levels of pricing in general terms has been pretty solid actually. Of course, there is also always a relationship between the overall price levels and inflationary levels in the market as well as where the value and the proposition is. As Kjell highlighted, we have really moved unlimited to a point that is way more attractive to a large part of the market.

That said, when we did the pricing, and in particular, on broadband, this year, we also did some corrective pricing on part of the base that has been on very low campaign pricing for a very long time. There has been a level of cost passing included in the pricing, and that has also led to a bit higher churn as a result of that. That is what you can see filtering through the numbers.

However, all in all, we are through that, and the market is in a recovering state, right? We see inflation declining. We see customer confidence index increasing. We see that the handset market is still a little bit lower. In May, it was minus 2%, but it is recovering from the minus 6% in the year-to-date.

I would say the outlook for the market on the consumer side is it is strengthening again, certainly post summer, we believe. Also that will be reflected in our net intake position, which you can already see coming through on the postpaid side.

Ajay Soni: Okay. If I could just have one quick follow-up on that. Obviously, given the pricing you have done and where we are, what you are doing in Q1, do you see this ARPU growth as the peak of your year-on-year comparisons, and do you expect it to tail off?

Hendrik de Groot: Well, I think what we said was and what we have been guiding on is that the comp, of course, will be sort of changing given that we last year had a tail-ended pricing. The totality of the pricing value came in, in the second half of the year, where now we have netted off the total value of the pricing in the first half of the year. The comp, of course, will be reflective of that.

Siyi He (Citi): I have two, please. The first question is really on one of the comments that you made in your report. You are saying that you have seen increased competition in the Swedish market through steeper discounted offers. On top of that, I think you just mentioned that inflation has come down. My question is, if you are looking towards the opportunities of price increases for next year, do you think that the market still has the benign dynamics that allowed you to repeat the similar price increases next year and going forward?

My second question is really on your Strategy Execution Programme. I think at Q1, you suggested that for the full year, you expect the run rate to be a little bit above SEK200 million, but you have already achieved SEK200 million by end of Q2. I guess my question is, do you actually see acceleration in your cost-cutting programme? And how should we think about the savings for the second half of this year?

Kjell Johnsen: I guess we can spread it around a little bit here. Yes, the discounted offers, and Hendrik can speak more to this. However, for me, that is a big issue in the bottom part of the market, so to speak, in the transactional market where you have seen quite a lot of that; we had one of the operators that for a while discounted the unlimited position in premium, also ATL. That has since stopped.

I think there is a reasonable level of pricing discipline in the premium part of the market. Of course, with inflation coming down becomes important to not directly link, like I think operators some places have done the price adjustments to inflation, but rather have a methodology that is consistent over time. We will be executing price adjustments also next year. Then it will be for Hendrik and the team to exactly lay out how much that should be.

If you maybe expand a little bit on that and get to SEP afterwards.

Hendrik de Groot: That is fine, Kjell. Just add a couple of more to the sound bites to how we look at this going forward.

Clearly, there is a relationship between the consumer confidence, the overall state of the economy, the overall state of inflation and how you relate that to the price levels. And we will constantly look at that, in light also with the value proposition that we are providing, there is definitely a willingness to pay in the market. We have seen that. But it is a combination of those factors, and it is a balancing act, as Kjell was highlighting. And we will take it forward in that sense.

Of course, then there is the dimension of competition. There is always a level of competition in the market. I think we have a healthy market here in Sweden. There is, of course, periods that there is a stronger push in some areas. And we have, of course, seen that also, in particular in the low end of the market as a hunt for volume in a way. But I think we tackle that in a good way. We can of course see and track that in particular on Comviq, where we still see good volume growth coming in, even though we are battling with these situations.

All in all, I think the most important thing in the market is how the macro is developing and the continuous willingness to pay of consumers of very good connectivity products and propositions that we are offer in general. Against that backdrop, we will set our plans for next year.

Kjell Johnsen: On your second question, I will choose to take a little bit broader view on that instead of limiting into the SEP as such, because the Strategy Execution Programme has specific deliverables over the years that we are monitoring and reporting to you on a quarterly basis. We have executed on those things that were planned in this early part of the year. One of them was an organisational change that was relatively big. That does not mean that we do not have other initiatives outside of that that we are working on to optimise the cost base. Some of that can be related to how we work with certain vendors, and Stefan is working on interesting things there. Of course, how we optimise the commissions that we pay in pursuit of growth and volume, that is an area that we can also optimise outside of the SEP. The SEP may not necessarily deliver so much more in the year, but we can have cost optimisation effects that help us in the second half of the year, and that never ends. That work never ends.

Nick Lyall (Bernstein): Could I ask a couple please, Kjell. On the business side first, you have mentioned this a lot in the last couple of quarters. Could you expand a little bit on where you are in terms of outlook into the second half? Have you weathered most of the storm or is there more to come? Is it just major corporates so far and maybe higher margin SME business to come? Could you expand a bit on what you see as the outlook into second half?

Secondly, on the new IT stacks in consumer, please. What is the consumer going to see over the next year? Are they going to see more of a focus on customer service, or is it about new projects like convergence? Or is it a change in timing and frequency of pricing issues? Could you just say what that means in practical terms for the consumer, please?

Kjell Johnsen: Well, I think I will probably hand that over to you.

Stefan Trampus: I can take the first question.

Kjell Johnsen: Yes, start on the first.

Stefan Trampus: Hello, Nick. Thanks for your question on the business perspective. I think I alluded to it a little bit earlier. When we went into a recession in Sweden in Q3 last year, basically, we had not seen that coming that hard. We thought it was something that was just a quarterly effect in Q3 and hoped that it will turn around quite quickly. However, what we have seen during the last past four quarters is that it has prevailed throughout these quarters and it has affected, I would say, all segments.

In the micro segment, the mass market segment, I mean, we see that they have a big cost focus reviewing the subscriptions to avoid the cost possible, if they can. In the larger segments, we have not seen the natural growth that we are seeing with our customers, employing more personnel, etc. So you have that natural growth.

We also see that they have reduced and having cost programmes looking at all kind of costs. Of course, they also look through what they are buying, do they need everything they have acquired in what they are buying from a services perspective. So in the larger segments, we also see this, and that has affected the RGU development, which you have seen.

Also in the public segment, I mean they have also been quite affected by the inflationary pressure. To look at the cost base that they are dealing with, we see several public domains and organisations that have been cut back on the funding from the government, etc. That has also made an impact on us.

How fast we will get out of this? I mean, it is hard to tell. I would say there is not a common view on how fast this will be. However, I mean, we see the positive signs on the consumer side. I think that is something that goes before we will see the turnaround on the B2B side. We had really high bankruptcies in the first half of the year. There was a slight improvement in June. If that is just one-month effect, that is something that is turning or pointing in the direction that we will turn around, let us see. But of course, an improved business climate will help us support our revenue growth going forward.

So it is hard to tell. We think we will prevail a couple of more quarters before we see the turnaround. I hope that gives some colour on the situation, Nick.

Hendrik de Groot: Okay. And then Nick, then on the new IT stack, what it does for us and for our consumers, basically three things. First of all, it allows us to increasingly focus on our own channels, and in particular, of course digital and online, but also our other own channels, customer operations and our stores, which supporting SEP will of course help us to drive down our overall CPO costs, and in particular in combination with the introduction of devices and handsets in Tele2, I think this will be a very strong focus and area and benefit basically for consumers going forward.

The second area is that the new IT stack really allows us to refocus IT development resources to drive our digital customer journeys at a much higher speed. We still have a lot to gain there. I really look forward that we are really getting in an accelerated traction on the digitalisation of these customer journeys.

Then the third point of the new IT stack is basically that it will allow customer operations to be way more efficient. We already talked about the first step on the Chatbot and the new 360 Toolbox. Those are all things related to the IT stack, and they will help us to drive down the call volumes and improve the average handling time. Also that translates into cost savings and will support the SEP programme.

Kjell Johnsen: I think the timing is good. You talked about introducing a chatbot, and there is nothing unique about that, people did it years ago. I think the technology and digital has matured to a point where the user experience becomes much better. We all know that three years ago some of these products were nice to have, but they did not really deliver that much. They have matured. I think it is a good time to start implementing customer-facing technology.

Hendrik de Groot: As you say, Kjell, in particular, now that we can connect it up with the rest of the IT environment, you really get the personalisation.

Kjell Johnsen: Yes.

Hendrik de Groot: That is the key thing that drives the customer experience.

Stefan Gauffin (DNB): Yes. I will focus a little bit on the Baltics. First of all, you mentioned you are positive to a better second half in Estonia where you see a turnaround. What makes you confident on this, except the solid customer intake this quarter?

Then you also talk about price increase in Latvia. Could you just give some indication on the magnitude of the price increase there?

Kjell Johnsen: Okay, let me take it. In Latvia, yes, we talked about it before. They did two price increases in 2022 and they had a phenomenal growth in 2023. They were at some point up at 20% which is quite unique. Then they did not do price increases at the beginning of this year, so they started executing on this in June.

Then we will see that effect coming in the third quarter. I am very confident about the positive delivery from Latvia.

In Estonia, as you said, we have been through quite a bit of change there in terms of people and the approach. There has also been an impact from one specific contract that has driven it down. When I am a bit positive to Estonia, it is also for a couple of reasons. The team is coming into place, becoming more clear. It is good to see that, in particular Latvia is supporting the team there quite a lot. We also do see some signs that the market is a little more rational.

There are price adjustments happening in the Estonian market that we did not necessarily see one or two years ago. That is the basis for my optimism.

Now, of course, Latvia is a quite small business. It is very important that Lithuania continues its good development, and that we get Latvia back up to where it used to be with a good top line and EBITDAaL growth. I see that happen.

Usman Ghazi (Berenberg): I just had three questions, please. The first one was just following up on the comment of this catch-up and bad debt provisioning that is happening in Sweden. You said you have made a SEK19 million provision in Q2. Was there any provision made in Q1? I mean, how much lower are bad debt as a percentage of sales now than what you would consider as kind of a normal level? That was the first question.

The second question was just wondering if you could give any colour on how Net Promoter Scores have been trending through Q2. Obviously, Q1 would have been impacted because you communicated the price increase and you put through the price increase in March. I guess you have got a double whammy. It is interesting to see how things have trended since.

Finally, just on the Baltics. I mean, there has been a report about one of your peers potentially exploring an IPO of one of their Baltic segments. I was just wondering if Tele2 would be open to considering any kind of value unlock in that direction.

Charlotte Hansson: Okay. So if I start then on the bad debt. I think this is more as a comment that we previously said that we have not seen any impact at all from the more challenging economic environment. But now that we see that, I just want to make sure that we are more prudent about that.

So we have not had any extra provision or anything in Q2 or it is just as normal business, I would say. It is just in Q2 that we had made an adjustment on that. So it is really related to the macroeconomic environment that we are just facing now, and also on the back of more bankruptcies and so on that we are seeing. However, as Stefan was saying that we see a trend of that easing also in Q1. Let us hope that that is actually a starting of a trend that we see there.

Kjell Johnsen: For the NPS, Hendrik?

Hendrik de Groot: NPS, yes, the customer experience and how we see that happening. Of course, pricing is one of the key drivers of customer experience. We see after each price adjustment we do, whether it is a small or a large one actually, that is quite, in that sense, immaterial that customers react to a price move. It is always a temporary dip that we see. However, of course, we see a little bit of a dip.

We have already seen the recovery as well in the second quarter. We measure that through Tele2 and through Comviq. At the same time, we also see with, for example, the IT stack move, where it of course also addresses the customer that there is also like a temporary reaction, to which we are also fully recovering again. There is this reaction from customers, but if you look at the overall trending, our customer experience is at the levels where it actually is if you take it over a longer period.

We have a strong customer experience, in particular on Comviq. It is a loved brand in the market. We see that on Tele2, where we, in particular, have these combination customers, these FMC customers, we have very strong loyalty going forward.

Usman Ghazi: Sorry, just on that, I mean, so has the NPS now recovered back to levels before the price increase, or are you still in that process of recovery?

Hendrik de Groot: No, yes, has improved, has returned.

Kjell Johnsen: On the Baltics and potential IPO from a peer, of course, not for me to comment on that except from saying that we have had great performance overall from the Baltics over the last years, all the time since I came here. We think they are doing a very good job, and, in general, very happy to hold those assets, if we do not have any specific new thoughts around that.

Ondrej Cabejsek (UBS): I have got three questions as well, please. I will take them one by one just for clarity. The first question I had, you mentioned the copper shutdown being complete. Can you maybe describe us the effect? Because obviously, I guess, on the one hand, it has a positive cost effect, as we see with peers, but at the same time you have seen over the past couple of quarters a pretty accelerated negative trend in terms of some of the legacy revenues. So maybe can you tell us or describe the effect and could you still have some, I guess, fixed plus and DSL in the system? So what are the trends there going forward?

Kjell Johnsen: Ondrej, you are breaking up a little bit. I think we heard your question as asking what is the impact on revenues and profitability of the copper shutdown and then you asked more generally about impacts from legacy businesses that are impacting us. That is what I heard.

Ondrej Cabejsek: Yes, exactly. The copper shut down, but on both the cost side as well as the revenue side.

Kjell Johnsen: Maybe we will take that one first.

Stefan Trampus: Yes. Ondrej, here is Stefan answering this one the copper decommissioning. When we have done the copper decommissioning through the years, I mean, the starting point was a lot higher than it was to the end of the programme. However, from a margin perspective, what we have done is that we move the customers to more modern solutions, some fixed solutions like going from DSL to our own net broadband. Of course, that comes with a better profitability, of course.

However, we also moved some customers to mobile solutions, new IP solutions in regard to our PBXs, etc. There are several different kinds of copper solutions that we moved. We moved them to better marginality of products, I would say. Of course, there is some churn relating to this, of course, where we are doing it. However, from a margin perspective, it has improved.

Now when we come to the end of this quarter, Q2, we have decommissioned all these copper services. Of course, you will see an improved trend year-on-year or quarter-on-quarter versus last year starting more significantly, I would say, in the second half of this year, if we look at the revenue development in the fixed domain.

Also to add some colour on, I mean, we have some fixed voice revenues still but that we do not regard as legacy as such. Of course, there is a natural move from fixed voice to mobile voice, and that is still around. However, it is really a low digit number of the total revenues of the B2B and user service revenues. Hope that gives some colour on the copper decommissioning, Ondrej.

Ondrej Cabejsek: Yes. I hope my line is clear, apologies. Second question that I had, just related to some of the commercial trends in terms of cost-cutting and third-party sales, which, I mean, you and your peers have commented on, especially kind of towards the end of last year that there is a big pullback away from third-party sales channels. The kind of in-house migration is a big part of your cost-cutting. We have seen over the past couple of years until recently, churn levels coming down, portability numbers coming down. However, that seems to be picking up again this year. So just your comment in terms of what is going on there and how that potentially impacts your cost savings targets.

Kjell Johnsen: You want to go, Hendrik?

Hendrik de Groot: I did not fully get the last part of your question, Ondrej. Did you mention porting or something?

Kjell Johnsen: Yes. No, I think mostly it was about commissions and that others have also spoken to the need for reducing commissions. If I should start, and then Hendrik can formulate his answer, if we are brutally honest about this, of course, it is a key element of the Strategy Execution Programme to reduce the commissions we pay to third-party companies that are a part of our distribution, and we will deliver on that gradually over time.

Having said that, to some extent, in parts of the cycle we see players who are increasing commissions for a short-term volume operation, so to speak. That is sometimes something that we have to follow. That, of course, is something we need to compensate for when we are building our profitability. It has worked okay for us now. However, the trajectory is, of course, to reduce commissions. That is going to be an important part of 2025 and 2026 as we improve our systems.

Hendrik de Groot: Yes. Just to add on to that, Ondrej. This is, in a way, also a natural transition if you look at how we are evolving the business going forward. In particular for Tele2, where we have added now the handsets back to the portfolio, the fact that we are increasingly putting the development onto our online channels and digitalisation and the fact that we move increasingly into multiplay service provision means that also for the customer, it is way easier to get served through our own channels.

That is a helping background to one that we are aiming to make this transition to help CPO overall, but also that it is a natural transition in where we are taking the customer in our portfolio.

Kjell Johnsen: We are on overtime, but of course we would like everyone to have the chance to finish their questions. Ondrej, where we okay now or we have Keval waiting?

Ondrej Cabejsek: No, that is fine. Maybe if I had just one very quick question, a third one, just on taxes. Because we had some volatility, both intra-year and intra-quarter in terms of cash tax, especially. I know you do not usually do this, but in terms of guidance for cash taxes for this and maybe next year, is there a number that you are targeting or have in mind, please? That will be the last one.

Charlotte Hansson: No. Like I said, we do not really guide on the taxes.

Kjell Johnsen: I guess it is the Latvia thing, maybe.

Charlotte Hansson: Yes, it could be the one that we talked about earlier maybe, that the Latvian one. But that is a timing issue of SEK125 million. That will be paid in Q3 instead of Q2 that we did last year.

Keval Khiroya (Deutsche Bank): I have got two, both related to B2B. You mentioned the macro impacts in B2B. But do you think you maintained the market shares during the quarter? Just trying to work out if the issues are pretty macro, whether you feel there have been increased competitive issues at all.

Secondly, you have also been quite clear on the consumer price rise timing. However, can you remind us of the size and phasing of the B2B price rises you may have done last year and also this?

Stefan Trampus: Thank you, Keval. On the market share development, I would say I think it has been a stable situation. We have not lost any big customers during Q2. I mean, there is always market competition, and Hendrik was alluding to that from a consumer perspective. The competition is always challenging. I think nothing has changed from a competitive perspective. However, market share-wise, I would say it has been stable.

On the pricing, we are doing continuously a lot of different price changes to our portfolio. But as you know, the larger part of our revenues is related to segments which have bespoke agreements and a lot of different agreements with overlapping contract periods for different kinds of services, which we need to oblige to.

The micro segment, which we have more of a mass market perspective, there we do back book pricing. We have done that in the beginning of the year on both broadband and on mobile. However, in the large scheme of things, I mean, this has a limited effect on the overall revenue as we have so much bespoke agreements with customers.

However, we have inflation-linked clauses in the contracts. When contracts expire, we can do price ups. We can do with DLE[?] as well for certain products. It is a bit of a mixed picture in regards to how we drive the pricing on the B2B side.

Kjell Johnsen: Thank you very much. Thank you to all of you for taking the time to share this morning with us and for your questions. I think what you see is first half from Tele2, that it has delivered strong results. We have a very strong balance sheet, and we have visibility towards the end now of the 5G swap. So clearly, the Board will have significant manoeuvring space in making decisions as we progress towards the closure of the main 5G rollout.

We have a good commercial momentum. Very happy to see that good momentum in Sweden, especially in B2C now. And of course, we are bringing that momentum with us through the second half of the year.

In the second half of the year, we will have a one-off with the energy benefit we had last year of around SEK25 million. That translates to almost 0.5 percentage point at EBITDA level. But that is a one-off that we will not carry with us for the next years.

We are also meeting some of the price increases from last year. But definitely, the momentum we have built with the price increases earlier this year will be with us. And I expect to see a continued strong business and I expect improvements, especially in Latvia compared to the first half, which will be helpful.

So I think we are in a good spot. There is always a lot of work to do. But in general, we feel good about the direction we are on. So again, thank you for taking the time and wish you guys a very nice summer.

[END OF TRANSCRIPT]