Q1 2020 Earnings Call

Company Participants

- Erik Van den Enden, CFO
- John Porter, CEO
- Rob Goyens, IR

Other Participants

- Christian Henman, Analyst
- David Vagman, Analyst
- Emmanuel Carlier, Analyst
- James Ratzer, Analyst
- Matthijs Van Leijenhorst, Analyst
- Michael Bishop, Analyst
- Nayab Amjad, Analyst
- Paul Sidney, Analyst
- Peter Testa, Analyst
- Polo Tang, Analyst
- Roshan Ranjit, Analyst
- Ruben Devos, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Telenet conference call. Let me introduce John Porter, CEO, Erik den Enden, CFO, and Rob Goyens, VP Treasury, Investor Relations and structured finance. Sir, please start your meeting.

Rob Goyens {BIO 15069867 <GO>}

All right. Thank you, Operator. Good afternoon, everyone. I would like to welcome all of you to our Q1 2020 earnings webcast and conference call. And I trust you are well and have been able to have a look at this morning's earnings release. The release and the presentation for this call can be found in the results section of our website. As usual we'll start the day with our CEO\ John Porter.

He'll walk you through some of the main strategic and operational highlights of the first quarter and summarize, also the main impacts COVID-19 is having on our business. Next our CFO Erik den Enden, will guide you to our quarterly financial results. Afterwards, we will open it up for Q&A.

Now given the number of participants to this call in order to allow an equal treatment, we would like to ask you to limit yourself to two questions, if possible. Any follow-up questions can be directed later on to the Telenet Investor Relations team afterwards.

Before we start, however, I would like to remind you that certain statements in this earnings presentation are forward-looking statements. These may include statements regarding the intent, belief or current expectations associated with the evolution of a number of variables that may influence the future growth of our business.

For more details on these factors, we refer to the safe harbor disclaimer at the beginning of our presentation. With that, let me now hand over to John.

John Porter {BIO 1967284 <GO>}

Thanks, Rob. Hello, everybody. It's John. But before looking back at the first quarter, I would like to express my personal and Telenet's overall support to all of our stakeholders and wish them good health in these unprecedented and uncertain times. It goes without saying that COVID-19 is heavily impacting the way we all live and work together.

In that respect, we, as a company, have taken full responsibility from the start to make sure we can foster the well-being of our employees, customers, suppliers and the wider community, built around our #salmonid, fair fastenal platform through it together.

The majority of our employees are working from home since mid-March, and we keep them up-to-date with dedicated internal website and regular newsletters and blogs. We also decided to temporarily allow employees to take two volunteering working days to help out in hospital and health care system.

In addition, we give our employees a possibility to donate part of their bonus to the digital for youth.be, a program which has been widely supported through our company. It's an NGO, which collects laptops for children for underserved communities to make that final connection for them to their schools and their friends.

Our purpose is to stay one step ahead in the digital world, connecting people and creating experiences for a better quality of life. That's why we engaged in several other community initiatives, offering free Tedom routers for care homes, for instance, we're opening up our wide-free network across our whole footprint, allowing these students without Internet access to stay connected to their schools.

To enable connectivity at home and on the go for our customers in these times, we've doubled the fixed and mobile data allowances at no additional cost for our customers, in addition to providing certain free entertainment and movies and series.

And for our B2B customers, we are focusing on enabling business continuity by extending IP VPN fiber connections within 24 hours, providing financial support, double data allowances and free entertainment. We're prioritizing all delivery work to critical sectors, particularly healthcare.

As we are in the full process of transforming our operating model to agile, we have been able to mitigate a lot of the COVID-19 impacts on our business. First, the mandatory homeworking, shop closures and overall reduced customer mobility is definitely accelerating our transformation to digital.

We have set up a completely new home delivery process in 72 hours, which tripled the number of self installations, and our online handset sales doubled, although total sales have decreased overall. Secondly, the lockdown also reemphasized the relevance of our typical legacy products like fixed-line telephony, of which traffic increased 50% compared to normal pre covered levels.

It will also potentially foster customers' appetite for higher data bundles and faster speeds. And at the same time, lower gross sales are compensated for by a decrease in churn, as you will have seen from our results.

As we are already offering one gigabit speeds on our HFC network, since September last year, I'm proud to see that both our fixed and 4G plus mobile networks are coping seamlessly with the increased voice and data usage.

This clearly underpins the fact that our targeted proactive investments inside and outside the home are paying off, especially in these days.

Fixed data on our gigabit HFC network over the past weeks increased to 80%, while we saw the WiFi offloading effect on mobile data traffic with a 20% decrease, thanks to the robust in home WiFi connectivity in our customers' homes.

The weighted average download speed of our broadband customers has reached over 200 megabits per second, which is up 44% year-on-year and provides a great head start versus our direct peers. The superior quality of our network was also reflected in a very robust Q1 operational performance. We recorded the best broadband and digital TV net add performance since 2016. and reached a 28% convergence rate, an increase of 8 points year-over-year.

If you consider all fixed mobile combinations that we have in our customer base, this ratio even mounts up to 67% or 2/3 of our total customer base at the end of Q1, taking both a fixed and mobile product.

We increased the fixed customer relationship ARPU again by 2%, year-on-year to just over EUR 58, illustrating the value-accretive lever of our FMC strategy. And finally, a recent survey confirmed the high-quality of service we are offering towards our B2B customers, ranking Telenet number one in account management.

On the regulatory front, we took note of the amended CRC draft decision on cable wholesale access rates, which improved versus the previous draft decision due to certain changes to the cost model, as laid down in the draft decisions that was notified to the European Commission.

However there still remains unequal treatment between the Flemish and Walloon regions, which should be adjusted as there's no justification in our view. Also, the proposed cable wholesale access rates still do not yet seem to fully reflect the true cost and would still imply a meaningful step down from the current rates.

The proposed rates are still almost 20% lower compared to the current applicable rates and also compared to copper wholesale prices for similar speeds in other countries, for instance, the U.K., Denmark and the Netherlands.

And finally, today's exceptional circumstances more than ever underpin the need for highly performant, state of the art, fixed and mobile networks. As Eric will detail in a minute, we delivered a robust set of Q1 financial results with a limited impact from COVID-19 as of mid-March.

We continue to see healthy underlying trends in our core connectivity business on the residential and the business side. This is underpinned by strong momentum from our core FMC bundles and a continued up-tiering of our broadband customer base with the average download speeds reaching over 200 megabits per second at the end of Q1, 2020, up versus 140 megabits a year ago.

As detailed in the outlook section of our release, we've mainly seen 4 COVID-related headwinds on our financial profile in Q1. We generated less low-margin revenue from the sale of handsets compared to the same period last year, given the closure of our retail stores since mid-March.

In addition, we've also seen an earlier churn uptick for our pay television sports channels, Play Sports, relative to previous years, given the halt of all major sports events since mid-March.

Third, our May 2018 acquired ICT integrator business, NEXTEL has been adversely impacted by certain delays in project-driven revenue. Well, finally, we recorded lower advertising revenue at our media business, De Vijver media, which we acquired in June last year. Despite today's exceptional circumstances, we remain very well positioned for the future.

Thanks to our leading gigabit HFC and 4G plus converged network infrastructure, combined with our value-accretive FMC strategy. Therefore, today, we affirm our 3-year guidance as presented during the December 2018 Capital Markets Day.

As such, we remain on track to deliver an operating free cash flow CAGR of 6.5% to 8.0%, over the 2018 '21 period. As for the full year 2020, we expect COVID-19 to have a moderately negative, yet temporary impact on both our revenue and adjusted EBITDA performance of around two percentage points.

This reflects the anticipated impacts of the current lockdown as of mid-March and excludes the effects of any additional lockdowns in the second half of the year, which could further affect our operations.

It also assumes we will gradually exit the lockdown, in May, with a gradual economic recovery thereafter. Against this backdrop, we anticipate a top line decline of around 2% on a comparable basis.

Excluding our other revenue, which includes, amongst other things, interconnect, handset-related revenue and the advertising and production revenue generated by De Vijver media, we anticipate our revenue for the full year to remain broadly stable compared to 2019.

This underpins the resilience of our residential and business connectivity segments. We will continue to control our cost base, making sure we generate operating leverage across the business. As such, we expect our adjusted EBITDA to contract by around 1% on a like-for-like basis.

Given the robust nature of both our fixed and mobile infrastructure and our demonstrated track record of carefully balancing our future investments, we still expect our operating free cash flow to grow, more specifically between 1% and 2% on a re-based basis.

Finally, we continue to target adjusted free cash flow of $415 million to $435 million, skewed now, however, towards the lower end of the range. We continue to drive attractive shareholder value.

In Q1, we successfully wrapped up our share repurchase program 2020, having repurchased 1.1 million shares for an aggregate amount of EUR 33.5 million. Yesterday, shareholders also approved a third partial cancellation of treasury shares and the payment of a final gross dividend of just over EUR 1.30 per share, which will be paid on May 6.

As such, we continue to execute against our anticipated shareholder remuneration time line, having returned almost EUR 240 million or 61% of our 2019 adjusted free cash flow to shareholders in each of the months.

We've reconfirmed our intentions to maintain net total leverage of around 4x midpoint, while continuing to deliver on our shareholder remuneration strategy as presented during the December 2018 Capital Markets Day.

Finally, I would like to emphasize that despite today's exceptional circumstances, we do remain very well positioned for the future.

Thanks to our leading HFC and 4G plus converged network infrastructure, combined with our value-accretive FMC strategy. We have a demonstrated track record of consistently growing the ARPU for customer relationship over time and have done so again in Q1, as Eric will explain shortly.

We continue to closely monitor our cost base with a view to drive operational excellence across all of our processes, backed by digital transformation and our new IT stack. As such, we continue to target a healthy organic increase in our operating free cash flow over the 2018 to '21 period, as I just mentioned.

And finally, backed by our best-in-class adjusted free cash flow conversion, our robust liquidity and long-term debt maturity profile of 8.3 years, we've remained in a very strong position to drive attractive shareholder returns in 2020 and beyond. Let me now hand over to Eric for more details on our Q1 performance.

Erik Van den Enden {BIO 20675514 <GO>}

Thanks, John. Good afternoon or good morning to all of you. Thanks for joining this call on what appears to be a pretty busy day for most of you probably.

So looking back at the first quarter, I'm really pleased with our robust operational and financial performance, and particularly also the way we have been able to navigate the COVID-19 crisis so far.

As you can see on Slide 14, our commercial momentum clearly accelerated in the first quarter, building on the improving trend that we've seen since the second half of last year.

We enjoyed a particularly strong quarter in broadband, adding more than 8,000 net new subscribers, which is our best quarterly performance in almost 4 years. And as a part of that performance, we're also very happy to register a return to growth for our residential broadband customer base.

Besides a strong performance for broadband, we also recorded positive net adds for digital TV, driven by lower churn, the continued traction of our FMC bundles and increased awareness of our digital TV offer in light of the announced analog signal switch off. Also, this is our best performance in almost 4 years.

And finally, please note that due to the COVID-19 crisis, obviously, our retail shops closed as of mid-March. And while gross sales have clearly decreased ever since, this effect was more or less compensated by lower churn. And as you may have noticed from our earnings release, all churn metrics decreased substantially compared to last year.

On the next slide, you can see the consistent growth trajectory of the fixed ARPU per customer relationship, which is one of our core operational statistics. In the first quarter, we've posted a healthy 2% growth year-on-year to just over 58 years.

Let me now zoom in, in our Q1 financials, starting with top line. Revenue was up 4% year-on-year on a reported basis to EUR 653 million as Q1 2020 included a full quarter contribution from the De Vijver Media, which we have been fully consolidating as of June last year.

On a like-for-like basis, our revenue was broadly unchanged. In our revenue mix, we recorded an improved trend in our overall recurring cable subscription revenue, which includes both our cable and mobile subscription. Our subscription revenue was up just over 1% year-on-year, which is a very encouraging performance.

The growth in subscription revenue was, however, fully offset by a decline in both our other revenue and B2B revenue on a re-based basis. Both revenue lines were impacted by the effects of COVID-19 as of the middle of March.

Our other revenue reflected lower handset-related revenue and a lower contribution from the De Vijver Media, while our B2B revenue was impacted by lower ICT-LED growth due to certain product delays and postpones.

Finally, let's also not forget that the re-based year-on-year revenue evolution is impacted by the loss of commercial wholesale revenue, predominantly the loss of the MEDIALAAN Empanel contract. Excluding this impact, we would have recorded a net positive re-based revenue growth of roughly 1%. I

f I then move to the cost side, we've successfully maintained our tight cost control discipline and focus on operating leverage. Our operating expenses decreased just over 4% year-on-year, primarily driven by lower sales and marketing expenses, as the first quarter of last year reflected the impact of the SFR customer migrations in Brussels.

Also, our main other cost lines showed favorable year-on-year trends, amongst others, by a continued push toward digitalization and also the optimization of our facilities footprint.

Let's now have a look at our adjusted EBITDA on Slide 18. Adjusted EBITDA grew 8% year-on-year, on a reported basis, to nearly EUR 346 million, and of course, it included the impacts of the De Vijver Media acquisition.

On a like-for-like basis, adjusted EBITDA grew a solid 4%, driven by lower sales and marketing and our continued focus on tight cost control. With respect to margins, we were able to expand the adjusted EBITDA margin by 200 basis points compared to Q1 last year, and it now reaches almost 53%.

On the next slide, turning to investments. Accrued CapEx was broadly stable year-on-year. However, when excluding the recognition of the football broadcasting rights, related to the U.K. Premier League in Q1 of last year, our accrued CapEx was actually up 31%.

This increase reflects the De Vijver Media acquisition impacts, but also seasonally higher spending on our new IT platform. But also the proactive inventory management during the COVID-19 pandemic.

On relative basis, our accrued CapEx in Q1 reached 26% of our revenue. We expect our investments to decrease throughout the rest of the year and to get back to a more normalized level of roughly 21% of revenues. And finally, let's keep in mind that around 51% of our CapEx is scalable and growth for late.

Let me then move to operational free cash flow on Slide 20. As you can see, we achieved nearly EUR 173 million of OFCF in the first quarter, which was down 8% year-on-year as a result of the higher CapEx that we explained on the previous slides.

As we do expect CapEx to come down throughout the rest of the year, we expect a pickup in our OFCF as part of our full year outlook.

Moving on to free cash flow. We delivered a strong adjusted free cash flow performance in Q1, with our adjusted free cash flow more than tripling versus the same period of last year. This particular increase was driven by a phasing in our cash tax payments as we settled cash taxes in the first quarter last year, whereas we expect to settle these expenses in the third quarter of this year.

Our Q1 2020 adjusted free cash flow also included EUR 26 million [ph] net payments under our vendor financing program, whereas last year showed a EUR 44 million benefit. So excluding these impacts, the underlying growth in our adjusted free cash flow would have even been more outspoken.

Moving to Slide 2020 and already, as explained by John, we continue to enjoy a very, very robust liquidity and long-term debt maturity profile.

In Q1, we successfully refinanced our euro and dollar term loans, where we were able to both extend the tenor, but at the same time, also lowered our overall coupon by 25 basis points.

We, therefore, improved our weighted average time to maturity to 8.3 years, and we faced no debt amortization prior to March 2028, excluding scheduled repayments under our vendor financing program. Such repayments are, however, offset by net additions with an overall 0 balance for the full year 2020.

Additionally, in the beginning of April, we also entered into a new 6.2 year's revolving credit facility of EUR 510 million, which adds another EUR 50 million to our liquidity cushion and at better conditions.

This brings the untapped liquidity to almost EUR 700 million at the end of Q1, which is roughly 0.5 turn of our net total leverage. And finally, we also completed early April, the repurchase of 10% of our EUR 600 million senior secured fixed rate notes who are due in March 2028, and Varia coupon of 3.5%.

Thanks to all these actions. We continue to improve our average interest expense to 3.1%, which is a continued improvement of 0.5 percentage points versus the first quarter of last year when our average coupon still stood at 3.6%.

If I then move to the next slide, Slide 23. In terms of the net total leverage, we were at 4.0x at the end of March. And that's exactly at the midpoint of our leverage framework that we presented at the Capital Markets Day at the end of 2018.

As John already mentioned, we intend to maintain total leverage around 4x as we will continue to drive attractive shareholder value in 2020 and beyond. With that, let me now hand it back over to the operator for the Q&A session. Thank you everybody.

Questions And Answers

Operator

(Operator Instructions) We have a first question, the phone number ending by 0189, your microphone is open. You can ask your questions.

Q - David Vagman {BIO 15116356 <GO>}

David Vagman from ING. I've got the first question on the wholesale cable circulation. What kind of changes can we here realistically still see on rate, literally speaking? And related to that, what kind of legal action are you still planning related to wholesale cable regulation?

And my second question is on De Viver Media. And what kind of -- could you help us understand basically the impact of weaker results at the VAS media on sales, EBITDA and CapEx, looking at the dynamic in advertising and production revenues?

A - John Porter {BIO 1967284 <GO>}

Yes, on the rate regulation, as I mentioned, top, obviously, is a move in the right direction. Vis-a-vis the original statement by the BIPT, I think, 6 to 7 months ago. The abandonment of the RAV methodology, which was completely out of market and left out substantial amounts of cost elements out of the calculation has been changed, and we're now back to a more market standards, cost-plus formula.

So the rates -- the draft rates have moved in a better direction. They're still at a discount to today. But we're encouraged by what we see.

The issue -- the draft submission is by the BIPT is at Europe, and for a consulting period of 60 days, I believe. So we expect to have this formula finalized relatively over the summer. With an implementation potentially in the fourth quarter or the first quarter of 2021.

Let's just say that it -- they're moving more towards more a market standard, cost-plus formula. And we haven't made any decisions on legal action or anything else before we see the final results. Erik, you want to do De Vijver?

A - Erik Van den Enden {BIO 20675514 <GO>}

See, the question was, what is the dynamic around the De Vijver Media. Let me maybe first start with saying that as a result of COVID, of course. So let me maybe start by saying that overall, the impact of COVID on Q1 results is really fairly limited.

Of course, the crisis really kind of took big proportions as of mid-May -- mid-March. So that's fairly limited, both on top line and on EBITDA. As we already mentioned, the impact that we do see is mainly on everything that is reported under other revenue. So handset-related sales, but also indeed DVM.

To understand the impacts on DVM, it is also important to understand that it is, of course, two types of business. So under the DVM umbrella, we have a broadcaster SBS. And we have with Telit, which is a production company, and the dynamics are a little bit different.

Of course, SBS, there we have seen quite a significant impact in drop of advertising revenues. I think that's something that not only we've seen at SBS, but also the other players in the Belgian market, and I guess also beyond Belgium have been reporting. So of course, this is a much more seasonal business, first of all, and clearly, more exposed to the COVID-19 crisis.

So it's something that happens relatively quickly. So we have seen an impact, especially on April, and we do expect to see also impacts going forward. At the same time, we also see the first prudent signs of recovery. So there is definitely an impact on top line with a decrease in advertising revenues.

And also, you do see that it is more impacting EBITDA than the impact that we see on the telco business, of course, because the cost base, to a large extent, is composed of programming, which is something that is a little bit less flexible Ð off-standish [ph], so the production company is, of course, different.

The main impact that we've seen there is the fact that there are no sports competitions anymore, we stand with discovering the Belgian league. So we have seen some impact there. But at the same time, the cost base is also a bit more far.

But I think overall, again, small contribution or small impacts in Q1, typically reported under other -- on the revenues. And I think that's what we've seen.

Operator

Next question comes from the phone number ending by 2402.

Q - Roshan Ranjit {BIO 16270518 <GO>}

It's Roshan from Deutsche Bank. 2 questions from me, please. Now as you highlighted, you had very strong broadband KPIs return to residential growth.

Unfortunately, I guess, because of your disclosure change at the end of last year, we've lost the kind of revenue trend, which I think on a reported base is actually down. Is it possible to get the kind of pro forma impact on what the cable subscription. So excluding mobile telephony run rate was in the quarter, please? Because I think you're running at around 3% through 2019.

And secondly, just on the back of the question of De Vijver media. I'll calculate the margin this quarter of around 18% compares to around 45% on a pro forma basis.

In Q1 last year, you've kindly given the revenue guidance, excluding the other line, which I said most of these things are low margin. Is it possible to get a sense of your EBITDA guidance on the same basis, so excluding that other line and see how that moves?

A - John Porter {BIO 1967284 <GO>}

Yes. Roshan, let me take the first question. So indeed, we've made a technical adjustment to the allocation of the revenues across the different product lines. And indeed, to your point, we have relocated some revenue away from broadband into the other categories. So fixed telephony video but also mobile.

So I think on a like-for-like basis, if you would continue to -- on a pro forma basis, if you would keep the allocation, you would have seen that our evolution on broadband would have continued to be positive.

Very much very similar to the evolution that we've seen in previous quarters. And I think in Q4, if you remember, well, it was 4%, the number would have been almost very similar, almost the same. That, of course, as we mentioned already, is driven by the strong up-tiering that we see in our products.

We've already mentioned that the average download speed has improved from -- or grown from 140 megabits per second last year to 202. That's a 44% increase, which, of course -- we have, of course, upgraded the speeds. But indeed, you see that an increasing proportion of our customer base is also opting for higher tiers, and that is, of course, driving that benign ARPU and revenue evolution.

And I think we're not able to take the revenue minus other revenue down to EBITDA, right? So we can't provide any disclosure there because we can't deconstruct the overhead. I mean we tried to. But we were advised that we weren't allowed to.

A - Erik Van den Enden {BIO 20675514 <GO>}

Or I mean, I think as we said earlier, so there is -- we do -- of course, there is an impact that we see on the revenue line. I think we've been quite clear on where we see that impact. It is also clear, of course, that are -- the revenue excluding order revenue, which is really cable subscription and B2B that is very stable. So the business is very resilient. And also the impact on top line also get to a certain extent, mitigated throughout the P&L.

So definitely, the impacts on the EBITDA are smaller than the top line. And of course, you can probably get pretty close knowing that the revenue minus other revenue is the most valuable revenue that we have because it's recurring, it's the most higher margin, other revenue is lower margin and in many cases, zero margin.

And it's a femoral. So it will -- when the economy -- from a macro standpoint, gets going again, it should get going again. So there should be some catch up.

Operator

Next question comes from Emmanuel Carlier from Campaign.

Q - Emmanuel Carlier {BIO 15863512 <GO>}

Yes. It's from Canton. Two questions, one is on subscription revenues. So very glad to see that subscription revenues turn back positive, driven by improved subscriber additions and better ARPU trend. The question here is, how sustainable do you believe that is? And if so, could you provide some details on why that is?

And then secondly, a question on shareholder remuneration. I think you have firmed your guidance on the balance sheet. So before you guided for 3.5 to 4.5x. Now you've mentioned that you want to run it at around 4x. So this would obviously result in massive shareholder remuneration in the coming years.

So yes. Does that mean that we should expect much more share buybacks? Or do you intend to start paying potentially exceptional dividends on top of the regular dividend?

A - John Porter {BIO 1967284 <GO>}

I think on the first question, we certainly -- this is a business of momentum and having momentum in your favor is a good thing. We think we are well positioned in terms of -- certainly a superior network performance, but also portfolio innovation where we've also been the market leader, and that's allowed us to get some decent growth in a arguably more competitive market than we had a few years ago.

The other thing is that because of some of those things and I think successful new product launches and providing, for example, things like Speed Boost, which is getting our customers up between 500 megabits per second and a gig for an extra EUR 15 a month.

We've been able to continue to drive ARPU up on average sort of 2% or 3% per year. And it hasn't been a year where we haven't been able to move ARPU forward. So yes. We -- there's no reason why we can't continue to drive P times Q in the foreseeable future.

On the on the leverage target. It remains in the scope of the Board to decide how to manage shareholder remuneration.

I think the only thing that we can say is that we're a company and a Board that has been demonstrably focused on shareholder returns, and that's going back a long way, and I don't see any reason why they won't continue to actively manage the balance sheet to deliver the best sort of balanced response in terms of capital management and shareholder return. That would -- and I think we've been explicit as we can.

We're targeting 4x, and we'll continue to target 4x for the foreseeable future. Rob and Erik have done an amazing job in pushing our tenor out another 8.5 years. So we do have flexibility there. But right now, it's -- we're sticking with the guidance we gave the market in December 2018, and that's kind of the way we operate, say what we do and do what we say.

Q - Emmanuel Carlier {BIO 15863512 <GO>}

Yes. But it's still a bit more specific, I think, than two years ago. Is that because you are more convinced on returning back to structural sales and earnings growth?

A - Erik Van den Enden {BIO 20675514 <GO>}

I think the framework -- I mean, we laid out in the Capital Markets Day. I think that's a very clear framework. First of all, it specifies that we intend to stay around 4.0x in absence of M&A or big changes in the environment. So that's we reconfirm.

I think it's also important that we reconfirm that indeed in light of the COVID crisis that is still the target that we have and that we will target.

Secondly, of course, then in terms of shareholder returns, we -- also there, we really confirm what we have put on the back of the Capital Markets Day. We will continue to target between 50% and 70% of free cash flow as a recurring dividend. And then the remaining part, we will consider either to kind of use for business purposes or as a additional share buybacks or incremental extraordinary dividend.

So that framework is very much applicable. I mean it has been applicable since we met the Capital Markets Day. It's something that we started last year.

Of course, on the next week, we will be paying the final part of the dividend over the 2019 period. That will bring us to 61% payout ratio of free cash flow. So right in the middle of the range that we put forward, and we are very committed to continue to build this framework over time and that is not changing.

Operator

Next question comes from Mr. Bishop.

Q - Michael Bishop {BIO 16349367 <GO>}

Just a question (technical difficulty).

A - John Porter {BIO 1967284 <GO>}

You're breaking up, Michael, can't hear you.

A - Erik Van den Enden {BIO 20675514 <GO>}

Michael, we're not hearing you. So maybe we will take the next question, and then you can -- when the connection is better, you can maybe ask your questions later on in the call.

Operator

So next question comes from Christian Henman from HSBC.

Q - Christian Henman

It's Christian, HSBC, on behalf of Niko. I hope you're doing well. Questions on B2B. I was interested actually what you're seeing in terms of customer reaction, especially on the SoHo front because that was one of your growth drivers.

Do you see really meaningful change in customer behavior and also on the smallest SME side? So any insight there would be helpful, I think?

And then secondly, with respect to your guidance, I mean, our EBITDA guidance now negative 1% instead of positive 1%, and we all don't know how the year will develop overall. I mean, given COVID and everything. But is there only downside risk from your perspective? Was there also some upside risk? I would just be interested in your general view on that.

A - John Porter {BIO 1967284 <GO>}

Just to give you a flavor of the B2B market. I've actually been surprised that how little churn that we've had in SoHo and SME, there is no question that these are businesses that are impacted, that are going to be -- continue to be impacted, particularly in a recessionary context.

But so far, we've been able to manage request for suspensions and in some cases, reconfiguration of payment schedules and things like that. So -- but it's marginal. It's probably more impacted than -- definitely more impacted than the residential market, which seems to be seeing more upgrades than downgrades.

But it's not, I would say, overly material to the point where it could have been in a completely -- in the kind of the macroeconomic conditions that we're experiencing. It's very much a culture here, in Belgium, which is very much articulated also by the government, which is basically keep paying your bills because when the chain breaks, it's not good, and people are generally doing that.

A - Erik Van den Enden {BIO 20675514 <GO>}

Maybe on the guidance. So first of all, I think we wanted to be as transparent as we can. Obviously, for us, but as for anybody, it's extremely difficult, of course, to see what is going to come. So I think many people are basically suspending that. I think the approach at we have taken is to put our projections out in the open there.

But of course, being very clear about the fact that this is the number that we see based on the current lockdown, also with a gradual recovery of the economy in the next couple of months -- and at least, excluding any further log downs in the second part of the year. So if that were to happen, of course, relative will look different, but I think it will look different for many people.

So again, that's how we built the guidance. I think in terms of upsides and downsides, first of all, I think we have a history of hitting the guidance. I think, as always, with guidance, we can underperform or overperform that. Needless to say that in our projections, we have taken a recovery scenario into account. That's based on our best estimates, of course.

It's slightly derisked. So I think that is one element that we'll have to see how it plays out. But of course, also, I think we've now demonstrated many, many quarters in a row that we have the ability to really control our costs in a good way.

And then, of course, in terms of crisis, is something that we do even better than before. So the minus one is our best estimate as we know it today. It does not include any further lockdowns, but of course, as always, we'll do our very best to make sure that we hit it and hopefully overshoots.

And I think also on top of the EBITDA, I think important for us was to make sure that OFCF and the free cash flow, those are very important metrics for as OFCF, I think in our view, is a more important metric even than OFCF.

So as you can see, we brought the OFCF from around 2% to anywhere between 1% and 2% because, of course, we will also very carefully look at and just in light of the crisis, where if any applicable.

We will do that. Of course, we will always make sure that the long-term prospects and the long-term opportunities are not jeopardized, but we will be very vigilant and very diligent in scrutinizing CapEx.

Therefore, you see that -- whereas top line and EBITDA, we have been reducing by 2 percentage points, and the effect on OFCF is already smaller and the range for free cash flow, we are maintaining.

We will be at the lower end of the range, so probably closer to the $415 million, rather than the $435 million. But free cash flow is for us a very important metric. Again, we are very committed to the range that we put out there and make sure we are positive.

Operator

Next question comes from Nayab from Citi.

Q - Nayab Amjad {BIO 18893735 <GO>}

Can you quantify the impact from COVID on churn reduction and savings in fact over the two weeks of the shutdown in March? Also, do you see any marketing cost savings for Perduto COVID?

And my second question in relation to CapEx. Can you give us some color on the expectations for CapEx for 2020? And in the event that CapEx for 2020 is lower due to lower construction activity, should we expect catch up charge of additional CapEx for 2021?

A - John Porter {BIO 1967284 <GO>}

So do you want do the?

A - Erik Van den Enden {BIO 20675514 <GO>}

Yes. I mean, on the commercial activity, as we laid out, I think we see significant impacts on the flux in the market. I mean the question is specifically on churn. We have seen churn come down really spectacular. But at the same time, sales is also coming down a lot. So you just see people of course, changing less.

And you could probably think like, yes. That's probably because there is less in-store capacity, and that is the case. But actually, you really see that in customer behavior. So it's actually customer behavior, more leading that reduction in sales and churn rather than limited capacity.

A - John Porter {BIO 1967284 <GO>}

Yes. I'd like to also point out, as opposed to some other telcos, we are open for business. We are making sales. There's been catch up in our digital channel and voice channel on sales that we've lost through retail.

So we're selling -- still selling at 60% to 65% of full capacity, and churn has come down markedly. We don't think it's because everybody is just waiting to disconnect when the COVID is over, we think it's seriously, people -- it's a customer value proposition right now that we've never had before.

So I mean, net-net, the things are not that much different than they were before the crisis. And we're just doing it with less flux. And less lux leads to your second question, which is on CapEx.

There -- because we don't have a huge build program going on out there. It's not as if we're not like De Vijver Media or somebody else who's got a big build program. We're not going to -- there is no catch up to do.

We have a pretty steady state, major digital and CRM transformation program going on right now. We have -- keep the lights on CapEx, and then we have the other 50% is basically variable CapEx depending on how many customers we're able to add.

So I don't see it impacting 2021. And I think there'll be some savings this year just because of the lower flux, but then we'll just get back to normal and not really have a big catch-up pop in 2021.

Operator

Next question comes from James Ratzer from New Street Research.

Q - James Ratzer {BIO 2442169 <GO>}

Yes. I had two questions, please. The first one, was just wondering if you could give us a kind of an update on your discussions around your football contract payments for this year, would just be interested to understand how you understand the contract with the professional League. Does the cancellation of the end of the league automatically mean that you can reduce the payments pro rata for this season?

Secondly, just interest in any update you're able to give on the VOO process in light of the current economic situation? Do you think this gives you a potential window to come back to have a look at that asset again?

A - John Porter {BIO 1967284 <GO>}

So with football, we have paid essentially for the full year, all the operators have. And I'm reminded of the old adage possession is 9/10 of the law because in sports worlds, whoever's got the money, does everything they can to keep the money. And if we had the money, we wouldn't give it to them.

So I think with the absence of a very clear force majeure, then I think we have a very good case to get a partial refund because of the lack of finishing the season and the playoffs. But it remains to be seen.

The league is working very hard to get the government to take a strong positionn on football, which probably could happen in Belgium, but shouldn't. So it's going to be a bit of a gun fight. So we'll see what happens, and we are not adverse to going to court to try to solve things in our favor.

We also have -- it's also not just us. It's -- we have VOO, in Proximus, are alongside us in this endeavor as well. On the VOO process, it's mysterious as ever. We see no white or gray smoke coming out from HQ down in liege. So it's hard to say what exactly is going on there. It's -- we are assuming that the province transaction will consummate.

We have some more additional insight because we've joined Orange's legal challenge to the process, which could even further complicate it. One of the reasons we did that is to ensure that there is no unilateral settlements between Orange and net taste and providence. So we've got ourselves covered on that front.

Suffice it to say that we will stay as close to the process as possible. We still believe strongly that nothing succeeds like buying the cable system next door, and we'll continue to consider that an option if it was available to us.

Operator

Next question comes from Mr. Montes from each.

Q - Matthijs Van Leijenhorst {BIO 17284316 <GO>}

Yes. Actually, I've got two questions on your guidance. First of all, on the revenue guidance, do you include any price adjustments like you've done in previous years? And secondly, on the EBITDA guidance, do you take into account any provisions for bad debt? Those are my questions.

A - Erik Van den Enden {BIO 20675514 <GO>}

Matthijs, I'll take those two questions. First of all, on pricing. Of course, we -- that is not an area where we can comment.

Secondly, on the EBITDA. So I think John has already alluded to that so far, we have not seen a lot of the impact. However, of course, we all know that this is definitely something that could come.

So we are definitely being prudent on the angle. And actually our Q1 results already included some provision for an outlook on bad debt. So that is something that we have been analyzing and that we are taking into account.

Operator

Next question comes from Ruben Devos from KBC Securities.

Q - Ruben Devos {BIO 18656684 <GO>}

Just following up on CapEx, but a bit longer term, with the near completion of the big networks, and the ability to deliver speeds of up to one gigabytes per second, you're now running five years ahead of the digital agenda. Also, it seems like you have coped well with the 80% [ph] increase of fixed data traffic since the virus outbreak.

So given the strong fleets already, I was curious whether you could elaborate a bit on the fixed network CapEx road map? What level of investments are required to maintain network quality, what investment decisions are coming on the agenda? So some comments on that would be very helpful.

Secondly, just on the 5G. So this morning, you were awarded provisional user rights. We've -- in the meantime, we've also seen a 5G commercial launch by Proximus. It would be great if you could share your thoughts on the importance of this 5G introduction in Belgium, and whether you think it may possibly lead to changes in churn?

A - John Porter {BIO 1967284 <GO>}

Sure. So the fixed road map generally looks like 2.5 gig by 2025 and 10-gig by 2030. In order to do that, we need, on an annualized basis, continue to push fiber deeper into our network. We're now running anywhere from 350 to 500 homes per node. So we already are a very fiber-rich HFC network. But that -- the scale of that investment is immaterial in relation to fiber to the home.

So we went from average -- we went from 100 to 200 megabits per second, basically network to 1 gig for EUR 30 or EUR 40 per home pass. So it's a pretty big difference. And in fact, the roadmap to 10-gig looks probably more like a $50 million, $60 million a year investment, but an investment that needs to keep being made.

Obviously, we always hold out some hope that we can continue to reduce CapEx as a percentage of revenue, but we don't make any -- we're not making any specific guidance on that regard. But the -- there's more opportunity downward than risk upward in our in our CapEx to revenue ratio profile.

On the 5G, any telco can borrow spectrum from their 4G spectrum range and make it light up phones that say 5G. But the only thing you're going to get is another 20 or 30 megabits per second downstream performance. This -- and also potentially worse 4G performance.

So to launch a product with -- that needs a EUR 1,200 device provides a 20% incrementality in 4G download speeds in a market where Telenet's average download speeds in 4G are about 80 megabits per second already. And the fact, I believe, in customer value propositions, you only get one chance to make a first impression.

So if your first impression on 5G is you got to go out and buy a EUR 1,200 phone, and you only get a marginal increase in download speeds, that's not the kind of first impression I would want to make. Plus, the launch of this thing has gotten very negative public commune response and there are issues associated with it, as you know.

So I don't think 5G is in a great place right now. I would not be blowing my 5G trumpet. I think when we want to -- well, our intention is to test some aspects of 5G with that spectrum relating to latency and industrialization and specific applications.

So the consumer part of 5G, I think for us, it's not something we're particularly going to chase until we get the 3.x spectrum and not really don't really think what Proximus has gotten to it with it right now. It's a very terrific place to be.

A - Erik Van den Enden {BIO 20675514 <GO>}

Yes. I talk a lot of doubts on the use cases and the business models. So I think we are of course, we are doing tests. So we, of course, want to understand what the technology can do and what the applications would be, but I think we're going to take a very gradual approach to 5G.

Operator

Next question comes from Peter Testa from One Investment.

A - John Porter {BIO 1967284 <GO>}

I think there is probably a technical. So maybe, Operator, we will take the next question.

Operator

Yes. Sorry. We had just one technical issue. Okay. Okay. Sorry. So the next question, sorry, is from Polo Tang from UBS.

Q - Polo Tang {BIO 3059030 <GO>}

It's Polo Tang from UBS. Just have two different questions. So the first one is just on your one gigabit per second broadband. So you launched in September, but can you give us a rough idea as to what percentage of broadband gross adds are taking this product?

And the second question is really just about the football rights. So ELEVEN SPORTS has acquired the domestic football rights for the coming cycle, so how confident are you that you'll be able to get access to domestic football going forward? And how critical is domestic football for your subscriber base?

A - Erik Van den Enden {BIO 20675514 <GO>}

I'll probably take your first question. So as you're probably familiar, we offered the one gigabit speeds as a kind of -- as what we call a speed boost. So it comes on top of your regular subscription for EUR 15.

Based on the pickup that we've seen, I think we see two types of customers opting for that speed boost. There are, first of all, the customers who really need it, which is confirming our belief that indeed, people will continue to require speeds and that the key applications are there.

So that is one part of that population where we've seen just to give one statistic data usage tripled actually in the period after they have the speed boost versus the period before. So that's one part.

But we've also seen a substantial part of the people who have bought the products and more buying it from a piece-of-mind perspective where they say, listen. Broadband has become such an essential part of their life that is not something I want to economize upon. And I want to make sure that my needs are always served.

So that is fully consistent with the more broad tiering that we have seen within our customer base -- again, not always, of course, to the one gigabit, but definitely a general trend that we see into the market. Of course the one gigabit, that's really kind of the vanguard.

So as always, it is a first mover type of customer that -- also for that additional subscription. But of course, we have used that concept already in the past with previous upgrades as well. And we do see that if you compare the pickup of the one gigabit versus previous speed boost options that compares to that favorably.

A - John Porter {BIO 1967284 <GO>}

Yes. And on ELEVEN SPORTS, of course, I'm not going to comment on any ongoing discussions or negotiations, but I think, pretty clear that any strategy they have to redistribute and cover their costs. By just sort of turning around and getting us to pay them at a premium is probably not the likely outcome.

But I don't see their strategy working without a D2C component. And that means everybody's customers are going to get access to football if they want it. I mean, sports -- premium sports is not a particularly profitable venture.

So it's with it or without, it's basically immaterial with operating cash flow. Something that we'd like to have. It's something that our customers have gotten used to having access to, but it's got to be -- this is kind of -- to me, I see this sort of COVID and the whole sports scene as a chance to reset the price value relationship between what consumers are paying and what sports leagues have the right to expect and players have the right to expect and the usefulness or lack thereof of intermediaries like ELEVEN SPORT. So to me, it's a giant reset. We'll see where we get to and there you go.

Operator

Next question comes from Peter Testa from One Invesment.

Q - Peter Testa {BIO 2162867 <GO>}

There are two questions, please. One is just looking at some of the behavior points that you've been touching on in your release. You've seen increased use of home Wifi. And I was wondering if that had any particular impact on how you saw prepay and behavior on renewal and prepay or repeat purchase and prepay?

And maybe just on the sports part, as you touched on it just now, but is the extent to which you think net out of this without the matches being played versus the churn, how that comes out for you on a net basis.

And then the other part was when you look at the traffic -- the testing you've been doing with customers are offering them higher speeds, in general, the extent to which you see that pulling any follow-on subscriptions? Or how you will think about trying to monetize that test into payment?

And then the other question was just on the signal switch, analog signal switch opportunity, now that you get some run at it and starting to work, whether you give some sort of sense as to how you see that as an opportunity on revenue building?

A - John Porter {BIO 1967284 <GO>}

Well, that's more than two questions, broke [ph] the rules. Okay. Well, we'll try to answer them all.

Yes. Prepay is down, okay? Stores aren't open. There are certainly alternative ways to top-up prepay, but particularly in the intercity, it's a very retail-oriented business. And so that's not the strongest component in our portfolio right now.

Our in-home Wifi, I mean, we have benefited -- we've been doing in home WiFi improvements for four years now. We have been -- we've deployed almost 0.5 million power line boosters, which are high-quality extender that operates off the power lines and to try to deliver full house coverage for our customers.

Right now, we still have -- this is a product that can be fulfilled by the customer themselves. We have a home delivery platform for these power line boosters. And anybody who doesn't have the coverage and performance in home WiFi that they want, we have ways of solving it.

Sports, once again, it's a bit of gunfight to see how much money you could get back from leagues or how much you could save or what your rights are, everybody's hanging on to whatever money they have.

But the churn has stabilized. We had -- we saw some -- with the loss of football, we saw some significant churn beforehand, but it's -- we've done some value work with our sports package, delivering some entertainment features in there, et cetera, et cetera. So churn is pretty much stabilized.

Once again, it's a product -- it's an extremely low margin product. And we need to understand the future of Belgian football, whether we have a sports product built around Belgium football or whether we have a sports product not built around bills football. And those decisions will be made over the next three months.

The way we take advantage of the speed and capacity is, first of all, just the general experience that all of our customers have. We doubled, in some cases, the speed accessible to customers with no increase in cost. But we're also seeing, particularly in this period of heavy video conferencing usage and all that stuff. We're seeing a lot of up-tiering of data packages.

So we do tier data for speed and capacity in several of our -- all of our top tiers are unlimited data, but we're seeing a lot of upward movement in our FMC bundles as well as our stand-alone a la carte products.

And finally, on the analog switch off, yes. It's on hold. Then once we are back up at full capacity in terms of getting out there and helping customers work through transforming their old analog TVs into digital platforms, we'll get it going again.

That has -- the analyst switchoff obviously had a good impact on our enhanced TV or digital TV performance. And right now, obviously, we're not doing it. So -- but that will come back as we get back up to speed in the summer.

Q - Peter Testa {BIO 2162867 <GO>}

Yes. So my question on the last bit was really around the opportunity that you've seen with people taking higher packages or following on from free upgrade of speed to then try to convert them into higher packages after the free period comes down.

And on the switch off is just saying, I know it's on pause for now. But you've got some experience with it, the extent to which you give some views on the opportunity on the digital TV?

A - John Porter {BIO 1967284 <GO>}

Yes. We've seen better lift than we anticipated in digital TV, for sure during the analog switch off period, and upgrading has been only accelerated during the COVID-period.

Operator

Last question comes from the phone number handing by 6015.

Q - Paul Sidney {BIO 3818285 <GO>}

It's Paul Sidney from Credit Suisse. Just a couple of questions from me, please. Just coming back to your broadband performance in the quarter. It was significantly better than we've seen in previous quarters, we've -- it's been obviously well flagged. But I just wondered, is there anything structurally different?

We saw Proximus basically broadband base staying flat when they reported earlier today, Orange, Belgium is pushing it, love Duo products. Is there anything structurally different in your better performance? Maybe is it SFR Belux finally being a tailwind in terms of the sub numbers?

Then just secondly, just very interested, John, to hear your sort of longer-term thoughts on whether you see any permanent change in behavior of customers in Belgium, both on the consumer side and the B2B side from the events of the past few months?

A - Erik Van den Enden {BIO 20675514 <GO>}

Well, I'll take the first question on the momentum. I think we've used that language of improving momentum already a couple of quarters. And I think that is actually -- it's not only improving, it's also accelerating. I think if you look at the quarterly numbers in 2019, first of all, definitely until the middle of the year, there was really the drag that we had from the SFR migrations.

I think at that time, we already said like, listen, if you were to back out the Brussels numbers or the SFR numbers, the underlying trends are healthier. So that, of course, is now the case. We have that migration behind us.

I would say that we're not yet happy with our performance in Brussels. It still trails the performance in the rest of our footprint, but the drag is gone. And again, that stronger underlying trend is coming through.

The second thing that continues to gain momentum is that, of course, also last year, we broadened up our V-Go concept, where it used to be typically at the end of the market, also to the mid-segment of the market. Also to cater for some -- I mean for different needs, also for smaller households. And again, that is also something that has given us momentum and that continues.

So I would say the adjustments and the optimizations of the portfolio that we have done. But secondly, I think also, if you look at our NPS score, so the satisfaction that people have with everything that Telenet offers that also continues to improve.

We have done and we continue to do big investments in digitalization, et cetera, which as we said before, is something that works on two levers. First of all, it reduces cost, and that has come through our OpEx. But secondly, it also makes the service experience better and easier for customers.

So I think it is probably all of the hard work that we have been doing coming together and some of the drugs with SFR migration, not being there anymore. That is indeed leading to the numbers that we post now, but it's something that, in our mind, is not completely new. It's something we've seen for some time now, but continues to accelerate.

A - John Porter {BIO 1967284 <GO>}

Yes. And your more existential question, Paul -- one of which I considered a lot lately and what just talking about it this morning, as a matter of fact, -- is I think there are some dramatic shifts going on in both the consumer and business market around, I think that this product -- the value proposition of what we deliver has never been stronger. I mean, we've seen it in our NPS, which has shot up better than probably it ever has.

Customers are experience a very performant product right now in a very challenging environment. That's not the case everywhere. But I will say I think we have distinguished ourselves in that regard given the fact that we've just come off of investing $700 million into both our fixed and mobile networks. I also think that this lower flux is here to stay.

I think there's going to be a lot this NPS trend and this value trend are going to translate into much more loyalty in our customer base. I don't think -- I think churn will continue to see sort of downward pressure.

And I also think it's an opportunity for companies to really shift the relationship they have in the marketplace and move much more towards more purpose and more meaning in terms of how we work with our customers and we work with the communities that we operate in. And I think companies that move aggressively along with that trend, are going to be quite successful.

So I mean, can you afford to own a car that only breaks down once every thousand trips, you can't. I think now in this day and age, having a product that's delivering consistently in the Five9s of reliability. And also, as you can see, where usage and speed requirements are escalating a rate of knots, I think, works in our favor to some extent.

So yes. There will always be people chasing down the rabbit hole of price. But I think less and less and performance will be rewarded.

Operator

Thank you. We have no more questions. Mr. Goyens, back to you for the conclusion.

A - Rob Goyens {BIO 15069867 <GO>}

Okay. Thank you, Operator. Thanks, everyone, for joining. This concludes today's earnings call. As always, Bart and I are available for any follow-up questions you may have.

Also in light of these special times, most of our C-suite management meetings will be replaced by Versal encounters. An update the schedule can be found on our Investor Relations website. So we look forward to catching up with you soon. So now stay safe and healthy. Bye-bye.

A - John Porter {BIO 1967284 <GO>}

Thank you.

A - Erik Van den Enden {BIO 20675514 <GO>}

Thank you. Bye-bye.

Operator

Ladies and gentlemen, this concludes the conference call. Thank you all for your participation. You may now disconnect.