Tele2 Q4 2023 Interim Report

Tuesday, 30th January 2024

Introduction

Kjell Johnsen

CEO, Tele2

Welcome

Good morning, everyone, and welcome to Tele2's report call for the fourth quarter of 2023. We are very happy that you are taking the time with us this morning. With me here in Kista today, I have Charlotte Hansson, our Group CFO; Hendrik De Groot, our Chief Commercial Officer; and Stefan Trampus, our Head of B2B.

Highlights

2023 turned out to be eventful in many ways. And if I were to single out a few specific events beyond the financial ones, I would mention the *Financial Times* ranking of Tele2 as the number one among Europe's climate leaders, as well as the top spot our B2B team recently achieved in the Swedish Quality Survey (SKI) based on real customer experience. So while these achievements make us proud, we will, of course, continue our work on customer experience and sustainability going forward.

I am glad to report a strong end of 2023 as we grew organic underlying EBITDAaL by 4% in the fourth quarter, while maintaining solid end-user service revenue growth of 3%. For the full year, we grew end-user service revenue by 4% and underlying EBITDAaL by 2%, which, combined with 13.5% CAPEX to sales ratio, was in line with our 2023 guidance, in a challenging year largely characterised by inflation.

Following strong equity free cash flow during the year, our balance sheet remains strong, with leverage at the bottom end of our target range. Consequently, our Board of Directors proposes an ordinary dividend of SEK6.90 per share, an increase from SEK6.80 last year, to be paid in two tranches, in May and October.

We are also launching a new Strategy Execution Programme which covers the next three years. Through this programme, we will, simply put, shift focus from fixing legacy IT towards our go-to-market efforts, developing outstanding digital tools and channels aimed at radically improving customer experience and value. The programme will also, as an effect, allow us to reduce SEK600 million of costs over the next three years. I will soon present this in more detail.

Strong end of 2023 – Guidance delivered

End-user service revenue grew by 3% organically, with solid performance across operations, including continued growth acceleration in B2C Sweden. Underlying EBITDAaL grew by 4%, mostly as end-user service revenue growth more than offset inflationary pressures. We had a solid equity free cash flow this quarter despite working capital impact from seasonally high levels of equipment funding.

In Sweden B2C, we saw solid volume growth in mobile postpaid. End-user service revenue growth in connectivity was also solid, driven by fixed broadband at 8% and mobile postpaid at 5%.

Sweden B2B delivered continued solid and broad-based end-user service revenue growth, supported by improving mobile ASPU. Our team also stood out, as mentioned, in the recent survey from the Swedish Quality Index, with the most satisfied business customers in both broadband and mobile, which we are very proud of.

Baltics had another good quarter with strong ASPU-driven end-user service revenue growth and good underlying EBITDAaL growth.

Then let us look at Swedish consumer.

Sweden consumer: Growth in volume and value

Q4 was yet another quarter with solid volume growth in mobile postpaid, driven by lower churn and strong sales of unlimited and family products. Mobile ASPU increased slightly year-over-year but grew more than 2% when excluding dilution from free broadband RGUs.

In fixed broadband, we saw stable RGU development in the quarter due to fewer campaigns and less discounts, whereas ASPU growth was strong, thanks to price adjustments and uptake of higher average speeds.

Our Digital TV Cable & Fibre business remained stable in terms of volume, whereas ASPU was slightly down due to decline of legacy add-on products.

Sweden consumer: Solid EUSR growth in connectivity

Mobile end-user service revenue grew by 3%, driven by a continued acceleration in mobile postpaid, which delivered a multiyear high end-user service revenue growth of 5%. In contrast, our prepaid business continued to contract in line with previous quarters, following the registration requirement since February 2023.

With an impressive 8% end-user service revenue growth, fixed broadband also delivered a multiyear high, thanks to both ASPU and volume growth. End-user service revenue for Digital TV declined by 3%, mostly driven by continued decline in the legacy DTT business.

Sweden business: Continued healthy topline growth

We continue to execute on our successful B2B strategy, and all customer segments are contributing to the solid end-user service revenue growth of 2%, or 4% underlying when adjusted for a one-off deal in Solutions in Q4 of 2022.

Our copper decommissioning has now approached 90% completion rate. Mobile net intake amounted to 3,000 RGUs in Q4 alongside continued ASPU improvements. The macroeconomic situation continues to affect some of our customer groups more than others, however, with moderate impact on our overall business.

Sweden financials: Healthy EBITDAaL growth

And then let us move to an overview of Sweden. End-user service revenue growth for the total Swedish operations ended at 2%, driven by both B2C and B2B. Underlying EBITDAaL turned to 3% growth, mostly as higher end-user service revenue exceeded inflationary pressures and continued margin pressure from product mix changes as legacy services are declining. The cash conversion of 58% is reflecting full-year CAPEX to sales of 15%.

Baltics operational highlights: Strong ASPU growth

The total number of Baltic mobile postpaid customers continued to increase in the quarter. Organic ASPU continued to grow at a healthy rate, largely driven by Lithuania and our more-for-more strategy, price adjustments and prepaid to postpaid migration.

Baltics financials: Continued strong performance

And then looking at the Baltics financials. The ASPU growth combined with some volume growth in mobile postpaid led to 8% organic end-user service revenue growth for the Baltics as a whole, driven by Lithuania and Latvia.

Underlying EBITDAaL also grew at 8% organically as end-user service revenue and somewhat lower energy costs exceeded inflationary pressures. Cash conversion remains at excellent levels and reached 74% by year-end thanks to strong underlying EBITDAaL despite full-year CAPEX to sales of 10% due to ongoing 5G rollouts.

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

Financial Overview

Charlotte Hansson

CFO, Tele2

Group results

Thank you, Kjell, and good morning, everyone.

So, first, a few comments on the Group P&L. In Q4, total revenue grew by 2% organically, whereas end-user service revenue grew slightly more than 3% organically. In Q4, we had a revenue increase of SEK13 million from international roaming year-on-year, hence roughly in line with the contributions in the previous couple of quarters.

Underlying EBITDA grew by 6% in SEK terms and close to 5% organically. The underlying EBITDAaL grew slightly more than 4% organically, mostly as the end-user service revenue growth more than offset inflationary pressure and continued margin pressure from product mix changes as the legacy services declined. In Q4, we had SEK11 million tailwind from energy year-on-year.

As you can see on the slide, our net financial items increased by SEK80 million year-on-year due to higher financing costs for outstanding debt, and by year-end, we had a debt mix of 66% fixed rates and 34% floating rates. With that follows, for every 1 percentage point rate change by our Central Bank, our annualised financial expenses on loans with floating rates move by around 90 million. During 2024, we have some SEK4 billion maturing, of which the majority is fixed and matures during the first half of the year.

Then finally, the income tax was increased due to higher taxable profits and because last year was positively impacted by tax reductions related to investments made during the pandemic.

Group cash flow

CAPEX paid increased in Q4 compared to last year due to continued high CAPEX levels and the first tranche of the recently acquired spectrum in Sweden. Changes in working capital were negative in Q4, as expected, mainly driven by seasonally high levels of equipment funding, leading to a modest positive working capital for full-year 2023. With that said, one of our focus areas a year ago was to reduce our inventory levels, which we have achieved following a reduction of some SEK400 million.

Another focus area was to improve the invoicing process towards Net4Mobility related to our network modernisation. Here, we have made tangible progress in 2023, albeit partly offset by new investments as we continue our 5G rollout.

Working capital remains a priority for us also going forward, and our ambition is to keep working capital cash flow neutral in 2024. Net financial items paid increased due to higher interest rates, both on loans and leases and coupon timing. Taxes paid declined, predominantly due to a tax refund related to year 2022. All in all, our equity free cash flow for Q4 ended at SEK0.5 billion, slightly above last year's level. And over the last 12 months, we have generated SEK4.7 billion of equity free cash flow, corresponding to SEK6.8 per share, and consequently in line with the dividend payments during the year.

Leverage at 2.5x

By year-end, economic net debt amounted to SEK25.6 billion, hence unchanged compared to year-end 2022. Our leverage ended at 2.5 times, which is in the lower end of our target range of 2.5 to 3 times.

And with that, I hand over to Kjell to introduce the next phase of our Strategy Execution.

Strategy Execution Programme

Kjell Johnsen

CEO, Tele2

Ready for Next Phase of Strategy Execution

Thank you very much, Charlotte, and I would like to use the opportunity to take a little bit longer perspective. As you may remember, I have been here for a little bit more than three years, and over these last three years, we have spent a lot of time working on integrating different parts of the business. Historically, of course, we consist of Tele2, Comviq, Com Hem, Boxer, and those with a long memory will remember that we, oh so many years ago, bought the TDC operations in Sweden. All of these brands typically have their own stack and their own building, and over the last two to three years, we have made a huge effort to consolidate these assets, these legacy platforms into two, one for consumer and one for B2B. And internally, we call that the legacy consolidation.

The good thing now is that this spring, when we put these things together, we will start freeing up capacity to what we internally refer to as the development opportunity, where we will be more focused on developing customer experience, new go-to-market, digital channels. And all of these things lead to improvements in the way we interact with customers into improvements in our cost base. And of course, the focus on value is also a substantial change that we have been through over the last few years. Historically, quite a lot of focus on volume, now more on value, and you are starting to see it in the numbers. We are also starting to see it in the customer loyalty. So I feel that we are now at – we're turning the page on a new chapter for Tele2.

Launch of Strategy Execution Programme (SEP)

If you look into the Strategy Execution Programme, I would like to highlight that this is all about creating customer value. This is about creating great digital channels. We already do a lot of the customer interaction in Comviq digitally. We want to be doing more of that in the Tele2 brand. And we, of course, want to help Stefan in running B2B with the best tools available. That is a primary target for us going forward.

Self-service is, of course, an important part of the customers' interactions with us. We want to dedicate more time and effort to developing these solutions. And as we always say, we are well under way. We are building a great 5G network, where we, for regulatory reasons, basically have to replace everything that we have in Net4Mobility, and that will be done by the end of this year. And next year, we will replace SUNAB with our own new network. And after that, we will be down to demand-driven investments, which will be lower cost and lower CAPEX.

And then, when we talk about strategy execution programmes, they typically are labelled cost programmes. I would like to emphasise that at Tele2 now the SEP, as we call it, is a value-led programme which has cost saving as a consequence. But we are going to follow up these cost savings that we have identified meticulously over the next three years, and we are going to save those SEK600 million, and they will be saved in a fairly equal way over the years, actually maybe a bit more than a third in the first year.

So this is all about reshaping customer journeys. It is about optimizing our go-to market. And of course, as an effect, we are going to realise these cost savings that we have identified.

Financial outlook

Which leads us over to the guiding section, where we, for 2024, uphold a similar growth level at 3% to 4%. We will be growing 1% to 3% on EBITDAaL. We expect the CAPEX to sales to remain unchanged at 13% to 14%. This is a reflection of the heavy network investments and also intensified customer-centric transformation, which comes with some upfront costs.

For 2024, we can also say that we currently estimate an energy cost headwind around SEK90 million year-over-year, of which SEK35 million relates to the energy support received in 2023. So this is in the numbers.

We expect a slower Q1, with roughly flattish organic underlying EBITDAaL year-over-year. This is due to factors as yearly indexations of OPEX items and the fact that we are in between two cost savings programmes. Some of the phasing of the expansion cost, of course, comes in due to good sales last year. However, we are executing front-end-loaded price increases, which should contribute meaningfully from the latter part of Q1 and even more, of course, throughout Q2, so expect a better Q2 than Q1.

Our mid-term outlook is unchanged for low to mid single-digit organic end-user revenue growth, mid-single-digit organic underlying EBITDAaL growth, as we will benefit from new levels of efficiency and value creation from the Strategy Execution Programme.

In 2025, we expect 13% to 14% CAPEX to sales, driven by the final stage of the major 5G expansion in Sweden. As we have to shut down the SUNAB 3G joint venture by the end of the year, the spectrum that is allocated to SUNAB will, by that time, be moved to Net4Mobility, so we will have to execute that change during 2025 from a regulatory point of view.

From 2026, we expect, and we are fully committed, to CAPEX to sales that comes down to historical levels of 10% to 12% as our network will return to being completely demand-driven.

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

Q&A

Andrew Lee (Goldman Sachs): I had a question just around the EBITDAaL growth compared to the end-user service revenue growth. So I guess investors this morning were positively surprised by the end-user service revenue growth you are aiming for or guiding in 2024, but were negatively surprised, certainly relative to that, with the underlying EBITDAaL growth. Kjell, you went through a couple of the headwinds to EBITDAaL just a couple of minutes ago. You mentioned energy cost headwinds of SEK90 million amongst other things and some yearly indexations of cost savings, but I wondered if you could break down the cost headwinds a bit more clearly in 2024, because it is obviously quite anomalous for a fixed cost telco to have such poor operational gearing.

And then maybe if I could just ask a follow-up. We are just trying to understand how your mid-term outlook of mid-single-digit EBITDAaL growth balances with that low EBITDAaL growth in 2024. Is your mid-single-digit mid-term outlook what you hope to get to in the mid-term, or do you still think you can average mid-single-digit growth in the medium term?

Kjell Johnsen: Thank you, Andrew. Yes, so we are clearly planning for moving to mid-single-digit later in the period, as we are guiding for. And obviously, we see if mid-single-digit coming in in Q4 2023, now the task is, of course, to make sure that we do that throughout a full year and without having these quarterly variations that we see.

I think it is partly down to the model that we have, and many other telcos with more-for-more, where you have some roll-off and then you start doing it again next year. That gives you a slower start to the year. We want to even out that thing. And of course, we do still have the cost increases from inflation in the OPEX space coming in in the early part of this year. We see that that should abate over time.

So it is just a transition into making sure that we can do pricing at the time that corresponds to other cost increases in the business. And of course, we will be benefiting from the improvements we do in the programme. The programme is not only about saving costs in terms of internal cost. It is also about spending less money on external retail and commissions. And we have moved more over to a subsidised model, where we see more customer loyalty, where we have customers in binding, which gives us a chance to have longer customer relationships. So it is a current fundamental retake on the model.

The brand Tele2 did not use, for example, handset binding before, and that is something that we have actually spent some time to reintroduce from an IT perspective. We see very positive effects of it. We see the majority of our sales are in some binding. And of course, the base is increasingly becoming bound to us, and we see churn coming down.

On the cost side, beyond that, we do have a programme here that will lead to some reduced internal costs. That is something I would like to maybe also speak a bit more about at a later point in time. There are internal process that we should go through in a proper way before we communicate too much around it. But the plans are very clear and robust in terms of what we are going to achieve.

Andrew Lee: Can I just – just a quick follow-up? So you are talking about energy cost headwinds and then cost indexation for inflation. Given you are saying that you are going to get a third of your SEK600 million savings in 2024 or a bit more, that cost inflation sounds like it is quite high. What exactly is going on there with your OPEX inflation? How big is the OPEX inflation, or what is the absolute headwind you are anticipating? Because it sounds like it is really hard.

Kjell Johnsen: Andrew, I think it is an important qualification here. When I say we are going to realise a third or more, then I talked about the exit run rate. So of course it would come gradually throughout the year in different parts of the business. So the full-year effect, of course, will be less, but we will carry it with us into next year.

Andrew Lee: Just on that inflation, so what exactly are these inflation headwinds that you are assuming? Because it sounds like it is quite a high degree of inflation than to get to that 1% to 3% EBITDAaL.

Kjell Johnsen: If you look at a couple of practical things, for example, when you adjust salaries you have a carryover into next year. This year, the agreement with the unions in Sweden is for an increase of around 3.3%, so that comes on top when you have pure labour costs. And then, of course, yes, it is clear that some parts of the equipment that we have been buying – I am not talking about network equipment. I am not talking about 5G equipment, but other things that come into our networks have had price increases due to the currency that had significantly weakened and the general inflation.

So that is what we are compensating for in the business, and we are well under way with that. We see that we are going to be able to do that as well. It just comes in some steps.

Oscar Rönnkvist (ABG Sundal Collier): Just on the 2025 CAPEX outlook, I think you mentioned 3G network closing. I assume that was already somewhat expected when you put out your previous CAPEX guidance this summer, so just wanted to check if you could elaborate on what has changed between then and now which have caused different outlook for 2025? And also, if you could expand on the mix, please, if the higher 2025 CAPEX is purely on mobile network investments?

Kjell Johnsen: I think we should have done an even better job at communicating it, because I think we have been clear that, in 2024, we are swapping everything in Net4Mobility. In 2025, we need to replace SUNAB, because basically SUNAB, as a company, will have no spectrum on 1st January 2026. But I do see and understand that people had put in an expectation of CAPEX coming down towards the end of 2025, and then we need to communicate better.

But if you look at it in the grand scheme of things, it means that this job is done a little bit faster. It means that we can be more careful in our demand-driven CAPEX in 2026. And coming down to 10% to 12% is a very low number that you will not find almost anywhere else in Europe. So I think we are getting our CAPEX story completely and firmly into place within the guidance that we have delivered now.

Even at the peak CAPEX, we are probably 2 percentage points to 3 percentage points lower than many of our competitors. But, point taken: if people had the impression that there would be a lower CAPEX than what we have said now, then our communication should be better.

Andreas Joelsson (Carnegie): Just a question on prices. A general question basically, because 2023 was a year when the sector, as such, probably had to look into prices more than usual. What is the key learnings from 2023 and into the future when it comes to pricing? And also just a clarification on the cost programme. Is that a net target, or is it a gross target?

Hendrik De Groot: Right. I will take that one, Andreas. This is Hendrik here, around pricing. I will hand over to Charlotte on your second part of the question.

On pricing, we have implemented in 2023, very much in line with what we have been saying earlier in the last year around cost development and some of the offsets of that. I think you asked for the key learnings. I think the key learnings are that, in terms if you want to successfully implement pricing, which I guess last year we have done quite well and you see the full effect in our Q4 numbers, the customer base is quite resilient in terms of accepting pricing as long as the perception of the service is good and it is fair. And in that sense, we have been spreading the pricing quite a bit more than we have done in the previous years, where we had very much a specific more-for-more pricing strategy where we took certain cohorts of customers. So we have been spreading out the pricing more fairly. And I think in that way, it turned out to be also more sticky.

And the key thing from that is it has sort of been an intermediate step to basically what we are implementing in 2024 and going forward, which I think we have also talked about last year, is that we are basically moving a little bit away from more-for-more towards more like an annual pricing cycle. And in the annual pricing cycle, we will address all of our customer base instead of certain cohorts. In the way we do the pricing, we take an orientation towards inflation development. So we are not hard coding it to inflation, but we take an orientation to inflation development, and that is basically what we are implementing from 2024 going forward. This is the main avenue.

And with that, we are also changing our front book. So you can see, for example, the prices have been changed. Our unlimited entry offer of SUNAB has gone from 3.99 to 4.29 and our family offer from 1.99 to 2.19. And in line with that, basically, we are pricing all the customer base for those customers that are not in binding. That is basically on pricing. Yes. I will hand over to you, Charlotte, to follow up.

Charlotte Hansson: Yes. So when it comes to the savings of the SEK600 million, as you remember, we had a cost saving programme that we ended end of June, of SEK1 billion, and this will be a similar programme that will be managing in the same way. So we will follow up in the same way, so it will also, as the previous programme, be a gross saving programme. And I think it’s also worth repeating that it also comes on the back of different initiatives that we see that we can do in the business.

So it is not a pure cost-saving programme, but also very much value-led, as Kjell mentioned earlier.

Stefan Gauffin (DNB): I have a couple of follow-up questions. First on pricing, again, but more relating to the Baltics. So the Baltics have been the driver of growth over the last couple of years. A lot of that has been due to pricing. Do you still see room to drive growth through pricing in these markets, or do you see a tougher environment due to macro?

Kjell Johnsen: We will just take one to begin with, Stefan. So the answer to that is that we are very happy, of course, with the growth we have seen in the Baltics. I started off saying here that now the growth picture and the profitability picture of Tele2 is more balanced. We now see Sweden coming back with a stronger performance, which I think is great, because it is better balanced.

The Baltics came out of some years ago from a relatively low ARPU level. Prices have been increased. We have seen throughout 2023 that some of them have been almost in recession. Still, we have seen a good development. And I have been saying on this call for many quarters that we are very happy with the performance in the Baltics. But of course, we do not expect them to run double-digit growth forever in terms of top line and EBITDAaL. But I do see hope for continued decent good growth in the Baltics[?]. Little bit different from market to market, but overall, yes.

Stefan Gauffin: Okay. And then just a question on the energy situation. Can you repeat on what you said for 2024? I guess that, in 2022, you had some SEK150 million in energy headwind, and then in 2023, you had this tailwind of SEK55 million. So what should we expect for 2024?

Charlotte Hansson: I can actually take that. And as you said that we did have a tailwind in 2023, of the SEK55 million that you mentioned. So our expectations for next year is a headwind of approximately SEK90 million, and then SEK35 million of that was then related to the government support that we had in 2023.

Stefan Gauffin: We should expect a headwind in 2024?

Charlotte Hansson: Yes, that is what I said.

Stefan Gauffin: Yes, but can you explain why, given the prices that we see in the market? Why should it be a headwind?

Charlotte Hansson: It is a combination of both volume and prices. This is what we put in our budget. I think it is divided equally between Sweden and the Baltics. That is what we see and what the calculation that we made when we do the Baltics.

Nick Lyall (Société Générale): It was a quick one, please. Firstly, Kjell, you mentioned the IT migration as of spring. Could you just remind us what that enables you to do? Is it just cost-cutting and digitalisation, or do you think you will be able to do a lot more in terms of bundling on certain brands as well? Does that change the way you can actually launch brands in the market?

And then secondly, in the statement, you mentioned specifically in your speech on Sweden that activity was higher in the fourth quarter. Could you just describe what you meant by that, and has that continued into the first quarter as well, please?

Kjell Johnsen: Yes. So, like I tried to explain previously, we basically consist of a number of different legacy brands – Tele2, Comviq, Com Hem, Boxer, TDC – with all of them with systems that some of them were old and some of them were reasonably good. But whenever we wanted to do product launches or we want to upgrade or change things, we will have to work in multiple systems at the same time. And of course, it is very, very inefficient. And then, of course, we have the world around the cybersecurity threats and all these things.

So basically, what we have done is a quite massive consolidation of IT systems. And what that gives us is the opportunity to be faster in terms of our development plans, because we do not have to replicate in two or three systems before we can launch, for example, an FMC product. So it gives us higher reliability. It is easier to operate and frees up some capacity for development for our go-to-market, something that Hendrik and Stefan definitely want so that they can be at the top of their game also going forward.

And we have spent a lot of time on that the last two, three years to get that job done, and many telcos are not there at all and may not be there for many years. So I think it is a very significant event, and that is why I devoted some attention to it.

The comment I made on the overflow from last year is basically that we have very good postpaid sales. And of course, when you work with external retail, you carry with you some of that decommissions and these things in your books for some time for the duration of the contracts and these things. But we are happy to take that with us because it brings customers in and decent ARPUs in the Tele2 brand. So it is a positive.

Ajay Soni (JP Morgan): So just I wanted to ask about 2024 CAPEX guidance. So you obviously got a couple of buckets, such as the mobile equipment replacement, your 5G rollout. Do you think 2024 ends up being towards the high end of your range? I just want to understand what risk do you see that it might end up higher than the 14% guidance, for example, inflationary pressures or FX headwinds? I am eager to just understand that a bit more.

Kjell Johnsen: You mean the higher end of the 13% to the 14% range?

Ajay Soni: Yes, that is what I mean, yes.

Kjell Johnsen: Well, I think variations between one percentage point, if you have a special winter or a special summer or something like that, that is kind of the 5G rollout and these things. So we will end up within that range, but I cannot give you a decimal point where we would be within the range.

Ajay Soni: Excellent. But what do you see the pressures are being up towards the higher end of that range as, for example, inflationary costs or FX? Are those pressures you are seeing? Is there anything else that we should be aware of?

Kjell Johnsen: There are a couple of things here that is volume-driven. Of course, how many base stations we swap. We need to swap all the base stations, so we have plan to do that, and then we will do very limited rollout. So those are the volume parameters on the 5G.

In terms of Remote-PHY upgrades, that is something that we largely can steer and throttle. This year, we will do more Remote-PHY than we ever did before 2023, but we will not be maxing the potential there, and that is a way of steering this. In other areas, if we have cost increases coming up, that will be more of an OPEX issue, and we have plan for that.

The CAPEX guidance, 13% to 14% is something that we will come within there. The worst thing that could happen would be that we will be too slow when come below 13%, because we really want to get it done now with a regulatory rollout.

Siyi He (Citi): My question is really on the free cash flow. I think, in your opening remarks, you suggest that net working capital is going to be stable year-on-year, but I think in the past you are talking about positive contributions. Just wondering why the change. And, if possible, can you walk through how should we think about equity free cash flow development for 2024?

And maybe just leaning to that is that now it seems to focus on paying 100% of the free cash flow into shareholder remunerations, but now with the leverage at 2.5 times, and just I want to understand your risk and thinking about dividends going forward.

Kjell Johnsen: I have to admit that I did not quite – and as you said, was something changed. I do not know what has changed.

Siyi He: Sorry, the net working capital. I think, in the past, net working capital is supposed to be positive for 2023-2024 and 2025. Just wondering why you are now expecting a flat development.

Kjell Johnsen: Yes, I can start on that. I mean, clearly, if you look at our postpaid business in Sweden, we increased our number of postpaid subscribers by 80,000 and that, of course, is linked to our binding and handsets. So that is a very, very positive development, but it does bind some working capital.

With respect to the balance sheet, my view on that is clear. Even with the CAPEX that we planned for this year, all other things equal, excluding any other events, M&A or things like that, but operationally, we expect to be at the lower end of that range also end of this year. So we are in a solid position, but we think it is prudent to what we have done now to propose that the Board has proposed an increase in the dividend within the framework that we have. Do you want to add something maybe on working capital, Charlotte?

Charlotte Hansson: No. I think that, of course, we are continuing working on the working capital. That is one of the priorities, as I mentioned. But I think that what we are saying is that we are seeing is – we expect to see it be more neutral for the year. And as you know, this is the small variations, and it is quite difficult to foresee, but we are confident that, at any rate, that we are keeping it neutral for this year.

Maurice Patrick (Barclays): From my side, it is a fairly basic question. Sorry for it. But in terms of the number of sites you have in Sweden or radio sites you have in Sweden, you obviously have sites with Telenor on a JV also inside SUNAB with its own sites. But I am curious to understand a bit around, as SUNAB is turned off, you seem to make reference to migrating frequencies to the Telenor joint venture. Do you think you will need to roll out more physical sites to replace the SUNAB ones? Or is it more a question of just migrating more from one network to the other one? Just curious to understand that need for more sites, whether it is coverage, whether it is capacity, densification, whether it is more around migrating frequencies, it would be very helpful.

Kjell Johnsen: Yes. So currently, the spectrum that SUNAB operate from is available until the end of 2025. There was an auction in September last year, I think it was, where that spectrum was re-auctioned, and that will then come into place 1st January 2026. Net4Mobility bought back that spectrum, or part of that spectrum, in that auction and will have to operate those frequency bands as of 1st January 2026. SUNAB as an entity will, of course, then not be delivering services in Sweden, and the coverage that SUNAB has today will have to be replaced by Net4Mobility. In itself, this actually gives an opportunity to optimise the network because there will be one end-to-end network planning. And if you go back to our Capital Markets Day in 2021, Yogesh outlined how the initial 4G, 5G network or the initial network that we built after SUNAB is closed down, we will actually have fewer base stations than the combined Net4Mobility and SUNAB, because we can put this all together. But yes, in 2025 the rollout we are going to do is to make sure that we cover those coverage holes that otherwise would have been when SUNAB is shut off end of 2025.

Maurice Patrick: Okay. So there should be an expectation you will actually roll out brand new sites on new towers and vacations in 2025?

Kjell Johnsen: Yes. In 2025, we will do that because, of course, SUNAB is a 3G network, and that is not going to be very future-proof. So, clearly, we need to upgrade also the technology for the coverage that SUNAB has given us. So that is going to be then with new networks. All of it overlaps, but did not everywhere.

Fredrik Lithell (Handelsbanken): A detailed one. I was curious to learn more about the legislation on registering prepaid numbers in 2023. How far into that are you? How much of your base of prepaid have actually registered? And is there sort of a deadline for when this has to be completed or something like that would be interesting to hear.

Kjell Johnsen: Hendrik?

Hendrik De Groot: I can take that one. Yes. So Fredrik, on prepaid, the legislation basically went into effect very much early in 2023. And remember, in February or March, all new customers and existing customers that wanted to top up had to be registered. So basically, the full base of prepaid customers is registered as we speak here today.

And on that process, we have done a lot around digitalisation. Som a lot of it, we spoke about of how we deal with customers all wholly fully digitalised, and it is a very sort of easy customer journey. And of course, what you are seeing basically in the numbers is on a year-on-year comparison, a bit of a more difficult comparison. But as we go into this year, it will be compared to a registered base.

Keval Khiroya (Deutsche Bank): So Q4 obviously saw meaningful improvement in Swedish EBITDAaL growth to 3%. Do you see this EBITDAaL growth as sustainable for full-year 2024 for Sweden, and can you provide some comment on how we should think about B2B in 2024? Obviously, it has been very strong in 2023.

Kjell Johnsen: Starting with B2B?

Stefan Trampus: All right. Keval, Stefan here. Thanks for your question on B2B. I would say that, looking at 2022 and 2023, we had, as you said, a strong performance overall, coming from a couple of years of decline. Going into 2024, I would say that we expect similar development that we have seen for the full year, then it can vary among the quarters, dependent on some one-offs that we had. In Q1 last year, we had a one-off on our fixed revenues, so the comps versus Q1 will be a little soft or harder. But overall, you can expect on the similar development that you see in 2023.

Then the unknown is a little bit where the macroeconomics are going and the cost pressure on customers, etc., and how much they can invest. And I would say that is sort of the unknown for us. Let us see how that plays out. I think the beginning of the year will be really significant for the full year. I hope that answers your question.

Kjell Johnsen: Yes. On the timing, I mean, we already touched upon that, I think, to quite some extent in terms of the timing of the annual price adjustments in terms of when OPEX things are coming in. I think we actually touched on how that plays out throughout the quarters.

Hendrik De Groot: Maybe just to add on, Kjell. So as I was pointing out that we do move to another – you know, evolving our pricing strategy, where with more-for-more pricing, Keval, you would typically see a more back-ended coming into the full materiality like we see in Q4. You will probably see this coming a little bit more front-loaded, Kjell, as you were alluding to, right, for the full effect.

Keval Khiroya: But just on that, I was just trying to work out whether for Q4, we saw Sweden EBITDAaL growing 3%, is that kind of for the full-year 2024? Would we also see that sustain? I get the timing effects around the price rises.

Kjell Johnsen: I do not think we are going into a detailed guidance on the individual countries. We have never done that before. So our guidance is for the whole group, and I think we will stay there.

Zahir Ramcharan (Redburn Atlantic): I just had a question on the phasing of the restructuring costs. So I appreciate the colour on the exit rate for this year on the savings, but is there any detail on how those SEK600 million of restructuring costs are phased between now and 2026?

And then secondly, just quickly on the lease payments this quarter. Just unusually, I noticed they fell about 8%. They have been growing 5% to 6% in the previous two quarters. Is that just phasing and timing, or is something more structural changed there?

Charlotte Hansson: Well, when it comes to the phasing of the restructuring costs, it is nothing that we have guided on, but I think that we expect it to be quite evenly spread for the time being, anyway. And then you said something about leasing payments, phasing on the payments?

Zahir Ramcharan: Yes.

Charlotte Hansson: Not sure about that, let us see.

Kjell Johnsen: So while we are looking into that, I mean, yes, you should expect that we would -

Charlotte Hansson: Yes, it’s probably just phasing, I would say, nothing else.

Usman Ghazi (Berenberg): Just had a question on the working capital commentary around being improved. I just wanted to understand if this is going to something else, because, obviously, I can understand that growing postpaid volumes on handset financing absorbed working capital, but you can offset that with factoring receivables as well, right? So, in this assumption of flat, are you assuming that you do any factoring, or could there be upside if you go about in the full factoring of receivables?

Kjell Johnsen: Yes, we do the factoring, but there is a delay in terms of the come-in. You have to send them the first invoice for the first month, and only after that can you go into the factoring. So clearly, we are using factoring for our handsets. Do you want to add something?

Charlotte Hansson: No.

Usman Ghazi: Right. And so is it that in 2024, there is a bit of a lag as factoring got pick up, and therefore, we should expect something positive in 2025? Or is it that factoring is actually allowing you to achieve a neutral working capital?

Charlotte Hansson: I mean, the factoring is according to the sales, and we had a little bit of a higher sales in Q4, so that is why we might see some of that increasing in the first quarter as these customers are then switching on their subscription. But I think that will be phased out by other customers, so we do not see any major impact on that. And, as also mentioned previously, we are always working on our working capital or cash flow in all different parameters. So we are still guiding on neutral.

Viktor Högberg (Danske Bank): Just a follow-up on the pricing and your ambitions for the Baltics for the year. Sweden, we have already seen some hikes. What should we call it, the index-linking strategy? Will that roll out over every market? Any details you could give us on that would be appreciated.

Kjell Johnsen: Actually, the Baltics, in general, they do a little bit different from country to country. But in general they have a very well-functioning system around this, especially when they have customers in contracts. They have a methodology for approaching them at certain intervals of the customer relationship and then offering them renewal handsets and different ways of re-establishing. So that happens more throughout the year. It is not a one-time event only that happens in that space. And I think, ultimately, we will probably do more of that also in the Swedish market a little bit down the road.

Adam Fox-Rumley (HSBC): I had a quick one on the balance sheet, please. You have been at the low end of your guidance range for a while. Does that guidance range need to be adjusted? Is there any way that could be adjusted? Does the Board need to think about anything there at all? Would you recommend the Board change it at all, or are you still happy with it?

Kjell Johnsen: I think it has served us well to have a strong balance sheet during the turmoil we have seen in the last couple of years. I think the Board, of course, has every right of opportunity to think through what they think is the right approach for the future, but I do not want to signal any kind of change at this point of time. I think it is a fair question, but I think it would have been a bit risky if we had been laying much higher up in the range two years ago than we did.

Now we have been able to navigate through the turmoil with the ability to make the right decisions for the future, not having to optimise to make sure that we can do. We can come through the next couple of quarters without getting into issues with our leverage.

Well, at that point, operator, I think we say thank you to everyone for taking the time to have this discussion with us this morning. We are coming out of 2023 with a strong Tele2 that has done a lot of the preparations we need to do on strengthening our platforms. We are well under way on the 5G.

We have visibility and clarity on when we will return to a historically normal CAPEX level again with our plans in place. We see a balanced Tele2 with a stronger performance overall in Sweden. We see a strong postpaid momentum and broadband momentum in B2C in Sweden, and our balance sheet is, of course, at the lower end. We are increasing our dividend again. So overall, we still have lots of work to do, but we are in a position to make the right decisions for the future.

So with that, I would like to just thank you for your attention. Thank you for your questions, and I hope you would have a nice day.

[END OF TRANSCRIPT]