

Fibre optic network footprint exceeds 20 million homes

The Euskaltel Group achieves a record number of customers in Q3 and increases net profit by 24.5%

- *Virgin telco's entry onto the market exceeds all expectations, with around 30,000 new customers in the third quarter, the first full quarter since its launch. In total, the Euskaltel Group has over 800,000 mass market customers.*
- *The Group's solid customer growth is reflected in a sharp increase in revenue, up 1.8% on the third quarter of 2019. This is the fourth consecutive quarter of revenue growth compared to the prior year and the company's largest revenue growth in recent years.*
- *The net result for the year at 30 September exceeds €52 million, 24.5% more than the €41.9 million recorded in the same period last year.*
- *By segment, mobile telecommunications has seen the greatest growth with 21,000 more contracts, followed by broadband with 19,000 more contracts than in the previous quarter. High value products and services in homes now stand at a record figure of almost 3 million.*
- *Growth in the business segment continues, and the Euskaltel Group now has over 16,000 companies as customers. Revenue in the business market grew more than 3% in the quarter, making it the third highest revenue quarter for the business segment in the Group's history.*
- *The Euskaltel Group's fibre optic network now covers over 20 million homes across Spain.*
- *The third quarter results confirm the Group's growth path seen in previous quarters, showing that the Group is on track to meet the strategic objectives set out in its roadmap for the current financial year.*

Bilbao, 27 October 2020. This afternoon, the Euskaltel Group (which includes the Euskaltel, R, Telecable and Virgin telco brands) published its results for the third quarter of 2020, which confirm a new record in customer growth, reinforcing the Group's growth path seen in previous quarters, and showing that the Group is on track to meet the strategic objectives set out in its roadmap for the current financial year.

Virgin telco's entry onto the market has exceeded all expectations. In the third quarter of the year, the first full quarter since it was launched, the Euskaltel Group's new national expansion brand has grown by around 30,000 customers –21,000 fixed-line customers and almost 9,000 mobile customers– and is about to exceed the growth targets set for the end of the year.

In total, since its launch on 20 May up to 30 September, Virgin telco has already achieved 27,000 fixed-network customers, when the business plan target for 2020 is to hit 35,000 users. If we add fixed-line and mobile customers together, Virgin telco now has a total 38,000 customers, which it has achieved in just four months on the market. Through a policy of flexible products and services allowing customers to decide how they combine them, Virgin telco has grown week by week since its launch. In total, the Euskaltel Group already has over 800,000 mass market customers.

Virgin Telco continues to launch product and service offerings on the market that will further drive its growth and customer satisfaction. The company has combined its high-quality TV offering and agreements with top content providers including, in this quarter, the agreement between Virgin telco and Netflix to launch 'Netflix Fan', which is particularly noteworthy. With this offering, Virgin telco completes its top quality TV proposal, combining maximum quality access to Netflix with 10 GB of extra mobile data on any Virgin telco line for all customers, free for six months.

This solid growth in Virgin telco's customer base, as well as continued positive growth in the traditional business, has led to a sharp increase in revenue, hitting €174.2 million, up 1.8% on the €171.1 million recorded in the third quarter of 2019. This is the fourth consecutive quarter of revenue growth compared to the prior year and the company's biggest growth in revenue in recent years.

Virgin telco's revenue has grown to €3 million in the quarter, in line with its strong customer base growth which is expected to continue this upward trend over the coming months. Furthermore, revenue from the company's traditional business has also seen positive growth of 0.1% due to stable customer revenues and excellent performance in the business services segment.

In the first nine months of 2020, EBITDA has risen 3.2% compared to the same period last year, up to €260.2 million at 30 September, with a 50.3% revenue margin that is 119 basis points higher than in September 2019.

Thanks to revenue quality and cost control management procedures in place, the Euskaltel Group's net result for the year at 30 September is over €52 million, 24.5% more than the €41.9 million recorded on this date last year.

New customer record

In Q3 2020, the Euskaltel Group has posted record customer growth, driven by the success of Virgin telco's entry onto the Spanish market. The Group has already broken the 800,000 customer-barrier; 695,000 of these customers are fixed-network and 106,000 are customers with mobile contracts only.

The company's high-value customer base has continued to grow in the third quarter of the year. Customers in the residential segment have signed up for over 80,000 new services compared to the same date last year. The number of high-value product and service contracts in homes now stands at a record high of almost 3 million.

The Group's high-value customer base is reflected in 3P and 4P contracts, which have reached the highest levels in the sector. In Q3 2020, Euskaltel Group customers have on average 3.64 products per user.

By product segment, the largest increase in the last quarter has been in ultra-fast broadband (with over 19,000 new contracts), taking the figure beyond 626,000. The 21,000 new mobile lines under contract also stand out, taking the total to 1.2 million. Contracts for pay TV products remain at around 500,000, while there is a slight decrease in fixed-line products as a result, to a large extent, of new customers not signing up for fixed voice services.

While Virgin telco's customer base has grown beyond expectations, traditional business has been impacted by the market consequences of the pandemic, with growth being lower than expected.

In short, total net customers represent a new record with the figure at over 20,000 new customers –14,000 fixed-line and 6,000 mobile–, significantly up on the 13,000 new customers recorded in the previous quarter –11,000 fixed-line and 2,000 mobile.

Growth in the business market is also significant, driven by a strong demand for services. The Euskaltel Group already has over 16,000 company customers. Business market revenue grew around 3% in the quarter to €27.3 million, making it the third highest revenue quarter in this business segment in the Group's history. The strong demand for B2B telecommunications services as a result of teleworking and the service quality and levels provided to companies by the Euskaltel Group are leading to excellent results in this business segment this year.

The Euskaltel Group's fibre optic network covers over 20 million homes

In addition to these excellent results, the Euskaltel Group has gained enormous potential for growth and profitability thanks to the agreements signed with other operators to expand its fibre optic network footprint. At the moment the Euskaltel Group, through its brands Euskaltel, R, Telecable and Virgin telco, already covers more than 20 million homes across Spain. Increased network coverage and enhanced network management are key drivers for continued growth in the company's customer base and profitability.

In the last few months, the Group has signed several network agreements to continue expanding its network coverage and its business' growth and profitability. These include the agreement signed with Orange to access 1.8 million new homes via the company's additional deployment, another 1.5 million new homes with FTTH access via the agreement signed with Adamo, and the agreement with Telefónica to access the unregulated part of its network via NEBA FTTH.

Offering 5G services to customers

In addition to these agreements that expand the Euskaltel Group's fibre optic network footprint, an agreement between the Euskaltel Group and Orange has recently been announced. This agreement will allow the Euskaltel Group to offer its customers 5G mobile technology as a Mobile Virtual Network Operator hosted on the Orange network from 1 January 2022, although both parties may agree to bring this date forward to when Orange launches the 5G Service on a commercial basis and on a mass scale.

The Euskaltel Group therefore guarantees its customers access to the most advanced mobile telecommunications services via a quality 5G network, and secures the necessary capacity to respond to all new mobile data service needs that users might have in the future.

In this same area, Euskaltel manages and coordinates the "5G Euskadi" project, which has received aid from the Spanish Government's programme for the development and implementation of this new technology. This is the first real (Stand Alone) 5G pilot project in the Basque Country and it stems from the commitment to promote innovation and industrial transformation in the Basque Country's largest companies and technology centres. Euskaltel coordinates a consortium of 13 partners from an ecosystem comprising telecommunications operators, network equipment suppliers, universities, research centres, public institutions and private companies.

Within the framework of the "5G Euskadi" project, a 5G infrastructure pilot with network deployment for a mobile virtual network operator is being set up, whereby Euskaltel provides the key network management elements (CORE) and its current host provider (Orange), the radio access part.

This Euskaltel technology will allow for real 5G services to be offered to the Euskaltel Group's customers in the future, both in the residential and business segments, and will make it easier for the Basque Country's industrial fabric to improve its competitiveness in the future.

Solid financial position

At 30 September 2020 EBITDA stood at €260.2 million, up 3.2% on 30 September 2019, with a 50.3% revenue margin, up 119 basis points.

EBITDA in the traditional businesses continued to grow in the quarter, up 1.1% compared to the third quarter of the previous year, due to stable revenue and the ongoing rolling out of cost efficiency measures. Taking into account the impact of costs linked to the launch of Virgin telco, total EBITDA growth is -2%. This impact is gradually decreasing, as there was a significant drop in the third quarter with regard the expenses linked to the launch which took place in the second quarter of 2020 (€2.6 million in Q3 compared to €3.8 million in Q2).

Similarly, operating cash flow generation from the traditional business, without taking into account the effect of the launch of the new brand, would have been €49.7 million, above the 29% revenue and in line with previous quarters.

As a result of the continuous generation of operating cash flow, the company continues with its deleveraging process. In the first nine months of the year, the company has reduced its net debt by more than €18 million. This debt reduction has been possible despite the €55 million dividend distribution in this period. Net debt stands at €1,468 million in the third quarter, which represents 4.16 times EBITDA, whereas at the end of 2019 net debt was 4.21 times EBITDA.

With strong and continuous cash flow generation, a low cost of debt (2.6%) and an average debt maturity of 3.9 years, the company's financial position at the end of the third quarter is very solid and the results are in line with the targets announced to the market in its strategic plan, reflecting the Group's commitment to generate value for shareholders.