MAXIS TRANSCRIPT: 2QFY2020 RESULTS BRIEFING

This is the official Maxis transcript of the teleconference that was held on the results presentation briefing call on Thursday 23rd July 2020. This script should be used in conjunction with the presentation document and the Bursa Malaysia results announcement both are available on the Maxis IR website.

Good afternoon Ladies and Gentlemen, this is Gokhan Ogut speaking.

A warm welcome to everyone participating in this briefing session, on our second quarter FY2020 results.

First of all, I hope you, your families and your colleagues are all staying safe, despite the difficult times that we are all going through.

Joining me today are Wayne Treeby, Paul McManus and also Paul Zaman from Investor Relations.

This call will follow our usual format of a short presentation then we are open for questions and answers. We aim to finish by around 4:00pm.

Maxis, Malaysia and the whole world remain in unprecedented times due to: COVID-19 both the first wave and the possible second wave plus the uncertainty in the economy ahead, in terms of business closures and unemployment.

Back in end of quarter one, the MCO triggered the execution of our Maxis Business Continuity Plan. We are now in Recovery MCO and Maxis is in the Return to Office (RTO) phase.

Our first priority is the health of our people, both our own staff and our suppliers' staff, our customers and members of the public. Our field and sales staff all have the appropriate PPE for the job and Maxis implements social distancing at all of our premises and offices.

The second priority is the health of our network and our goal is to continue to deliver the best network experience and service to our customers and our community.

As always, I would like to start by reminding you of our long-term vision and strategy. The COVID-19 situation has triggered the acceleration of digital transformation and processes: e-health; e-education; e-commerce; virtual offices and work from home. Maxis is pre-eminently positioned for this future.

We are therefore steadfast in our commitment to be Malaysia's leading converged solutions provider. Our convergence strategy is accelerating and now has even stronger momentum to it.

We are embracing digitalisation and are transforming our self and our business customers. In June we held a fully virtual AGM in line with Bursa guidelines. We are a role model, for all of our business customers.

We have maintained our network and technology leadership so that we deliver on our promise of "unmatched personalised experience".

We have the world class efficient and effective Maxis organisation to lead us all through this challenging period.

The MCO has been challenging for everyone. Maxis responded to that challenge with great agility and execution of mitigation tactics, that delivered great results for us and our customers.

During the surge of data usage, we rebalanced the network capacity and brought forward planned new capacity to mitigate stay-at-home data usage hotspots, in terms of geography and also time of day.

We maintained a high network performance, better than our peers, as measured by independent third parties such as OOKLA.

We actively promoted our digital apps, both Maxis App and Hotlink App mitigating issues arising from shop closures during the MCO, such as bill payment and buying top-ups.

Hence, we proudly remain the leading mobiles player in Malaysia.

The MCO has once again validated that our Convergence strategy is valid and robust.

Therefore, we are doubling down on our Convergence and Enterprise Strategy and our key priorities of: maintaining leadership in core mobile business; offering more digital and converged solutions, to individuals, homes and business; delivering differentiated and unmatched personalised experience; and accelerating our digital transformation to be the leading converged solutions company.

Another milestone of our MAX plan and transformation strategy is our Brand Refresh during the quarter.

The Brand Refresh solidifying our brand purpose of *"Always Be Ahead"* has been in the planning and development stage for several months and executed it during the MCO with great operational success.

Maxis brand refresh empowers an enhanced go-to-market strategy. We now have a stronger go to market strategy with targeted branding, enhanced sales and service channels, new products and services.

Our newly expanded channels for sales and service, embodies a coherent integrated offline2online (O2O) strategy leveraging our Maxis and Hotlink apps, redesigned webs sites and e-commerce site.

The ***maxis*** brand, embodies our convergence strategy with: Fibre; Mobile; PRIME and shared line converged packages; and Maxperts

The brand refresh was a timely one as it refocuses our brand on what's important – providing an unmatched experience for all our customers. Our Brand promise is also in sharp focus "We exist to bring together the best of technology to help people, businesses and the nation to **Always Be Ahead** in a changing world".

Our consumer offering ensures that we have something for everyone. Importantly this is about offering a customer lifetime experience with Maxis, with Hotlink, Maxis postpaid and also converged services and shared lines for the household.

The **Hotlink** brand has been strengthened. With core and new products; including: A youth targeted Unlimited Prepaid data offering for the heavy data user niche; and our successful Hotlink Postpaid – entry level postpaid plan.

The New ***Maxis Business*** brand targets SMEs, corporates, and Government customer segments. We have a complete business product and service portfolio. We are aiming to position Maxis as the "preferred ICT solution provider".

Now let me hand over to Wayne to drill down into the operational and financial details.

Thank you, Gokhan. Good afternoon Ladies and Gentlemen.

Although, the MCO has affected us all, we confronted the challenge and delivered great results. We maintained the health of our business and our TP-NPS rating of +56 underpins our promise of unmatched personalised customer experience.

We have solid postpaid results, protecting our subscriber base which was down just 0.4%, QonQ, this decrease reflecting the MCO enforced shop closures and a weakening economy. On a YonY basis we increased postpaid subscribers by 9.7% a significant additional of 301 thousand subscribers versus a year ago largely due to our successful Hotlink Postpaid entry level plan driving pre-to-post migration plus our Prime fibre and shared line plans.

The prepaid market continues to be competitive and we were innovative. The prepaid segment was under pressure.

In June, we executed our new Hotlink brand, go-to-market strategies and launched new prepaid products. We reversed the decline in prepaid in April and May and by June, our subscriber base increased by 1.6% on a QonQ basis. This is even after the pre-paid market contraction due to SIM consolidation and our ongoing successful pre-to-post migration with Hotlink Postpaid which is value accretive.

In Fibre, we delivered solid growth of 4.8% QonQ, even under the MCO. Again, Maxis has been agile and provided temporary 4G/LTE home routers to our new fibre customers as during MCO we were unable to do fibre installation. In RMCO, that is in June, we were able to clear this backlog.

We now have in total of 411k fibre customers up 4.8% QonQ.

Digitalisation is a key thrust. Maxis Postpaid app adoption is now at 58% up 5 percentage points and our Hotlink Prepaid app adoption is now at 73%, up 6 percentage points versus the previous quarter.

Overall, we are very pleased with our performance for the 2Q2020 with our core business being resilient and our growth areas maintaining traction. Let's start with a look at the year-on-year comparison.

We delivered a stable underlying service revenue that is flat YonY, for the 2Q2020 of RM 1.887 billion, excluding wholesale revenue.

Our postpaid segment revenue, excluding wholesale revenue, for 2Q2020 was RM961 million, an increase of 2.1% YonY. Subscribers grew significantly by 9.7% YonY.

Our prepaid segment for 2Q2020 delivered revenue of RM686 million, a decrease of 13.3% from RM 791 million for 2Q2019.

Normalised EBITDA decreased YonY by 4.6% to RM 903 million for 2Q2020 versus RM 947 million for 2Q2019. This EBITDA decrease was driven by the wholesale agreement that still contributed to 1Q2019 plus a further MTR reduction from 1st January, offset by our Fuel4Growth productivity programme capturing cost savings. Plus, we have prudently increased our allocation for bad and doubtful debts.

Operating free cash flow, decreased 8.3% YonY to RM 936 million for 2Q2020 from RM1,021 million at 2Q2019 this was mainly due to a one-off vendor payment, however on the previous 1H represents a 4% increase in OFCF.

Capex for 2Q2020 was a solid RM259mn. We focused upon targeted capacity upgrades and rebalancing that could be done – so with the surge in data usage, we bought forward capacity build.

The Group is pleased to declare a prudent 4 sen dividend for the second quarter.

Now let us drill down into the business.

The service revenue, even under weakening economic conditions is very resilient, because of the agile mitigation actions we took. Service revenue excluding wholesale revenue shows that core business is strong.

QonQ shows a 2.1% decrease; YonY, 2Q2020 revenue was RM1,887 million the same as 2Q2019, so flat, 0.0% change; but on a YTDonYTD basis, Service Revenue shows an increase of 1.4%.

Now, let's now drill down to postpaid and prepaid for more insights.

Turning now to postpaid subscriber growth. We have continued to migrate prepaid to postpaid and have even been winning new customers with our Hotlink postpaid entry point package. We saw a YonY increase of 9.7%, that is 301K additional subscribers. Yet we were not immune to COVID-19 and saw a QonQ drop of 0.4% due limited gross add during the store closures of MCO.

ARPU decreased slightly to 85.3 from 86.1 due to factors including: COVID-19 adversely impacting roaming further in 2Q2020; and a slight ARPU dilution affect from Hotlink Postpaid and Maxis Share line.

Hotlink Postpaid is earnings accretive and decreases churn rate and related churn retention costs.

Postpaid revenue, excluding wholesale income, shows the underlying business is resilient.

On a YonY basis there is an increase of 2.1% to RM 961 million. On a YTDonYTD basis, postpaid revenue excluding wholesale is up RM64mn that is 3.4%.

This is a very good result with strong subscriber growth and a resilient ARPU delivering positive growth, very rare in a mobile business in mature markets. A testament to Maxis' price plans and service offerings that our customers value highly.

Postpaid data usage has increased throughout the MCO from an average of 16.7GB/month in 1Q2020 to an average of 18.6 GB/month for 2Q2020.

Prepaid was a very good in a difficult market due to the execution of our new sales and retail strategy to target underserved markets, the new focus on the prepaid Youth market and the unlimited prepaid plan. Plus, the adoption rate of the Hotlink Prepaid app increased to 73%.

Although YonY prepaid subscribers declined by 6.9% when looking at the QonQ results, our prepaid subscribers, increased 1.6% to end 2Q2020 at 5.975 million.

Even with the ongoing trends of SIM consolidation and our successful migration of prepaid to postpaid, plus the, MCO driving a weakening economy and increasing unemployment levels, Hotlink Prepaid is still resilient and growing.

Data usage, for 1Q2020 was 16.7GB and the average usage increased further in 2Q2020 to 22.5GB/Month.

Maxis has the First-mover advantage in delivering a nationwide commercial fibre offering. Our sales and service channels are trained, ready and been pro-active for several months. Under our brand refresh ***Maxis*** targets converged service offerings: Prime, shared postpaid lines and our unique talent pool of Maxperts. We therefore continue to build momentum supporting our first mover advantage in converged mobile-fibre services. We also during the MCO were agile and fulfilled fibre sales with a temporary 4G/LTE router and in June this backlog of fibre orders were cleared.

We saw strong growth of 19k net fibre additions. At the end of 2Q2020 we have 411 thousand fibre customers, an increase of 4.8% that is 19 thousand more at the end of 2Q2020.

HomeFibre ARPU dropped slightly to RM106/month. Behind our fibre access agreements with TM, Sacofa, Allo and CT Sabah, we now have established processes offering the best nationwide coverage and access to over 4 million homes.

All of this is reflected in a 35.6% increase in fibre revenue, YTD'20 versus YTD'19.

Now let me hand over to Paul McManus on Enterprise's execution strategy.

Thank you, Wayne.

Let me share some highlights on the progress made within our Enterprise segment with ***Maxis Business***. As outlined by Gokhan we launched the new ***"Maxis Business"*** brand better reflecting our new strategy and capabilities, that have now been built. In rebranding we have also shifted our customers perception from being Malaysia's leading mobile provider for Enterprise, to becoming Malaysia's preferred ICT and converged solutions provider and increasingly their strategic partner of choice for all critical digital and converged connectivity solutions in Malaysia.

Within Maxis Business, we have continued to make good progress in building out our core talent capacity and capability. This was achieved both organically and inorganically – finalising the acqui-hire of ICMS (now called Microsoft Cloud Solutions within the Maxis Cloud Centre of Excellence) – a highly regarded Malaysian-based cloud solutions company. They are now fully onboarded and operational under the ***Maxis Business*** brand.

We also continued to strengthen and deepen our key strategic partnerships with global leaders. Securing 'Premier' partner status with Cisco and also becoming the first Telco provider in Malaysia to achieve the 'Select Tier' status with AWS in the Cloud services, and finally we also attained additional accreditations with Microsoft with 3 Gold and 5 Silver Microsoft competencies.

In the first half of the year we accelerated our managed services success, deploying the first 100 activated SDWAN sites across multi-vertical industries, including automotive, oil and gas, and media despite the MCO impacts. The remaining majority, of the originally planned sites will be finalised and delivered in 2H2020.

As MCO started to impact through 2Q2020 we helped our customers navigate and understand how to embrace the adoption of digital services to help them survive and continue to operate during the MCO. With over 20 Webinars and online educational seminars completed, together with our Global technology partners, we saw strong demand, having over 2,600 corporate and SME customers joining the sessions. Learning how they could pivot their business and operations by capitalising and building a digital and online presence with Maxis E-commerce services and Maxis Digital marketing solutions. In addition, we saw a significant lift in adoption for our Unified Communications, Cloud services and Managed Network solutions that enabled our customers to rapidly pivot to a work from home environment whilst still continuing to do business and have their staff productive during MCO.

We were also proud to launch, our new #KitaSapotKita campaign to encourage Malaysians to inspire each other. The campaign, with top key business opinion leaders included 30 customer videos and over a hundred constructive tips and hacks on how to stay in business during these unparalleled times. These amazing Malaysian entrepreneurs and business leaders shared their experiences and inspirational stories on how they each managed to turn adversity into opportunity, with over 15.5 million impressions during this period this program and the stories clearly resonated with all Malaysia!

As Malaysia reopens its economy, SMEs are anxious to get back on their feet. ***Maxis Business*** and the Malaysian Government is dedicated to supporting them and we are united in seeing that Digital adoption will be a critical enabler to help these businesses recover. The Malaysian government announced a new Government subsidy and grant of RM500 million in the budget to help Malaysian SME's adopt new digital solutions, to assist them to re-ignite their growth whilst improving their productivity/efficiency and therefore their ability to compete.

MDEC introduced SME Digitalisation grants to accelerate the digitalization of the Malaysian economy. MDEC selected Maxis as a Technology Solutions Partner to help accelerate these new capabilities to all Malaysian SME's under the government grant program, leveraging Maxis wide range of digital solutions and converged connectivity options, including: ePOS (CloudPOS and mPOS); remote working, such as managed Unified Communications and Office365; and digital marketing and eCommerce

So despite the MCO and CMCO impacts we have pivoted quickly and as a result have continued to build out our capabilities and to see a healthy and pleasing growth in our opportunity pipeline of sales leads for our new suite of Maxis next generation converged connectivity, Enterprise ICT and Cloud solutions.

For the next slide, I shall hand back to Wayne.

Thank you, Paul.

Turning now, to our capex, which is about protecting the health of our network and IT systems. To date we have invested capex to get our core network 5G ready and able to support network virtualization plus increasing fibre connectivity in our Radio Access Network enabling fibre or single-hop microwave connectivity to our base stations.

In the MCO/RMCO period we were restricted on new installations.

The QonQ capex phasing in 2020 is expected to be similar to 2019. The YTD'20 capex of RM422 million was greater than YTD'19 of RM394 million. This shows our ongoing commitment to the health of our network and maintaining best network performance as evidenced by third party independent assessments such as Ookla.

Now in terms of profitability, let's start with EBITDA, then we will look at NPAT and OFCF. We have a resilient underlying EBITDA. EBITDA for YTD'20 was RM1,823mn -4.1% lower versus RM1,900mn for YTD'19.

Yet, if we exclude the wholesale revenue that impacts YTD'19 then EBITDA YTD'20 and YTD'19 rounded up is RM1,797 for both periods – a resilient underlying EBITDA.

On a QonQ basis, the EBITDA declined by 1.8%, we have already discussed revenue lines, so the key variations at the cost line includes the following.

Firstly, increased prudent provisions for bad and doubtful debts. This is offset by our Fuel4Growth productivity gains. Maxis has embarked on the Fuel4Growth programme which comprises productivity and working capital management and the target is to deliver RM1 billion over three years from 2019 and 2021. We are currently on track with our in-year target and have further accelerated cost take out initiatives in response to the COVID-19 scenario.

Operational savings was largely driven by a reduction in areas including device costs, traffic cost, and re-negotiation of commercial contracts. In parallel, management also focuses on accelerating digitalisation and applied data analytics across the organisation. Underlying expenses excluding PFDD were 1% lower YTD.

Now turning to the underlying NPAT profit, QonQ declined by 6.1% due to the adverse COVID-19 impacts already discussed. Plus, we have depreciation increasing due to past capex in core and growth business areas, investing today to secure and capture future cash flow growth.

Importantly, we delivered a normalised OFCF of RM 936 million for 2Q2020.

OFCF increased QonQ by 31.3% from RM713 million at 1Q2020.

OFCF decreased YonY by 8.3% compared to RM1,021 million at 2Q2019.

OFCF increased YTDonYTD by 4.0%, that is YTD'20 is RM1,649 million compared to YTD'19 of RM1,586 million.

These strong results are due to our disciplined focus on cash management and capturing results from our ongoing 3-year 2019 to 2021 Fuel4Growth productivity and working capital programmes.

The unprecedented uncertainty about the duration of the COVID-19 pandemic and its impact on the Malaysian and global economy has meant we have to be prudent.

The Board of Directors has declared a second interim single-tier tax-exempt dividend of 4.0 sen per ordinary share in respect of the financial year ending 31 December 2020, to be paid on 24 September 2020. The entitlement date for the dividend payment is 28 August 2020.

The Board of Directors and management fully recognises the importance of dividends to the Group's equity shareholders. However, given the level of uncertainty and challenges created by COVID-19 pandemic, the Board of Directors and management is of the view that lowering shareholder distributions at this time will allow the Group to maximise its support for Malaysian individuals, businesses and communities and at the same time preserving an optimal capital structure, to protect our core business during this time of uncertainty.

Finally, to our outlook for FY2020.

Please read the Guidance in the results pack and also presented in the Bursa disclosure – in summary, due to ongoing unprecedented uncertainty and signs of weakening local and global economies we feel it is prudent not to give guidance.

I will now hand back to Gokhan.

Thank you, Wayne.

Our leadership is steadfast as we see the blue-sky opportunity of a digitalised world. Our priority is to continue to execute our convergence vision & growth strategy, and we are doubling down and accelerating that strategy execution.

We are putting the health and safety of our people first.

We are maintaining our leadership in core mobile business and we are offering more digital services and converged solutions to individuals, homes and businesses.

We are developing new Enterprise solutions and connectivity offerings.

We are achieving differentiated and unmatched personalised experience and maintaining the health of our network and IT systems and delivering performance leadership; and finally focusing on cash management, liquidity and productivity yet being equitable and fair to our shareholders and people.

On this note, thank you for listening to us and we are ready to take your questions.

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