

Orange Polska 1Q2020 results conference call - transcript (OPL_PW)

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Orange Polska participants :

Jean-Francois Fallacher, CEO

Jacek Kunicki, Chief Financial Officer

Leszek Iwaszko, Director of Investor Relations

Witold Drożdż, Executive Director of Corporate Affairs & Strategy

Other participants:

Herve Droutet, Analyst, HSBC

Marcin Nowak, Analyst, IPOPEMA

Pawel Puchalski, Analyst, Santander

Pawel Szpigiel, Analyst, mBank

Presentation

Operator:

Ladies and gentlemen, thank you for standing by. And I would like to welcome you to the Q1 2020 Orange Polska Results Call. At this time all participant lines are in a listen-only mode. The permit of the call will be a presentation by the management team followed by a question-and-answer session. You can also follow the flow of the presentation using the online link.

So without further ado, I would like to pass the line, from Mr. Leszek Iwaszko, Head of Investor Relations, at Orange Polska. Please go ahead, sir.

Leszek Iwaszko

Good morning and welcome everyone to our Results Conference for the First Quarter 2020. Speakers in today's conference will be Jean-Francois Fallacher, CEO of Orange Polska; and Jacek Kunicki, CFO. There will be also on the line to answer your questions two other management Board members, Witold Drożdż, who is responsible for Corporate Affairs and Strategy; and Jacek Kowalski, responsible for HR.

Let me now hand the floor to Jean-Francois, to begin the presentation.

Jean-Francois Fallacher

Thank you very much, Leszek. Let me start with a good snapshot on our first-quarter results and on our prospects going forward. I will be on Page 6 on the presentation now. First of all, I have the pleasure to say that our first-quarter results were strong, both commercially and financially, the number of customers in key services continue to grow, fibre performance was outstanding. As you can see and read here, our revenues increased by almost 1% year-on-year driven by key subscription-based services and ICT business. Good core revenues and continued cost savings translated into 6% growth

of our EBITDAaL. These results clearly underscore the strength of our fundamentals and the success of our strategy that we have been implementing for the last three years. In normal circumstances these achievements would have placed us on a very solid track to reach our full-year goals. However, as you know, circumstances are very far from normal. These Q1 results that we are posting today were largely unaffected by COVID-19 crisis and they are now unprecedented challenges in front of us. The Polish economy will be affected, for sure, in the second quarter and we will see how it develops further. So on one end we believe that our business is more immune to this crisis than many other industries, but on the other hand, this economic crisis creates for us a lot of risks and uncertainties and for sure we will be affected by it. So to address these risks, we are internally, at Orange Polska, launching counteractive measures and taking additional efforts to deal with this situation.

Therefore, despite this uncertainty, as of today, we do not change our plan to achieve the growth of our profitability this year and we will closely monitor the situation. It will not be trivial, but I am confident in our ability to act swiftly. I think throughout the recent years we proved that we can deliver in a very challenging environment.

I will now go to the next slide, Page 7. This slide is presenting the key points on how the pandemic crisis is impacting the business of Orange Polska. This is obviously as we see today. Let me spend a bit of time to explain you how the situation looks like in Poland at the moment, especially for those of you who are not based in Poland. For around 10 days, Poland has been progressively relaxing the lockdown. Government has set four stages for this process without giving precise dates when each stage will start and decisions will be based on trends in the infection rates and the health system capacity.

We are still in the first phase of this plan when it is allowed to leave home but everybody must wear masks. Practically all consumers facility like restaurants or shopping malls are supposed to be open only in the third stage of the relaxation, so few weeks from now at the earliest. However, I have very hot news as a few minutes ago, the Prime Minister of Poland, Mr. Morawiecki has been announcing that shopping malls should reopen on May 4. But for now, around half of our point-of-sales remain closed.

Traffic in the open shops, in the still open shops, is lower by around 60% versus the times before the pandemic. So we are pushing online and telesales channels. And for example, hundreds of employees that used to work in these closed shops are now working remotely as telesales consultants. Despite these moves that we have taken, we are not able to achieve our commercial goals with respect to customer volumes and equipment sales. This means, obviously, slower monetization of our More for More strategy implemented last year. Churn on the positive side is obviously also much lower, this is very positive. But so far, and especially in mobile, it is falling less than gross customer additions, therefore it is likely to put on hold the growth of our mobile customer base, which has been so far constantly increasing.

Over the past months, the government has announced two anti-crisis legislations. I will not go into the details, but for us the key issue is how they would be helpful to our customers, mainly small businesses that we have quite a big exposure to. One of the key uncertainties is how the pandemic would impact solvency situation of our customers. This crucial unknown factor, here, is how long will the lockdown last and when these businesses will be able to return to their operation. And this is why the news that was just announced this morning by the Prime Minister is a very good one for us.

Now let me speak about our networks. This crisis, particularly validates the investments in network quality that we had always been in the centre of our strategy. Broadband access has never been as essential as today. On this slide, on the right side, we are presenting the scale of the traffic growth in March versus February in mobile voice, mobile data and fixed data. Growth in the fixed network is higher

than in the mobile network, which is logical given that people are lockdown into their homes. This clearly underlines the advantage of having a fixed network not just relying on mobile network. And we currently see fibre as a very resilient service and product. One remark, I would like to add is that this spike in traffic does not automatically mean that we are making more money. As a vast majority of our mobile customers enjoy unlimited voice plans, all post-paid, an important part of prepay are actually on cap data bundles. Fixed Internet, obviously, does not come with data caps.

Talking about fibre I propose that we are going on the next slide. So I'm going to slide number 8. As I already mentioned, the first quarter was very good for our Fibre, we counted 44,000 net customer additions. This is the second-best quarter ever. We are not far actually from the level we reached in the fourth quarter of last year in the peak commercial season. If we look now at customer adoption rate, it continues to grow. We are now approaching 13% and I would like to mention here that there are already 20 cities in which this adoption rate is higher than 20%. We continue to see a great demand in single-family homes. Adoption rate amongst this customer group exceeds 20% despite the fact that the price is PLN15 higher than in multifamily homes and this is to cover obviously a much higher construction cost.

In this first quarter, we continue to roll out fibre network in line with our goals. At the end of March, we've reached almost 4.4 million Polish households. The rollout in the first quarter was not affected by the pandemic, but in Q2, it might be. The key bottleneck here is that the investment process requires various approvals and agreements from local authorities, which are usually given in a paper form.

In the technology mix, the share of fibre is already higher than VDSL and almost as high as wireless fixed broadband. Q1 performance does not yet reflect the disruption in our distribution network, which I remind half-closed, and a lot of service installation in March were actually a consequence of orders made earlier. From mid-March, customer orders are obviously down, but this drop is much lower in proportion to other services and pandemic crisis is actually creating additional demand. We even see some revival of demand for our ADSL technology.

I would like now to go to the next slide, so slide number 9. This is the usual slide on which we are presenting sources of value creation through commercial activity and transformation. On the previous slide we zoomed on fibre and fixed broadband. Here, we focus on convergence and mobile. In both areas we significantly improved the trend in ARPO, average revenues, as a result of our pricing strategy focused on value. As you can see there convergence ARPO is up more than 3% year-on-year. This is a result of price hikes and the increasing share of fibre and TV in our convergent base. Customers that we gain and retain generate now higher ARPO than customers that are churning.

In mobile, ARPO is still down, but the rate of decline is much lower than it used to be. The key driver are last year's price increase. In February this year, we launched a new offer for small business customers, also in a More for More approach, but as you can imagine the pandemic and related freeze of commercial activity makes the marketing of this offer a bit more difficult. This better ARPO trends resulting in our mobile-only revenues being practically flat year-on-year and Jacek will come in this more in a moment.

Net customers addition in mobile were strong in the first quarter, mainly thanks to our activity in January and February, while March was already affected by disruptions in our distribution network. As a reminder, half of our shops are closed as we speak. Looking at the green chart you'll notice much lower customer losses in mobile broadband category. These services have been losing appeal for many

quarters, but in the first quarter, we saw higher demand from some large business customers. Now in the lower part of the slide, we are presenting the results of our efficiency transformation. As you can see we have started the implementation of the new Social Plan, which we signed in December last year and we are on schedule, with this in first quarter.

We are still very consistent in our indirect cost savings. They were marginally better than last year, despite the fact that energy prices are higher, and that basically impacted this at the beginning of the year. On the right bottom side pink box, you can see the strong performance of our EBITDAaL in Q1, which has been driven both by almost a stable direct margin, it's again the results of the strong performance of our core services, and good cost savings results. Jacek will comment this much more in detail.

That's all from me now. I hand him over the floor.

Jacek Kunicki

Yes. Thank you, Jean-Francois. Good morning, everyone. Let's start the financial review on Slide 11, where we present the highlights of the quarter. The results were strong both on revenues and EBITDA. The main driver for this was our value strategy, which translated into robust growth of key revenue areas that fuel our margins. This was coupled with continued savings achieved in the indirect costs. The decline of eCapex is related to different timing of our fiber rollout versus last year. While the number of new households connectable was even slightly higher than last year, we phased differently, the investments in backbone new fiber areas.

Let's look on revenues on Slide 12. Q1 revenues increased by year 0.9% versus the first quarter of 2019. This was less than in the previous quarters. However, please note that revenues from our core future proof areas increased by much more than before. Revenues from these categories increased by as much as 9% year-over-year and there were three contributors to this extraordinary high dynamics. First of all, our core subscription services so convergence, mobile-only and fixed-only. Combined revenues from these categories increased by 3.3% year-over-year and this was significantly more than in the previous quarters when these dynamics did not exceed 1.5%. The key driver for this very important improvements was better ARPU trends in mobile, resulting from our value strategy that Jean-Francois mentioned a moment ago. Also there was some monetization of higher traffic in prepaid in March, but this was not the main cause for the improvement.

The second contributor was ICT. We had a particularly robust quarter here. Contribution of BlueSoft was combined with a very strong more than 30% organic growth, which was helped by a vital contract with the Polish Post for the delivery of tablets and related services. Finally, mobile wholesale revenues benefited from much higher voice traffic in March and we illustrated this increase early on in the presentation. Two comments regarding remaining revenue categories. Other revenues declined versus a particularly high comparable base of last year, when different business environment allowed us to generate exceptionally high revenues from energy resale.

Lastly, equipment revenues were down almost 17% year-over-year. And this reflected the freeze of commercial activity from the middle of March caused by the pandemic. Apart from lower equipment sales and higher wholesale, the impact of the crisis from Q1 revenues was very limited. However, we do expect to see more of this impact starting from Q2. In particular, roaming will start to suffer more materially in the second quarter. In the ICT area, we have a pipeline built already but we do observe

customer suspending projects, and the outlook for H2 looks more uncertain at the moment. We continue to expect our core subscription-based revenues, which constitute a majority of our profits to be relatively immune to the pandemic.

Switching to EBITDA, on Slide 13. The EBITDA after lease in Q1 increased by a strong 6% year-over-year. As a reminder, from 2020 onwards, our definition of EBITDA no longer includes gains on sale of real estate, which sometimes in the past contributed to big swings in the dynamics of our profitability. So growth in the first quarter was achieved on core telecom operations. It was a consequence of improved trends in the direct margin and consistent track record in indirect cost savings. Direct margin was almost flat year-over-year, it's improved mainly because of better performance of our core services, which translated into higher profits through operating leverage. The decrease in equipment sales was accompanied by lower commercial costs, while higher mobile wholesale revenues were largely offset by more interconnect costs, so both had a very small impact on the direct margin evolution in Q1.

Our indirect costs fell by 4% year-over-year and this was another strong quarter here. We saved mainly in labour, advertising and general expenses. These are strong results, which in normal circumstances would have given us a big comfort for the rest of the year. However, Q1 results only marginally reflect the negative impacts of the pandemic crisis. In particular, as of today, we do not see a material impact of the crisis on our bad debts. But obviously, as this crisis will likely affect the broad economy, we are monitoring receivables collection on a continuous basis. We recognize that the future is more risky than before. Therefore, we will launch some actions to partly mitigate the impact of the crisis, mostly on the cost side. This has already been started. We will continue to monitor and assess the impact of the crisis on our full-year outlook on a continuous basis.

Having said that let's look -- switch to the bottom line on Slide 14. We posted a PLN36 million net loss in Q1. The main reason why strong EBITDA growth did not filter through to the bottom line were foreign exchange losses. This is a new line in our P&L presented as part of our net financial costs. We decided to transparently separate it from other financial costs as they have a different nature. Where do these losses come from? Well, they are related to lease liabilities denominated mostly in Euro. These are very long-term liabilities and majority of them concern the lease of our Warsaw headquarters. We renewed this contract in 2019 for the next 14 years and it was economically not viable to hedge this ForEx exposure. The Polish zloty has lost around 7% to euro since the end of December, which translated into around PLN40 million of foreign exchange losses. These are generally non-cash losses and their evolution in the future will depend on subsequent ForEx movements.

Concluding the financial review, let's look at cash generation on Slide 15. I would like to mention three key factors influencing the organic cash flow performance in Q1. Firstly, growth of EBITDA translated into almost 10% higher cash from operating activity. In the wake of the COVID crisis and all the uncertainty, it is important to note that we generate very healthy cash from operating activity, almost PLN600 million positive in Q1.

Secondly, cash capital expenditure reflected seasonally high payments for CapEx from the previous quarters. They were, however, around PLN50 million lower than last year due to smaller CapEx in the current quarter.

Thirdly, cash proceeds from sale of real estate were significantly lower. Please note that in Q1 of 2019, we received PLN100 million in cash for a transaction completed in 2018.

Looking forward, I would like to highlight two areas of our particular attention with respect to the impact of the crisis. The first one linked with what I've just mentioned when discussing the EBITDA outlook is cash collection, which we are monitoring very, very closely. The second one is eCapEx, which combines both investment outlays and inflows from sale of real estate. In the current environment, there is obviously a risk of a slowdown on the real estate markets. If that takes place, we will be offsetting part of this pressure by slowing down some of our investments. Thank you for your attention.

I hand the floor back to Jean-Francois for the conclusion.

Jean-Francois Fallacher

Thank you, Jacek. So we are on Page 17 of the presentation. Let me wrap up now. Q1 results confirm our turnaround and the strength of our fundamentals. The More for More strategy that we initiated two years ago is working well and contributing to our growth. Now, this crisis is bringing us risks and uncertainties for the future that we need to address. Its impact on the results of the next quarters would largely depend on the duration of the lockdown, the impact on the Polish economy and the effectiveness of the anti-crisis measures announced by the government. So the just announced measures by the Prime Minister to reopen malls on 4th May is actually a good news. As we believe that our core services which constitute the majority of our margin are essential to the needs of our customers and because we will launch additional measures to compensate for the impact of the crisis on our results, today, I confirm, we are not changing our EBITDAaL growth ambition. However, we will very closely monitor the situation and re-evaluate the impact of this crisis on a continuous basis, so if there is a significant deviation in outlook we will update you immediately.

Thank you very much for your attention, everyone, and now we will pass you back the floor for your questions.

Questions And Answers

Operator

Thank you very much for the presentation. We will now move to the Q&A part of the call.

Operator

(Operator Instructions) Thank you. It comes from Mr. Pawel Puchalski from Santander. Please go ahead, sir.

Q: Paweł Puchalski, Santander

Hello. Pawel Puchalski speaking. Do you hear me?

A: Leszek Iwaszko

Yes.

Q: Paweł Puchalski, Santander

So, three questions. ARPU in convergence was up healthily 3.5% to the year-on-year. Can this trend be maintained in coming quarters or you expect this trend to be maintained? That's my first question.

The second question, what is the expected scale of provisioning for coronavirus to take place in second quarter of 2020, and a range --and an early guidance, please?

And thirdly, I want to be sure you said about risk of slowdown in real estate disposals. But I want to be sure, did you say anything about slowdown in FTTH investments? Or you intend to keep your CapEx unchanged in 2020?

A: Jacek Kunicki

Okay. Hi, Pawel. So first of all, regarding the ARPO in convergence. What we are observing is a consistent trend of improving ARPO, as we have been implementing the More for More value strategy. So with every retention act with every new sales, we have been increasing the ARPO. This was done through the price increases that we have done --that we have implemented last year. This was --this is being done through upsell of TV, this is being done through upsell of higher speeds. And in normal circumstances, I'd expect well, definitely this kind of pace to continue. Whether we are able to keep this pace will largely depend on how fast will our sales recover. Right now, we've seen that the current lockdown has closed roughly half of our shops. Traffic was down by about 60% in those shops that were opened. So obviously, the sales activity of March and current sales activity is impacted, and we see less sales act of conversions which also means that the progress on the ARPO if such a situation were to continue, would be slower. Now as you have heard, we are going to have shopping malls that are open very soon in Poland. So what we need to do is we need to observe how fast customers will return to those malls and how fast we can resume selling our subscription services. So that will determine how much of a slowdown and if we will have a significant slowdown on the ARPO trend. And I think we will be able to say more in Q2 as we will be able to observe some of the new normality sales situation. Your second question, well regarding the expected provisioning for the coronavirus, to be honest, had we been in a position to put a special provision in --we would have put it in Q1. Those are the rules of the game. Our experience from the previous slowdowns and the crisis from 2011, '12, '13, didn't indicate any, I would say, material impact on bad debt because this is the main area where you could expect that we would be having a judgment. We also have not seen any material lead indicators in form of very weak cash collection. So we did not post I would say, a specific material adjustment to our ways of booking bad debts in Q1. And well, we will need to reassess it at Q2 close. And a lot of it will depend on the severity of the crisis, on the return of customer behavior, the efficiency of the government programs and the lead indicators, so we need to monitor cash collection. Nothing that we would be able to assess right now.

And then --well, for the eCapEx, yes, we do see a risk of real estate sales. We've mentioned that regarding fiber, there could be some slowdown if we were to experience difficulties in processing some of the paperwork through the local administration to roll out fiber. Depending on the outlook on the real estate sale, depending on the cash position that we would be in, we could consider also to slowdown some of these --some of our expenses, CapEx expenses going forward. And depending on the size of the measure that we would need to take, this could potentially lead to some expenses --to some fiber projects being slightly delayed onto next year. But nothing that we could measure right now. Thank you.

Q: Paweł Puchalski, Santander

Thank you very much.

Jacek Kunicki

Thank you.

Operator

Thank you very much. The next question comes from Mr. Herve Droutet from HSBC. Please go ahead, sir.

Herve Droutet from HSBC

Yeah. Good morning. Thank you for taking my questions. Coming back on CapEx. I was wondering if you can give us as well, some update on your plan for 5G? And do you think there will be a further delay compared with what you were expecting before in your plan, in term of rollout over there? And also for the fiber and fiber pickup and upselling of package in fixed, I can understand in term of the processing to get new fiber, agreed, that may take more delay. But I was wondering from your commercial perspective, I'm seeing the uptake in terms of traffic. Do you think there could be commercial opportunities in upselling more, especially on the current fiber package you currently offer with your subscribers?

A: Jean-Francois Fallacher

So your first question. Yes, it was about 5G, it's an important topic. So we have a pretty recent news on 5G, very recent one because actually yesterday, the government has actually introduced some articles in a law that should be voted today in the Parliament. Some articles to cancel the current auction of the 3.6 gigahertz tender. What I can say is that in 2020 the 5G deployment rollout was, I would say, not material in terms of the level of CapEx that we were planning to spend. So obviously this is not going to change, as the current cancelling of the auction would probably lead to at least a semester delay in, let's say, giving these frequencies to the operators of the market. So basically, again, 5G CapEx rollout was not material in 2020. So no change versus --I mean, this situation is not changing anything. It will, I guess, have an impact on our rollout plans of 2021, but it's too early to comment these right now.

Basically, your second question was about fibre. So as we say, we see a potential impact in the rollout of the infrastructure because, I mean, there are a lot of authorizations that are given on paper that might be delayed and therefore might delay the rollout of our fibre network from a few hundred thousand households at the end of the year. We will see.

Concerning the sales of fibre, as we were saying, they are very strong. You see the first-quarter results. And we see them as very resilient at this current period because, obviously, if there is something which people need right now, it's fixed broadband access at their homes. So, yes, this is going to be an opportunity. However, we see also the number of sales going down simply because half of our shops are closed and therefore, we are very pleased that the malls will be reopened on the 4th of May because we believe that the traffic will go back. And hopefully, we should be able to get back to a normal level of sales. If there is one product, which we believe is going to be, I would say, benefiting from this crisis, it's obviously a fixed broadband in general and fibre, therefore.

Herve Drouet

Thank you.

Operator

Thank you very much. We'll just give another few seconds for online --for questions on the phone, press star 2 for questions on the phone.

Leszek Iwaszko

So, questions asked online. Let me read them. First question is about IT. What was the main driver of strong organic growth in IT and integration services sales in 1Q? What is the EBITDA margin on the IT, ICT segment? This question comes from Wood & Co.

Jacek Kunicki

Okay. So, thank you for the question. Well, there were two main reasons for the very good ICT quarter that we've had, which I think was the second-best in our history. First was the inclusion of BlueSoft in the year-on-year comparison. And then we had a remarkable also quarter on the organic growth. Well, I think we had a strong pipeline that was built also within the quarter four, and some of those projects materialized in very good deals that were concluded in the first quarter. The outstanding project was quite a big deal with the Polish Post for the delivery of tablets and associated services for the postmen.

As I mentioned for the ICT pipeline, we have some pipeline built for Q2. So the outlook is, I would say relatively calm for the Q2. For H2, we are, I would say, more vigilant, more cautious as we see that for some of our clients the --well some of the deals that they were contemplating are being put on a halt right now. And maybe they will come back to the discussions if the business activity is unfrozen relatively quickly. But for now, we see some potentials of a delay.

Leszek Iwaszko

I'm reading the second question, although the topic was already discussed. Let me read it. It's a question from Erste Bank. What can we expect in terms of fiber network rollout in the upcoming quarters? Could it be the case that you modify your CapEx plans due to the COVID pandemic?

Jacek Kunicki

I think we've discussed it. On 1 hand, it will depend on how much we are hampered by the prolongation of some of the paperwork with local authorities. On the other hand, it would depend on the cash situation and how much if we do need to slow down some of our CapEx investments. If everything goes well and we, well, get back to business soon, then I wouldn't expect an impact, a significant impact. If you were to take a more negative scenario for the pickup of business activity for the severity of the crisis impact on our customers and their ability to pay us, coupled with some delays in real estate, then we could consider and we are considering that the potential slowdown of the --also of the fiber network rollout. So this is what is today under the consideration. The pace or the amount of the slowdown, it would really depend on what kind of an impact we are experiencing. As we've mentioned today, Q1 results were not really affected by the COVID crisis. So we are rather in the area of anticipation, and we need to observe how much this crisis may impact our Q2 results. So as we will know more, we will also take additional actions. What we are doing today is we are trying to be very proactive and are ready to have contingency plans to react if the reaction would be needed. But no decision was today taken as regards of a material, I would say, move for the network rollout.

Operator

Yes. So we have a couple of more online questions. Let us, so if we can just proceed with the online questions. Perhaps in the meantime, we will ask the next question that comes on the line from Marcin

Nowak from IPOPEMA with a telephone question.

Q: Marcin Nowak

Good morning. Thanks for the presentation. A few questions from my side. Could you please comment more on the evolution of ARPO from mobile services because you touched this topic briefly and still more than a year after --more than half a year after introduction of price hikes in headline offers, the mobile services ARPO is still declining. And I know that you expect some gradual improvement year-on-year in ARPO this year. And could you comment please more when we should see positive effects or was there any specific reason why the evolution of ARPO in the first quarter from mobile wasn't improving more?

A: Jacek Kunicki

Okay, so what you have --what you see is quite a gradual but systematic improvement in the ARPO trend. And here --well, this is basically made through every acquisition act and through every retention act. So it is very progressive because we did not hike the prices for the customer base, as you remember. And well, since most of our contracts are two years contracts, it takes about two years for the price hikes to flow through to the customer base. That's why you see this progressive improvement of the ARPO trend. I think what is important is that when we look inside this ARPO trend, we see even more encouraging data. And while the ARPO of mobile broadband customers, especially in the B2C side, but also in B2B, is systematically down and it's systematically down, I would say, double digits. We see a very strong improvement in the mobile voice, in the ARPO of the mobile voice performance, where on the B2B market the erosion was halved during the last 12 months. And on the B2C side, we went from, I would say, mid single-digit decline to stability in Q1. With, I would say, a nice perspective of growth in the following quarters. Now will we get this growth? Yes. How fast will we get this growth? That will depend on the freezing or unfreezing of the economy. Today, we've seen that the impact of the covid crisis was more severe on our mobile subscription sales than on the broadband. Broadband remained remarkably resilient. So you can expect that the progress will not be maybe as fast than in the previous quarters. But I'm quite convinced that we will continue -as we resume the commercial activity, we will continue to see the progress and on the B2C side, on the mobile voice, we'll start to see visible growth year-over-year, okay? So that's the reason for such progressive change in improvement here. And it will take about two years for the price hike to fully flow through to the base.

Q: Marcin Nowak

Sure. I understand. Thank you for the question. And my second question is regard --with regards to the B2C convergent base, which quarterly gains are decelerating quite noticeably over the last two years. I understand that there may be some effect from the closed point of sales in the first quarter. But do you see the larger trends that people are less interested in the convergent offer?

A: Jacek Kunicki

No. I would say people are very interested in the convergent offer. It remains our flagship offer. I think what we need to understand is that, first of all, we have reached quite a high penetration of this offer because large majority of our B2C customers already have this offer. It is a great loyalizing tool. It's a great tool to upsell, both mobile, TV, but also higher speeds. And I think we will continue to reap quite significant benefits from having the convergent offer as we go forward. Especially on the value side, and this will be visible in the ARPO in continued growth of the customer base, maybe not as fast as we've seen before, but continued growth of the customer base. Tremendous loyalty of those customers and their ability and willingness to buy more services once they are in a convergent package. So that's our belief going forward for convergence.

Q: Marcin Nowak

Okay. Another topic I would like to ask for a comment is, could you please provide an update regarding your path of establishing fiberco in the coming months. Do you think that the pandemic may change your direction towards the fiberco?

A: Jean-Francois Fallacher

It's a very good question. So obviously, as you can imagine, I mean, this project was starting. When this crisis really started, which was beginning of March, we were obviously busy, completely reconfiguring the mode, the operating mode of Orange Polska. So this project was more or less put on hold for a period of two months. We have kicked it off again actually pretty recently. So our mind set and our will has not changed.

Q: Marcin Nowak

Okay. And the last question, with regards to yesterday's possibility of cancellation of the auction and intention of the government. Do you --can you comment what these cancellation --would be the direct effect, is that the procedure will return to the subscore and start again with the new round of consultations and deliberation about the auction model or the government intends to simply just start with current auction rules and just decided auction once again without any consultation. What is your expectation?

A: Jean-Francois Fallacher

Witold, can you take this question?

A: Witold Drożdż

Yes. Good morning, Witold Drożdż speaking. Well, actually, we don't know the intention of the government. The decision is extremely fresh from yesterday and it's a bit surprising for all the markets. And I understand that even for the regulator based on today's press release. So I believe we need few more days to understand the situation. However, based on the press release made by the Minister of Digital Affairs yesterday, the reason for preparation of the cancellation of the current auction procedure --because it has not been cancelled yet. It's just the decision of the government to introduce some legal provisions that would allow the cancellation of the auction. So the Minister of Digital Affairs explained that the decision made by the regulator to suspend the proceeding few days ago led to some formal doubts. So the Ministry of Digital Affairs, and I understand the government's intention is to clear all possible legal doubts around the procedure plus additionally minister of Digital Affairs explains that the government intention is also to introduce some security requirements into the auction documentation. And that's it. This is all we know as of today. We --I believe we need some more time to collect additional data if they are available.

Marcin Nowak

Okay. Thank you very much.

Leszek Iwaszko

Yeah. If we have no further questions from telephone lines, there are two more questions that were asked online. The first question coming from Dominik Niszczyński from Raiffeisen. Could you please update us on your wholesale FTTH business plans? You have agreement with T-Mobile and are constantly

increasing coverage in Western Europe, Orange group companies already monetize that. What is your midterm outlook? What is the current competitive situation on the wholesale fiber market in Poland?

A: Jean-Francois Fallacher

I mean the deal with T-Mobile is in a, let's say, cruise mode. So that's all I can say. I mean they are selling fiber. It's, of course, not my role to give any numbers of their sales. I think you should take the opportunity of some of their conferences to ask them. So from our perspective, again, the deal is in cruise mode. You can see that on our retail and fiber sales, the impact is actually rather positive because the last 2 quarters, we're the highest ever on our sales. So it confirms what we thought when we entered this deal is that having another operator basically, which is advertising fiber services in Poland is actually benefiting to the entire market and indirectly benefiting us as well. So that is what I can say.

Leszek Iwaszko

Okay, then the next --another question asked online. It's about equipment. It comes from Haitong Bank. Having in mind stopped production in Asia, are you prepared to fill demand when points of sales are opened?

A: Jean-Francois Fallacher

So I can take this question for our stock, so we didn't have any shortage, we had with one of the suppliers that will not quote some issues, which are now solved. Our stock is nominal. Even I would say went up slightly, simply because the fact that our shops --half of our shops of closed, we saw a sharp decrease in devices sales in the last month and a half, but we decided actually not to lower the volumes of purchases in order precisely to be ready when actually de-consignment will be there and when the demand will start again. So we are very confident from this point of view and we would be absolutely in capacity to serve the market even if there would be a surge in the demand.

Leszek Iwaszko

And I think we have another question from the teleconference.

Operator

Yes. The next question comes from Pawel Szpigiel for mBank Securities. The line is open.

Pawel Szpigiel, mBank Securities

Hi. Thanks for taking my questions. I have three questions. The first will be on the labour cost. I mean, despite a significant decrease in employment, to be precise, it went down by more than 9% year-on-year labour costs are at a stable level year-on-year. Is this only due to the change in accounting net for sales bonuses as you mentioned in the presentation? And please tell me what exactly is this change about? The second question is about More for More offer, do you see any room to come out with the More for More offer again this year, and then would you raise the price --the level price in exchange for the larger data packages? And finally, the third question is about real estate. I mean it's been four months from the beginning of 2020. And I think that the moment when you have some visibility on real estate sales transactions, please share with us the report on the scale of transaction this year. Could you give us maybe more detailed comment on how the negotiations are progressing? Thanks.

Jacek Kunicki

Okay. So starting from the real estate sales. What we, first of all, observe is that, well, these sales are quite volatile even when you observe our past track record, it is not an even amount which is sold quarter after quarter. The Q1 sales were not very significant, and definitely, it would not be, I would say, in a trend for the track record to repeat in track record of the past year or two. I think what is more crucial is the discussions that we are having with potential buyers in the pipeline that we've been able to build. And it is rather here that we observe that there is a lot of uncertainty on the market. And here, the situation is very dynamic because --well, I don't think the current situation helps the buyers in terms of the valuations. I think the ranging of financing hasn't been very easy right now. And there is a lot of clients that are in a wait-and-see mode. That's why we've mentioned that there is a risk of delay. I don't think there is a substantial risk that the program or programs that we're having will be derailed. I think it's more about potentially having delayed effects. And this is the delayed effect, which will be also, potentially, offsetting by the decrease in the CapEx spending, okay?

As regarding labour costs, yes, we did mention that they were impacted by a few one-offs in Q1. Partly, this was also related to a change in the way that we recognize some of the sales bonuses in time. So not the overall amount, but for the recognition over the time. Overall, the progress in terms of labour costs has been maintained, a part of the, I would say, one-offs, it has been maintained as planned. And we expect to continue to show savings in the quarters to come.

A: Jean-Francois Fallacher

And as concerns your second question about the More for More strategy, which is a very good one. We clearly and to be very direct and --we do not have plans to raise prices further. We believe this is not the period where we should do this. Obviously, there is an economic crisis that has started with a lot of businesses impacted, small businesses in Poland, like in many other countries. And a lot of individuals, well, are impacted because their salary has been reduced or because they simply lost their job. So we believe that we are entering a period where consumers and businesses will be more cautious about their spending. Therefore, this, I would say, price increase strategy that we started last year will be put on hold. No plans to further increase our prices in the coming months. Obviously, it's not that we want to abandon this value strategy on the contrary, but we believe it needs to be put on hold until the economy is recovering, which will obviously happen one day.

Leszek Iwaszko

We have two more questions that were asked online from Konrad Ksiezopolski from Haitong. The first question having in mind, potential challenges ahead related with COVID-19 that you mentioned during the presentation, your maintained EBITDAaL guidance for 2020 is still your maintained EBITDAaL guidance for 2020, is it easy to deliver or rather optimistic or challenging one? That's the first question.

And the second question is if Telco regulator is updated 5G rules --in updated 5G rules, allow for bidding for two blocks, will you consider building for two?

A: Jean-Francois Fallacher

Let me take these two questions. The first question is clear. I mean, this is challenging. Because --but everything we do and we did in the past has been very challenging. So there is nothing new. We are even excited by the fact that it's not going to be easy. As Jacek has been explaining, the management team is busy. We have engaged some plans, mostly targeted at our costs, actually both in OpEx and

CapEx. So in OpEx, clearly, we are going to look at everything, which is not related to our sales and to serving our customers. So we will have yet another specific focus on general expenses, consulting costs, which we will try as much as possible to reduce further. We are also having a look at our labour expenses for the future. So that's one. Second, we are also reviewing all our CapEx to try and limit it to the most, let's say, technical investments and network investments are obviously those of which we will privilege because they are critical. So that's what I can say. So yes, it's going to be challenging, but we like challenges, and we are pretty confident at this stage. This is why we are maintaining this guidance, one.

Second, your question concerning the regulation, as Witold was saying to us we do not want to speculate. Personally, I do not believe that the reason of this cancellation is the wish to change completely the rules of this auction and to allow bidding on new blocks. I don't believe is about that. But let's not speculate. It's too early. I simply believe that this auction will be delayed. Let's now look at the new conditions, if any, that are going to be published by the regulator. Again, I mean, too early to speculate on this topic.

Operator

Okay. Thank you very much. We have no further questions on the line and on the calls. I'll pass the line back to Leszek to conclude the call.

Leszek Iwaszko

Thank you very much for your attention. If you have any more follow-ups, you know how to find us. And thanks again, stay safe and see you next time. Bye.

A: Jean-Francois Fallacher

Bye-bye.