Transcription

Title: DNA Q4 Results 2018

Date: 01.02.2019

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Conference Ref. No: EV00084636

Duration: 78:09

Presentation

Marja Mäkinen
Good day everybody. This is Marja Mäkinen from DNA's Investor Relations and I would like to welcome you all to this conference call regarding DNA's Financial Statement for 2018. With me here are DNA's CEO, Jukka Leinonen and CFO, Timo Karppinen. Jukka and Timo will go through the result presentation which is also available on our investor website. And first to remind you we will be making forward-looking statements during the presentation and we have a disclaimer on the second page of the presentation set for that. And please note again that you can also ask questions through the webcast page and send your questions all the way during the presentation. We will then take those after the presentation on the Q&A session. But now I think we are ready to start so please Jukka.

Jukka Leinonen
Okay, thank you Marja and good afternoon everybody also on my behalf. So my name is Jukka Leinonen, CEO of DNA. I will be going through the business review related to the Q4 and for the full year of 2018. And after me Timo Karppinen will continue with the more detailed financial review, after which we have possibility of further questions.

So let's start with the business review. The Q4 can be characterised with two different aspects. So firstly net sales increased. We had a very good quarter in terms of the new sales, new customer acquisitions, but we also had a very good intake in upselling for the existing customer base. Because of the very good result on sales and upselling the sales and marketing costs were high leading to the decline in EBITDA. If you look about the numbers in more detail net sales was increasing 1.2%, especially mobile device sales and mobile service revenues were very good. The mobile service revenue was 4.6% up from the comparable quarter from last year. Device sales were up more than 7%.

As I said, the profitability was affected by the higher sales and marketing cost. EBITDA was decreasing 1.5%. The sales and marketing costs were clearly up, especially for the reasons of our successful actions to secure our existing customer base. So we were very much able to kind of uplift our customers into the higher speed and higher price package deals. And this was of course also affecting to the low churn what we saw in Q4.

When we look about operational KPIs the revenue per user in mobile communications was more or less at the same level than last year. The churn I said was very small, 14.8% in Q4, significantly down from the Q4 last year and I said this was of course partly relating to our successful upselling to our existing customer base. When we look about the subscription base mobile subscriptions were up 66,000 year-on-year and when we look about the growth in the – from the Q3 we got 22,000 subscribers more during the Q4. Also when we look about the fixed broadband and cable TV subscriptions we were very successful. Fixed broadband increased by 23,000 subscribers and cable TV increased by 11,000.

When we look about the quarterly results in longer period we can clearly see that the mobile service revenue and the total revenue are steadily increasing and it also was seen in Q4. Now we saw the small decline in EBITDA explained mainly by the sales and marketing cost because of the good new sales and upselling uptake in Q4. Operating capex was slightly smaller in Q4 compared to the last year. As we have been reporting during the last year, we have been able to have the more stable investments over the year, which was basically decreasing the Q4 investment. On full-year level we were at about the same level than last year and investments per sales region was slightly decreasing. Because of the increasing – decreasing capex we also had the operative free cash flow which was slightly better in Q4 compared to the last year.

Then if you look about the full-year results net sales increasing 3.1%, EBITDA up 4.4%, operative free cash flow up 7.3%, net debt per EBITDA ratio at 1.34x meaning that we had a very – we have a very good kind of a leverage situation and balance sheet. Mobile communication subscribers up 66,000, mobile service revenue on yearly level up 6.6% and mobile churn on yearly level 16.2% which is close to the, let's say, traditional levels what we have been seeing earlier years. Fixed broadband and cable TV subscribers also were increasing, total of 34,000 together from the previous year.

When we look about the longer-term trends we can see that the net sales are still increasing fairly steadily as we have been seeing during the last four years. EBITDA is also growing on yearly level at the rate of 4.4%. Operative capex I said almost at the same level than last year and the capex per sales raise coming below 15% to 14.7%. And on a yearly level operative free cash flow increased €10 million, about 7.3%.

When we look about the customer subscriber numbers on mobile side we had a very good quarter. The net additions amounted to 22,000 subscribers from the previous year's same quarter. We clearly see that the fixed-voice subscribers are moving away at steady rate, as has been reported and expected earlier. On fixed network broadband subscribers very good 5% increase, 23,000 subscribers and also the cable TV subscriptions increased by 11,000, mainly by DNA being able to kind of increase the number of households and housing associations connected to the existing network within our footprint area.

When we look about the changes in the customer base we clearly see the steady growth continuing in the 4G subscribers. Currently 61.4% of the mobile subscribers are in 4G, which basically means that we still have plenty of room to continue the upselling for the 4G. Also the smartphone penetration was slightly increasing and was at the level of 77% as in the previous quarter.

When we look about the mobile data usage we can clearly see that the mobile data usage growth is starting to calm down in terms of the proportional growth from last year. The total mobile traffic was growing 30%, in 4G 37% but when we are looking about the absolute number of gigabytes we clearly are seeing that yearly growth in terms of the actual gigabytes is significant. We have been doubling the amount of data transferred in our network from last two years. We are expecting this to continue and hopefully will be giving more opportunities to kind of maintain the increasing traffic our customers are using.

When we look about the churn levels in mobile subscriptions Q4 I said was very low, 14.8%. We are very happy with the results. This actually indicates the high customer satisfaction and DNA's ability to react fast to the competitors' campaigns. Also, the 4G uptake was continuing, during 2018 the share of 4G was increasing 71 percentage points from the previous year and I've said currently the share of mobile subscriptions on 4G is 61.4%.

In the early part of the year we acquired Moi Mobiili. Moi has been offering the mobile services for the private customers and for the small SMA customers. It's been operating on our network for the last three years. After the acquisition Moi will continue to serve its customers under its own brand, separate from DNA. The employees of the Moi will continue at the old employees and we will basically consolidate the acquired business operation figures into our numbers starting from Q1 this year. We are not expecting Moi acquisition to have any significant impact on DNA's net sales or EBITDA during 2019.

When we look about some highlights during 2018 I think that one of the big things is 5G. During 2018 we acquired the licence to sell the 5G. We launched the 5G network around the change of the year in Helsinki area. We have been also piloting 5G fixed wireless technologies in different parts of the country. It is however fair to say that 4G networks mobile traffic continued a very rapid growth and it will remain as the primary mobile communications network technology for a long time into the future. We are expecting to launch commercial 5G service when the availability of the terminals or handsets is coming into the marketplace. Effectively we are seeing that the figures coming from the 5G will be starting to be more significant starting from 2020 onward.

Also DNA's employees are more satisfied than ever. We received second time in a row a Great Place to Work certificate in November 2018. We have been able to improve the employee satisfaction now for four years in a row. We are also developing our management culture towards more leadership by coaching. We clearly believe into giving powers into our employees to do the right choices when they are serving our customers.

Also during 2018 we had a couple of significant milestones. The number of subscribers in total exceeded four million. Also in the fixed broadband area we were able to grow to be number two in the fixed marketplace during the summer 2018. We are very proud of these achievements and they really show the growth ambitions of DNA to continue.

Also when we look about the future possibilities we were developing a lot of IoT platforms. So we launched the DNA Connectivity IoT Service developed together with Cisco Jasper. This basically enables our customers and our partners to kind of develop and increase different types of IoT applications and services across the national/international markets. We are targeting to become one of the most significant IoT operators in the market.

Also when we look about our core differentiator, [inaudible], which is based on best customer experience, we saw a very nice development on that front. Consumer Business NPS, which basically correlates to the recommendation of customers was improving in all product categories. And total satisfaction in Consumer Business segment was improved by 2%. In Corporate segment we saw improvement of 3% and these are very important steps in order to kind of continue to be able to differentiate with the best customer satisfaction. Also we had the very high NPS scores, for example, in our DNA store and we were still able to increase those scores in 2018 and we were basically getting the new record level on that area. So I think that we can all in all say that we have been again making positive programmes in terms of being able to serve our customers and increasing our customer satisfaction.

As you remember we currently have four corporate level KPIs and targets. To have the most satisfied consumer/corporate customers. As explained earlier we are confident in that we have been able to improve our performance on that front during 2018. We also are taking to [inaudible] Great Place to Work in Finland and I think that the success in the Great Place to Work survey as well as the fact that we have been able to improve our employee satisfaction four years in a row, shows that we are in the right track. Also when we look about organic growth last year we believe that we have been able to grow clearly above the market average. And also when we look about the free cash flow development we are very happy with the increase in free cash flow and that actually illustrates the profitability of the company and ability to kind of generate healthy cash flows in the increasing levels.

When we look about the Finnish market outlook for 2019 we can clearly say that the Finnish economy will still grow but we are expecting that growth to be slower than in previous couple of years. Also when we look about the telecom markets we clearly see that the mobile network service market growth will basically moderate and we still are seeing a growth but it's basically kind of a scaling down on the previous two years. Also when we look about the different product areas we see that there's still room for the 4G upselling since the current penetration for the 4G subscribers only slightly more than 60%. Traditionally SMS and voice continues to go down as well as the pay TV services and fixed-voice services will go down. But then on the other hand the demand for the higher speed broadband and entertainment services is expected to increase due to the fact that the video content is increasing and the quality in the video content is increasing. Also with the demand for industrial internet solutions growing which will be leading to the growth of machine-to-machine or IoT subscriptions.

When we look about the 5Gwe clearly believe that the 5G will start in 2019 from the ability to utilise the technology in offering fibre-like solutions to the homes via 5G fixed wireless technologies what we are basically piloting at the moment. Depending on the availability of the home routers we are expecting to kind of launch the services by the end of the year. Of course it's fair to say that 5G will not be any – will not have any significant impact on revenues or the profitability during 2019 and we are going to see the bigger impact from 2020 forward.

So basically this was my part for now and Timo will now continue with the financial details – financial review with more detailed information in commercial. That one – Timo please.

Timo Karppinen

Hi, good afternoon. So this is Timo Karppinen, I'm the CFO for DNA. So let's start. So the financial result here is presented with the IFRS 15 and then adjusted numbers excluding the 15. Development is compared to the last year numbers without the IFRS 15 impact. If we start from the top, sales again was highest in history for DNA, both in the quarter and also for the year. The EBITDA in Q4 declined by 4.5% and here the EBITDA in Q4 was affected by the higher sales and marketing costs [inaudible 18.10] for the last quarter. But was especially now affected more with the help of the strong equipment and subscription sales and also the very strong subscription upselling into our own base that is basically resulting to the high commission paid into the third party channels. The high cost here basically result positively into low churn and higher net intake of subscribers. These cost are not visible in IFRS 15 results since commissions are amortised to customer life cycle, meaning basically in a longer period.

The whole year EBITDA growth was 4.4%. This is a compound impact from the continued strong service revenue growth, especially at the mobile service revenue, the increase of the subscriber base and then in overall improvement in our operational efficiency. The operating result growth declined also 16% for the quarter and the growth of 5.7% on the whole year. The operating result is an EBITDA including depreciation. Basically the seasonal high sales and marketing cost is impacting the quarter result as explained before. And the reason for the whole year positive result are the same as the EBITDA development.

The depreciation cost were in 2018 around the same level as we were in 2017. The net result growth for the year improved by 5.4%. The net result is the EBITDA including depreciation and financing expenses. We also see some cost decline in our financing expenses. Operative capex in Q4 was €13.5 million less than it was year ago and basically has gone how we estimated. And now we basically successfully in whole year were able to plan the capex more evenly between the year and the quarters. The whole year operative capex was around the same level as we were in 2017. Operating free cash flow was very strong in Q4 and also for the whole year. This is coming from the help of strong EBITDA development and then flat capex. Net debt to EBITDA of 1.34x stayed at this healthy level again and it was around the same as we were in Q3.

When looking at the revenue breakdown basically we had a strong development in all the areas that are contributing into our margin. Mobile service revenue growth in Q4 was 4.6% and for the whole year 6.6%. This is due from the strong growth in subscriber base, continuous optimisation to 4G customers and upselling it in 4G. Especially the upselling was strong in Q4. It's given us a good base for growth in 2019. ARPU sales remain at the same level as we had year ago but this was impacted by the interconnection rate reduction by 30% during the Q4. The actual average billing per user increased in Q4 and also during the year compared to the year ago. Mobile equipment sales was very strong, up by 7.3% in the quarter, which is basically already on very strong quarter that we had a year ago. The key drivers here are our good ability to sell into our own customer base and it has a good connection to subscriber sales and upselling to more valuable packages.

Interconnect and roaming although our subscriber base has grown the interconnect and roaming revenues declined by 8.3%. Decrease is coming from the interconnection rate reduction as I explained earlier by 30% during the Q4. And also the interconnection revenues or transactions itself continues to decline. The revenue decline in fixed-voice was marginal and is declining as we have been estimating. Fixed non-voice revenues impacted negatively by the pay TV decline but within this segment the fixed broadband sales has been developing positively. But the pay TV decline will continue as the pay TV market overall continues. Again here the pay TV decline has neutral or small margin impacts.

Then looking at the different business segments and starting from the Consumer business. All indicators in the Consumer side were positive. Net sales improved strongly by 2.6%. This is driven by the mobile service revenue and the mobile equipment sales. ARPU increased slightly to €20.5 and the EBITDA improved by 1.5%. The key drivers at the Consumer side for EBITDA were the service revenue growth and operational efficiency improvements. But in Q4 the growth was limited by the high sales and marketing costs as we have been explaining earlier.

On the Corporate side operative result in sales remain close to the reference period. Yet the sales was impacted by fixed-voice decline and the lower sales of the equipment. Corporate ARPU decreased slightly due to the interconnection rate reduction in Q4. Corporate EBITDA was down by 19.2% and the decrease here is coming from the fixed-voice service revenue decline and the higher fixed costs due to the activities that we do in developing the new services.

Capex in the fourth quarter decreased by €13 million or 19% compared to the Q3 and 2017. The Q4 is always a high capex quarter for us but basically based on our planning the capex is now 2018 had been more evenly spread than it was in 2017. The whole year operative capex was around the same level as it was in 2017. And the capex spending last year was mainly targeted into 4G network capacity increases and into network maintenance.

Then looking into the cash flow report, as I said earlier the operating free cash flow was very strong in Q4 and also for the whole year. The whole year cash flow improved by €10 million and the cash conversion itself improved to 52.5%. This is due to the strong EBITDA improvement and the flat capex. The free cash flow to equity itself for the year lowered €47 million. When we comparing the changes to 2017 the decrease is coming from the two areas. One, the higher interest cost that we had during the year is coming from the re-financing of the old bonds and then secondly the network capital negative change of €48 million is also coming from two areas. One, around €20 million is because we had a very high trade payable level at the end of 2017 that was consumed during 2018. And then secondly our sales receivable base increased by more – also by more than €20 million. And here the reason is this positive feeling from our very good mobile equipment sales in Q4 that resulted into this high value of receivables.

Then into the low cost capital structure the cost of capital is decreasing significantly and this is really coming from the help of the refinancing that we have been doing to our loan base during the year. The cost of debt was at 1.34% decreasing further from the level at the Q3 of 1.62% and more from the – more than 2% that we had for whole year last year. The net debt to EBITDA ended at the healthy level of 1.34x and it is basically cost to the same level as we ended the Q3 2018.

Then moving into the proposal for dividends. So the dividend proposal by the Board of Directors is €1.10 per share. This represents two elements. €0.70 is basically the normal pay out and then extra dividend for this €0.40. The €0.70 is 129% of the free cash flow to equity. Then we compare this to the existing dividend distribution policy. The total dividend pay-out for the shareholders in total is €145 million and this represents the pay-out ratio of 6.4%. Then comparing to the sale price at the end of 2018.

We have also update our mid-term financial targets and here we raised the EBITDA margin target to 34% from the previous 32%. The new EBITDA margin target is inclusive of the IFRS 16 impact which we estimate to be around €17 million. The whole of the IFRS 16 impact I will cover in the next slide. Other mid-term financial targets will remain the same as they were before. We have also changed our profit distribution policy. The new policy goal is to pay growing dividend to our shareholders equalling 80-100% of net profit of the fiscal year. And in addition the company may consider the distribution of excess profit to shareholders for the specific financial period. The change in the distribution policy is done to give more stable and predictable view of the yearly profit distribution. And this policy is more commonly used in operator market overall than the policy that we had before.

Then the IFRS 16 impact so we start using the IFRS 16 reporting standard in 2019. Basically the main impact to DNA will be around €17 million improvement into EBITDA on a yearly level. The impact of the IFRS 16 is coming from the long-term leasing contracts of premises, equipment facilities and the leasing of the cars. It will have a positive EBITDA impact of €17million, as explained before and at the same time the depreciation level annually will also increase about the same about of the €17 million. Therefore the EBIT impact itself is minimal. And we estimate the calculation on the financing expense cost of €1 million. Net debt to EBITDA ratio will increase about 0.2x and the capex will have an impact of approximately about €8 million. Although the capex impact here will not be inclusive in the operational capex itself.

Then finally looking at the financial guidance for 2019 and then recap of the mid-term targets and the dividend proposal. Our guidance for 2019 is that the net sales is expected to remain at the same level and EBITDA is expected to increase substantially from 2018 level. And the financial position and liquidity are expected to remain at a healthy level. At the EBITDA guidance the adoption of IFRS 16 has been included and, like I said earlier, it is estimated to have a €17 million positive impact in 2019. And I said earlier the mid-term financial targets all remain the same except the EBITDA margin guidance that we have given has been raised to 34%. And we are basically progressing well in all areas of our targets. Finally, I said earlier, again the dividend proposal for the year is €1.10 per share, representing a 6.4% pay-out ratio from last year results.

Marja Mäkinen
Right, thank you, Jukka and Timo for our presentation and operator we are now ready to take questions from the telephone lines.

Q&A

Operator
Thank you. Ladies and gentlemen, if you have a question for the speakers please press zero one on your telephone keypad. And our first question comes from the line of Simon Coles, Barclays. Please go ahead, your line is open.

Simon Coles
Hi guys, thank you for taking the questions. It's Simon from Barclays. I just wanted to get your take on the competitive environment because we're hearing differing views from the various operators in the market. So I just wanted to hear how you see it's going at the moment and whether you see opportunity for it to improve throughout the year. And then linked to that I was just wondering, how are you thinking about the balance between increasing your net ads versus maintaining ARPU growth? Or are you willing to sacrifice ARPU growth to take more market share? Just wondering how you're thinking about that going forwards? And then if you can link that to the guidance, I guess when you exclude IFRS 16 are you basically implying that EBITDA is flat? And is that because you're unsure in the competitive environment how you're thinking about the EBITDA guidance and the revenue guidance for 2019? Thank you.

Jukka Leinonen

Thank you. When we look about the market situation in Q4 I think that what we can basically say that it was slightly better than what we were expecting. So when we look about the development of the market I think that Q4 2017/Q1 last year we had a very high intensity. It was slightly coming down in Q2 and Q3 and I think that we saw slight improvement in Q4. Of course the competitive environment is still tight but it was better. We saw that the average price in new sale in Q4 was slightly better than what it was in the previous couple of quarters. And I think that also the decrease in churn indicates a slightly improved market conditions.

When we look about the 2019 we are not willing to sacrifice ARPU. Our basic idea really is based on the fact that we don't want to compete with the price. We want to compete with the quality. And we will basically operate at the market price level and we will not be the one who discounts the prices. So we are hoping that we are able to increase the total market value and then we believe that with the high quality networks, high quality customer satisfaction we are able to kind of get the bigger share of that growth in the marketplace.

When we talk about our guidance in EBITDA I said we are basically kind of guiding that 2019 EBITDA will be growing substantially, including the IFRS 16. If we are excluding this €17 million impact from IFRS 16 we still see that the EBITDA will be increasing somewhat from 2018 level.

Simon Coles

That's really clear. Thank you very much.

Operator

And the next question comes from the line Terence Tsui from Morgan Stanley. Please go ahead.

Terence Tsui

Yeah, thank you. I just had a follow-up on the outlook question asked earlier but focusing a bit more on the medium-term. So if you exclude the IFRS 16 benefit effectively your mid-term outlook hasn't really changed because it's worth €17 million or roughly two percentage points. Is it true that your view of the mid-term hasn't really changed since when you last issued the mid-term guidance? And then secondly, I just had another clarification around distributable funds. So maybe if you can give us the level of distributable funds you have today, how it's going to evolve post the dividend payments this year and what that leaves you in terms of the ability to repeat a special dividend for next year and thereafter? Thank you.

Timo Karppinen

Okay. So Timo here. I can take this question. So actually we see it differently. So in terms of the mid-term guidance we increase it to the 34%. The IFRS 16 impact of €17 million would represent about 1.8% improvement there so there is also an organic growth addition that we have included in the mid-term guidance. And the same thing, we have basically said about the mid-term guidance is that we always want to see where we'll land on the whole-year basis before we add on to or change the guidance any further. So we see this as upgrade of our existing guidance.

Then talking about the distributable funds so basically last year was ended around €155 million or €153 million level between that. And now we are distributing this €145 million so that gives some base for the distributable funds for the future. But we have a – and we are – what we can do as well is – and things that we will do during this year is we will – we can do some structural changes in our legal entity status and also some balance sheet kind of changes which will then increase the distributable funds going forward. But this is a kind of action that we can communicate later on – later on this year. But distributable funds going forward in terms of the dividend distribution will not be an issue.

Terence Tsui

Okay, thanks for the clarifications.

Operator

And the next question comes from the line of Panu Laitinmäki from Danske Bank. Please go ahead.

Panu Laitinmäki

Yes, thank you. I would have three questions actually. So first one is about the free cash flow, which was down 40% in reported terms and mainly due to this working capital change. Do you expect it to reverse going into 2019? So do you expect the cash flow to recover? That's the first question.

Timo Karppinen

Okay, so I can take that. I think you are asking about free cash flow to equity.

Panu Laitinmäki

Yes.

Jukka Leinonen

Yeah, so the main change or the main element there is this net working capital change and we have to say that this is kind of somewhat difficult element to estimate because it's related mostly into the – where the capex is spent during the year and how much sort of trade payables we have in our books. But at the same time we also have an impact from the trade receivable side and Q4 last year was a good example of that, when we had extremely strong sales, equipment sales at the end of the Q4. We end up at the end of the quarter with the high trade receivables. Positive in a way.

So in terms of kind of estimating the network changes is somewhat difficult. It's also one of the reasons why we are changing the dividend policy. When looking at kind of rough guidance or rough estimate for 2019 capex spending is more or less will be this year about [inaudible]. The capex spending [inaudible] quarter [inaudible] be seeing [inaudible] not to be [inaudible] question. Then [inaudible] we are [inaudible] going to be in a strong [inaudible] receivable side [inaudible] somewhat. So [inaudible] that will be [inaudible] be improving during the year and probably [inaudible] same levels that we had in 2017.

Panu Laitinmäki

Okay. Thank you. My second question would be a follow-up to the guidance questions. So you are expecting flat sales but somewhat higher EBITDA excluding IFRS things. So could you talk about the drivers for the higher EBITDA? I suppose you see mobile service revenue growing but is that becoming more costly for you? If ARPU is not growing and you are taking market share but you need to spend a bit more on that so how do you see things developing in 2019?

Jukka Leinonen

[Inaudible] into the profitability [inaudible] elements. The other one of course is the kind of mobile service revenue which basically we are expecting to increase also during 2019. We are expecting that we should be able to kind of increase the average ARPU somewhat during 2019. [Inaudible] the ARPU for the mobile broadband services will be [inaudible]. And then of course we are expecting that – we think that we should be able to take market share even though as I said, this is not our main target. So I think that the combination of a slight increase in market and an increase in post-pay ARPU as well as in the mobile broadband ARPU, these are the elements. Our current estimate is that we are targeting for the, let's say, mid-single digit growth in the mobile service revenue. That will have the impact into improving EBITDA.

When we look about the [inaudible] think [inaudible] in terms of the cost side and we still believe that [inaudible] in [inaudible] different type of [inaudible] technologies [inaudible] types of [inaudible]. We have successfully [inaudible] in 2018 with a significant [inaudible] or possibility [inaudible] increase the uses [inaudible] or decreasing the [inaudible]. We're also seeing that the – even though we are [inaudible 46.19] strongly into the multi-access service processes we clearly are seeing that trend-like the customers behaviour is shifting more and more toward online behaviour. Of course, that the transaction cost will be lower. So these are the elements we believe that are going to be able to [inaudible] us to kind of [inaudible] the increasing EBITDA [inaudible] IFRS16 [inaudible].

Marja Mäkinen

Right operator, I think we can take the next question.

Operator

And the next question comes from the line of Artem Beletski from SEB. Please go ahead.

Artem Beletski

Good afternoon. So this is Artem from SEB. The first question was relating to mobile service revenue outlook for 2019. Could you provide some further colour what kind of trend you are expecting there. So you have been mentioning that it's likely to slow down to some extent from 2018 of 6%. Should we expect basically the same run rate what you have been delivering, for example, in Q4 of this year? Then maybe second question is relating to Moi Mobiili acquisition and could you maybe already at this stage provide some colour on what kind of strategy you are planning to apply to this brand. Will it be some type of test lap for new subscription types or what you are planning to do there? And the last one relates to working capital and as Timo mentioned, so you are – it's very difficult to predict what will be the net impact in 2019 but looking at longer-term trend should we expect basically zero changes there? So there are no structural movements going on, on this one.

Jukka Leinonen

Okay, thank you. Starting from this mobile service revenue outlook we are basically believing into the mid-single digit growth in mobile service revenue for the 2019. We clearly are seeing that there are let's say three or even maybe four elements in that. The first one is that we are believing that the upselling into the higher speed, the package deals will be basically supporting the ARPU growth. Secondly we are also seeing that our mobile broadband customers are moving into the higher speeds and we believe that we are able to increase also the mobile broadband ARPU of our customers. Thirdly, we are basically currently in the process of doing some product changes for the low ARPU customers once again, which should be kind of impacting positively into the mobile service revenues starting from Q2 this year. And then I said that we strongly believe that the positive trend we have been having in terms of being able to generate the net additions every quarter we should be able to continue on this one. And all these four elements are basically making us to believe that we are able to kind of achieve this kind of mid-single digit growth in mobile service revenue.

Concerning the Moi Mobiili I'm not willing to open up detailed strategies concerning how to do we use Moi but I think that the general thinking is basically based on the idea that Moi Mobiili is basically almost fully online player, very effective kind of processes that are almost fully automated. And I said earlier when we are looking about general customer behaviour we are clearly seeing that more and more customers are kind of moving towards the online behaviour. And we believe that it also should increase the customer demand for the kind of services provided by the full online player. And that was the core reason for us to basically acquire Moi Mobiili. But otherwise I don't want to comment any more detailed strategy how we are able to use it. And Timo will take the third question.

TImo Karppinen

Okay, I think your question was about the working capital sort of situation going forward in the years to come and basically, yes, we have – this is an area where we have been done some improvement in the past but we clearly see a lot of opportunities of making that – our network capital kind of situation overall to improve in the future. And there are areas which are – when you start like receivable side we think and we know that there are areas that we can make it more effective. Same thing is on kind of our purchasing handling and the payables side. We'll have actually quite a strong improvement potential and overall putting these together with the – going forward there are – there are areas that we can improve. Which means that in the going forward we'll see like an overall improvement in this net working capital situation overall. But of course these are kind of slow to materialise but anyway we see them as a potential to improve.

Then when it comes to kind of yearly changes, as I explained earlier, they are kind of related on how the volumes of sales is going on between the quarters and how the capex is spent etc. Those tend to accumulate more into the fourth quarter and that's why we could have some swings in terms of the net working capital changes. But in short going forward year to come we will see that net working capital position will improve going forward.

Artem Beletski

Okay, very clear. Thank you very much.

Operator

And the next question comes from the line of Peter Nielsen from ABG. Please go ahead.

Peter Nielsen

Thank you. Just a question related to the Corporate business please. By the look of things the Finnish corporate market has worsened somewhat. It's obviously been weak in previous quarters as well but have things decelerated, so to speak, in Q4? Has pricing competition intensified? And why has the [inaudible] to the EBITDA declined? Has the increased marketing spend etc. been particularly noticeable in the Corporate market? And could you please elaborate a bit on your comments about the cost of developing new services impacting the EBITDA margin in the Corporate segment? What services are you talking about here please? Thank you.

Jukka Leinonen

Okay, thank you. All in all when we think about the, let's say, the Q4 development I think that we are not able to see any kind of, let's say, significant changes when we talk about the B2B telephone market in terms of increasing competition. It's been – it's been very – very kind of a high competitive level. I think that it's not been – not been changed from that perspective. In our case we basically had a decline in the kind of revenues that revenues that was mainly related to the decline in interconnection and also decline in the fixed-voice. And also a decline in some of the fixed network device sales which are mainly explaining this declining. So I don't see any significant changes in the kind of overall B2B telephone market. We actually were increasing also our kind of subscribers in mobile, for example, so I don't see any change in that one.

Concerning the EBITDA that was, as said, kind of significantly below from the last year's Q4. One of the main reason was basically that we have a fairly significant amount of cost related to the new service and service platform development. They were mainly related into the certain unified communication voice platforms and related to the systems development. And then we also had some kind of other cost elements which were basically more like landing on the kind of the Q4 for some billed invoicing reasons etc. It was a bit disappointing for us but I think that we are not seeing any, let's say, trend-like changes in terms of the B2B business profitability changing from the previous levels. But that is how we see – basically see the B2B as a whole.

Peter Nielsen

Okay, that's helpful. Thank you.

Operator

And the next question comes from the line of Matti Riikonen from Carnegie. Please go ahead.

Matti Riikonen

Hi, it's Matti, Carnegie. Two questions. First of all related to the market growth, which you say to moderate in 2019. But you also said that you see mid-single digit growth in mobile service revenue and to me that would sound like a kind of better market development that we have seen in 2018. So I was just wondering, if the mobile market you see not so much impact where is – where is the kind of moderating factor in the market? Is it in the fixed or did I perhaps misunderstand what you said a couple of questions ago?

Jukka Leinonen

Okay maybe I'll take this one first. So when we are basically kind of looking about the mobile market as such as you have seen from our figures in our case our kind of yearly level growth was 6.6% but in the first half of the year we were almost over 8% growth and the second half was about almost 5% growth. So when we look about the full year we are expecting that the growth will be more or less from the 6.6% level but we still believe that this kind of mid-single digit is possible. And as I explained earlier that what are the reasons why we believe so and that we have been also discussing earlier we have been seeing a slight improvement in the competitive dynamics along the year. So the Q1 was really bad, Q2 and Q3 were slightly better and now we are seeing that Q4 was somewhat better. So these are the reasons why we believe that it's viable to kind of estimate this mid-single digit growth.

Then when we are looking about the other elements of the service revenue when you are looking about our total service revenue including the kind of mobile and fixed it's fair to say that as you have been seeing over the year in fixed non-voice we have been having a heavy decline over the full year and more than we originally expected in the – in the pay TV. Pay TV will continue to decline, as Timo said earlier, but we are clearly seeing that this decline or rate of decline will be slowing down. So it will not eat so much away from the service revenue growth as a whole. So these are basically the two elements which are kind of affecting to the total service revenue growth. Hope this answered your question.

Matti Riikonen

Yes, thank you. Then the second question is about the measures to keep your existing customers. You said that you were successful in Q4 keeping your customers, showing that the churn was fairly low. I was just wondering that, as it's seen from the numbers that it has cost you to make this happen, does these costs include some one-time elements which are kind of one-off in your Q4 numbers and perhaps the costs of doing that it's not as high going forward? Or is it just that it is shown down the whole line and basically there's no one-time elements in that?

Jukka Leinonen

I think that when we look about the cost in Q4 even typically I think that what we have been seeing is that the Q4 is a very kind of high [inaudible]. This year saw an especially high activity both in Black Friday season as well as the Christmas sales and our performance was actually better than what we were expecting ourselves. And when we are talking about these sales and especially when we talk about the upselling into our own existing customer base we were very successful. It of course means that the costs are basically one-time costs which basically are not kind of any permanence. And as we said earlier, we are basically trying to operate in a way that we would not sacrifice ARPU. We are trying to operate in a way that the kind of the mobile service revenue grows and the market would be growing. And that basically means that these costs are really sales costs and marketing costs which are related to this campaign. They are not automatically carrying forward. And I said earlier we are happy that we were successful in Q4 but we are not expecting that these kind of additional costs would be automatically carrying for the – for the quarters of this year. So from that perspective we are clearly seeing that this kind of cost and these extra sales we saw in Q4 they are basically benefitting the full year of 2019, which is a positive thing from our perspective.

Matti Riikonon

Alright, thank you.

Operator

And the next question comes from the line of Sami Sarkamies from Nordea. Please go ahead.

Sami Sarkamies

Hi, I have two questions. Firstly on [inaudible] segment a bit of a follow-up one. You did have extra development costs in third quarter and fourth quarter. Can you quantify these as the thinking was that they would not be around going forward? And then secondly would you be able to provide colour on the fixed business for this year? You did already discuss pay TV but could you also review the other revenue items as well? Thanks.

Jukka Leinonen

Okay, thanks. For the B2B side, yeah, it's quite true that we have been having kind of the heavy development cycle relating to kind of certain fixed side unified communication and communication service platforms and related BSS systems. We have some kind of new platform development cost on BSS side which were affecting in Q3 and then we had the additional cost related to the BSS plus the kind of service platforms in Q4. These are development costs. They are not kind of the running costs in a way so we should be expecting that this should not continue at that level. And we are almost now finalised with this product development activity. And therefore I think that we should see the improvement compared to the Q3 and Q4 when we go into this 2019.

When we think about the other fixed line items we are quite positive on the consumer fixed broadband. We clearly are seeing a significant growth in the subscribers. Of course at the same time we are seeing that even though we have a fairly small share of the DSL connections typical DSL customer is basically bringing us €25 of ARPU and when we go into the kind of housing association deals it's very clear that especially when we get the new customer who takes basically the basic speed the average ARPU per subscriber versus per household is fairly limited. So we are not seeing any kind of immediate growth in revenues. But the point here basically is that we are strong believers into the kind of a growing demand at the time when customers are starting to use more high quality video content. And we already have been seeing an accelerating growth in the upselling numbers on our fixed base. So we are currently seeing that in 2019 we will have a slight positive revenue development on the consumer fixed broadband.

And then when we look about the kind of Corporate or B2B side on the fixed side there we are basically seeing a slight decline because some of the customers are moving more from the kind of fixed network solutions into the kind of mobile database solutions. And that means that the money moves from the fixed kind of a domain into the mobile domain. But overall when we look about the B2B we are basically expecting a positive revenue development as a whole for 2019 compared to 2018.

Sami Sarkamies
Great, thank you.

Operator
And the last question comes from the line of Roman Arbuzov from JP Morgan. Please go ahead. Please go ahead, Sami.

Marja Mäkinen
Alright, so if Roman is not there on the line anymore I have one question from the online audience regarding our Corporate business and those new products that we have been developing that, when are those investments expected to deliver incremental revenues? And can you also explain the pick-up in employee account – employee count in that segment despite the declining top line?

Jukka Leinonen
Okay, I think that, you know, when we look about the importance of this unified communications platforms it's still related into the many kind of corporate solutions. In Corporate customer segment especially when you go outside the Soho segment most of the customers are basically kind of buying a communications solution where you need to be having a value-added kind of element beside the subscribers. So these solutions are kind of crucial in terms of being competitive in the mid customer segment and larger customers. And we actually are kind of seeing that when we now get these new solutions fully ready and up and running we basically have a possibility to be more competitive on that area. But that's basically the logic behind these new platforms and solutions.

When we talk about the pick-up of the employee numbers that's actually related to this very specific issues. The reason why we are developing these solutions are related to the fact that we have some old legacy communication platforms which basically are starting to be out-dated and we have been having a significant amount of migrations happening where we have been moving customers from old platforms into the new platforms. And these basically are requiring a fairly significant amount of work which has been increasing the number of customer service agents and processing personnel. This is temporary so when we basically have done the migrations through, we will be able to kind of get back into the declining employee numbers. So this is – these elements are related to the same kind of issue in a sense.

Operator
And we have one last question from Roman Arbuzov. Please go ahead, Roman.

Roman Arbuzov
Yeah, hello, can you hear me now?

Jukka Leinonen
Yes, we can.

Marja Makinen
Yes.

Roman Arbuzov
Yeah, great. I just wanted to go back to the competition, please. So on the competitive environment, right, I mean, you're putting forward a relatively positive message, right? You're saying that you care about the overall size of the market and you're pretty much focused on your own customers and retention activities and upselling, as opposed to grabbing market share. But yet if you look at, you know, the reaction of your competitors, so you know, Elisa has reported yesterday they're guiding to – you know, they're guiding to EBITDA problems in Q1. And they don't specify, you know, exactly what's going to drive this but one interpretation is they're gearing for a fight back to your retention and upselling activities that they've witnessed in Q4, right?

And also if you look at the overall market dynamics, you know, you're the only ones who are posting large and consecutive and consistent, you know, positive net adds in the market, both internal or organic basis, and Elisa has posted negative net adds, which is also maybe not a very healthy situation. So just in terms of – in terms of the competitive environment it does feel like although the attention has shifted away from service revenue and service revenue is holding up well, but isn't – you know, isn't competing on retention and with sales and marketing isn't it just another element of competition? And isn't competition still fairly rough? And I guess, you know, within that context I just was hoping if you could give us some, you know, concrete examples or real world examples of what happens on the ground and how do you retain and upsell your customers using sales and marketing expenditure? Because historically, right – historically this was all done through ARPU and impacted mobile service revenues, you know. To keep your customer you would give him a discount but kind of you don't do that anymore. So what do you do? I mean, do you give people free things? And did you only do it when they kind of attempt to leave or do you do it proactively when customers are coming to the end of their contract? So if you just give us kind of some colour please in terms of what's changed, you know. How is it that we went from price competition to competing on something else? And what is that something else please in terms of how, you know, it exactly impacts the numbers?

And also within that I was just hoping if you could give us some colour on January, you know? Elisa talked about EBITDA Q1 problems so are you already seeing a step-up from their side and kind of, you know, what would you think about that? Are you – are you still fighting hard and retaining and upselling your customers in Q1 – in January as much as you did in Q4, please? Thank you.

Jukka Leinonen

Okay, thank you. A lot of questions. First of all I think that – I think that you are totally right, the competition is hard. So I'm not kind of saying that it would not be hard. I think that it's hard but what I'm basically saying that when I compare 2018 we had a very, very aggressive campaign level and the average ARPU for the new sales was very low in Q1. We saw certain improvement in Q2 which continued over the Q3 and now when we look about the hard facts from Q4 we clearly saw that the average kind of selling price for the customers was again a bit higher than what it was in Q2 and Q3. So I'm not saying that it's easy. It's not kind of a low competition but it has been improving over the year. So that's one thing.

Secondly, I think that I understand your point when you are basically kind of asking that how do we – how do we kind of approach our customers. But I have to say that I don't necessarily want to go into very much details because I'm sure that there are in the audience also some people from the competitors here. But what I can say, for example, that if you look about this intensified competition it's been mainly happening in Consumer segment where there is a lot of campaigning going on. If you look about our figures, for example, in Q4 you saw that we were basically able to take significant amount of net additions in mobile and our Consumer ARPU was increasing from €20.4 to €20.5. So it simply cannot mean that we have been kind of giving to customers the discounts. I think that the customers are happily becoming DNA customers because of the high quality and the reputation we have in the marketplace. It is true of course that when we are basically doing the upselling and cross-selling there's always a kind of a mix of different type of elements from the kind of a sales commissions into the certain type of device discounts or vouchers. But I think that what we can say basically is that during the Q4 we have not been using any kind of excessive element in our sales. It's more that we have been able to kind of perform much better in terms of the quantity of the upselling numbers than we were anticipating. And that has been then of course leading to those situations that the overall cost were kind of higher than what we were basically originally forecasting.

So I still speak very strongly with our message that we are basically believing that we can win the customers' minds and hearts with the good quality, good service and we operate at the market prices. And we do everything we can to kind of support the overall kind of value creation on the total mobile service market.

Roman Arbuzov

And just on Elisa's, you know, observation on sort of competitive behaviour in January? Do you see any step-up on that side? And also from your side are you – are you still experiencing this outperformance on upselling and retention in January?

Timo Karppinen

Okay, I can take this. So all we can say that in January actually has been quite calm and kind of continuation from the Q4 area. So we didn't see any exceptional over there. And of course we don't comment on the competitor issues at all.

Jukka Leinonen

Maybe one thing I can basically say is that I was actually referring earlier in one of the questions that we are also kind of starting to do some product changes, especially in low ARPU market. And traditionally, as you all know, when you are basically into these kind of activities basically it will mean that the churn will be picking up but the overall mobile service revenue impact is positive. So we are basically expecting that in Q1 we probably have some kind of effect on increasing churn because of these activities. But as I was saying earlier, we are strongly believing that they will be then benefitting for the mobile service revenue growth starting from Q2 forward.

Roman Arbuzov

Alright. That's very good. Can I just have one quick one on the cash flow? By the way, there was already a question on equity free cash flow earlier but I believe the line was actually very bad so about half of the answer was not audible. And there was also a question later on working capital but I just wanted to double-check that I grasped the essence of what you're saying correctly. And the way I understood what you're saying on working capital and equity free cash flow is that we shouldn't expect a quick rebound in 2019. Yes, you do expect working capital to improve but gradually and, you know, the €50 million that we've essentially missed in terms of, you know, your free cash flow and as a result we had a €50 million high in net debt at the end of 2018, you know, there is no quick reversal of this. This is just a re-basement, a permanent re-basement of your working capital kind of intensity levels. And then from then on it will improve but kind of no big swings, right?

Timo Karppinen

I think you are – you probably missed some of it. So what we can say is that there was a big miss in 2018 and the main reason there is this is how things accumulated in the Q4. But we don't see this to happen again in 2019. So overall there are two things. If you look at how 2019 will develop so we'll see most likely an improvement to the network cash flow to equity level. And then going forward how this network capital overall is progressing, there we are – I say that we see potential that net working capital itself to improve as we go forward in the coming year. So clearly we'll see that the trend of net working capital changes to improve and actually free cash flow to equity to improve as well.

Roman Arbuzov

Okay, alright. Thank you very much. I appreciate it.

Marja Mäkinen

Okay, thank you everybody for your questions and thank you Jukka and Timo. This concludes our conference call today. Next results publication is for DNA's January-March interim report on 25th April. Thank you once again and have a good weekend.