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DNA.HE - Q3 2017 DNA Oyj Earnings Call

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PRESENTATION

Operator

Good day, and welcome to the DNA Financial Statements Q3 2017 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Marja Mäkinen. Please go ahead, Madame.

Marja Mäkinen

Thank you, operator, and good afternoon to everybody. So this is Marja Mäkinen from DNA Investor Relations, and I would like to welcome you all to this conference call regarding DNA's January-September 2017 results. With me here are DNA's CEO, Jukka Leinonen; and CFO, Timo Karppinen. And Jukka and Timo will go through the results presentation, which can be found on our investor website.

And just to remind you, we will be making forward-looking statements during the presentation and, therefore, we have a disclaimer on the second page of the presentation. And after the presentation, Jukka and Timo will answer your questions.

So please, Jukka, we are now ready to start.

Jukka Leinonen - *DNA Oyj - CEO and President*

Thank you, Marja. Good afternoon, everybody. This is Jukka Leinonen, CEO for DNA. So I'm going to go through today highlights of the third quarter results, also the operational KPIs. We'll also talk about the launch of our DNA TV-hubi, which is one of the value-added services for the Consumer Customer space and then go through, once more, the DNA strategic objectives. Timo will then go through the financial review in more detail.

So if you basically start from Page 5, we can say that the third quarter, from the sales perspective, was fairly even. We had a slight decrease in overall revenues. Main reason for this decline was the lack of device sales because the comparison period last year was exceptionally high.

When it comes to the service revenues, we had a slight increase there. And behind this slight increase, we can see that we had a significant increase in mobile service revenues. But then due to the fact that we made some changes into our antenna DTT pay-TV delivery capabilities, we were having the -- a decline in the antenna DTT pay-TV the revenues, so that the total service revenues were slightly higher than in the last year's period.

When we look about the profitability, the development was very, very, nice. We actually were able to improve the EBITDA more than 9% from the last year's reference period. This was mainly to do with the fact that the service revenues were higher, which basically is hitting a very nice level in terms of the profitability, but it was also partly to do with the fact that we have been able to see that our modern network platforms are very cost effective and we are able to have significant savings on to OpEx in terms of the network operations.

Comparable operating results were increasing 10.1%, and we basically see that the operating result, as a percentage of sales, was actually 17%, which is a very satisfactory result.

When we look about the key operational KPIs, we can also say that most of those were a very positive development. Revenue per user for mobile communications was increasing almost 5% to the level of 18.5%. We also had the mobile subscription base growing more than 2% and we had 59,000 more subscribers compared to the years -- last year's results.

Also on the fixed side, we clearly saw the growth in fixed subscription the overall growth of 15,000. But when we look about the details, we can see that the most important subscriptions from fixed side, meaning the fixed broadband connections and cable TV connections, were up to the 26,000. So all in all, very positive development of the main KPIs.

The only area where we saw some negative development was the CHURN, which was increased to 19.1 percentage points, and that was actually to do with the intensified competition during Q3. In our case, we actually had also the price increase of the paper bills, which was then adding some of that CHURN, so it was not all due to this competitive situation. But all in all, we are very satisfied with the development of the KPIs, especially if we look about the intensified competition on the Finnish market during Q4 -- Q3.

If we go to the Page 6, there you can see the longer-term development of net sales, EBITDA, operative CapEx and cash flows. And as you can see, we have a very steady development in the revenues and especially in the EBITDA. CapEx level on the Q3 were quite low, but we are still seeing that we will have an increasing CapEx during the fourth quarter so that we will, on a yearly level, be slightly below the level of 2016 in terms of the operative CapEx. But of course, good development in EBITDA, low level of CapEx was leading to the very nice operative cash flows, as you can see from the Page 6 down, right corner.

Then if we go to the Page 7 and we look about the overall development of the business during first 9 months of this year, net sales were growing 2.8%; comparable EBITDA was up 8.7%; operative free cash flow, up at more than 34%; net debt per EBITDA, when we are using the rolling 12-month EBITDA figure, was 1.17, which is exceptionally low and the line item was the same level than earlier.

When we look about the subscriptions, we were able to increase the mobile communication subscriptions by 59,000 compared to the last year; fixed network, totally up 15,000; and especially, as I said, fixed broadband and cable TV subscriptions, up 26,000 from last year's third quarter.

On 9 months average, the mobile CHURN was 18.4%, which is slightly higher than on previous year, and that is reflecting the competitive situation what had been seeing intensified along this whole year so far.

On Page 8, we can see a longer-term development in terms of the subscriptions. And as you can see, in all of these growth areas, mobile, fixed broadband, cable TV, we are seeing a steady, continuous growth quarter-by-quarter, which still is continuing. On fixed voice, we are seeing the decline, which is exactly according to the expectations we have been reporting earlier. So I think that the performance of the company seems to be continuing in a very steady pace going forward.

On Page 9 when we look about the mobile network subscriptions in more detail, you can see that even though the total increase in mobile subscription numbers was 59,000, the important thing is to notice that we had the 97,000 increase in postpaid. And as you know, the average ARPU of postpaid is almost 4x higher than prepaid. So this actually is a significant structural change and improves our mobile service revenues.

When we look about the growth in terms of the business segment. From years -- last year's third quarter, we basically have been coming down 21,000 subscriptions in Consumer Business, which is related to the intensified competition and also to our decision in first quarter not to reply into the different campaigns from the competition, which now is a case that we are replying.

But on Corporate side, we are seeing a significant growth, so during last 12 months, we have been increasing our mobile subscribers on Corporate segment by 81,000, which is very significant growth, and we are very, very satisfied with that figure.

When we look about the latest changes in the market from Q2 to Q3, there, we can happily say that we have been very successful in this very competitive environment, and we have been able to increase 22,000 new subscribers on Corporate segment and 14,000 new subscribers on Consumer segment. So basically, I think that we can clearly say that even though the competition has been intensified, we have been able to continue the growth of the company. And as you can see from the EBITDA development, we have been able to do it with profitable growth approach and not paying too much for defending our customer base and growing the number of customers.

On Page 10, you can see the development of the utilization rate of the mobile broadband and smartphone penetration. And there, you can see that we are still growing in terms of smartphone penetration, which currently is at the level of 72%. So we are still seeing that there's significant potential for the penetration to increase which, of course, gives more room into the future growth, since the demand for the mobile data-driven subscriptions is increasing because of this penetration increase in the years to come.

On Page 11, you can see the development of mobile data traffic in our network and the fairly significant growth is continuing. During last 12 months, we have seen 70% growth in mobile, in 4G mobile data. The overall total growth in mobile data has been at the level of 53%. So we are now starting to see that the relative growth is starting to be slightly lower than earlier. But in absolute numbers, we are still seeing a significant growth in terms of the gigabytes.

Effectively, if you are looking the number of subscribers in Q3 and the data amount we are transferring, that effectively means that the average data amount per subscriber is more than 16 gigabytes per month in Q3, which is a significant number.

Then on Page 12, when we look about the ARPU development. We had a very nice development from the last year's figures. ARPU was up 1.5% on a yearly base. And 4G subscription base was currently about 52.3% from the handset market. So we still have almost half of the customers to be migrated into 4G. So we can still expect that there would be huge growth opportunities in terms of the mobile service revenues when the migration and the penetration of 4G subscription go forward.

As discussed earlier, the total growth was 59,000 subscribers. And then we had this slightly elevated CHURN in Q3, where the CHURN was increased to the level of 19.1%. And as I was explaining earlier, major part of this growth is due to the intensified competition, but we also had some part of the growth in CHURN related to the increase of paper bill charges which was leading to the termination of some low use or unused subscriptions in the customer base.

Then on Page 13, when we look about the fixed side, there you can see that the fixed broadband subscribers has been increasing steadily in the same way than in the last quarter, from last couple of years. Same thing happened in cable TV subscriptions. So we are very happy with the performance there because we clearly see that the future growth will be coming from data, and it's going to be both in mobile data and the fixed data, and it's very important to grow the customer base also on the fixed side.

As I was telling earlier, our service revenue growth was quite modest in Q3. And even though we had a very nice mobile service revenue growth, we basically had a significant decline in fixed nonvoice service revenues. That was, in all aspects, fully to do with the fact that we were making changes in our DTT transmission coverage area, as we were reporting after the Q2. And this was leading to the situation that we had to terminate the pay-TV contracts from several tens of thousands of customers, which basically declines our revenues.

But the important thing is that this was a company-driven decision and, from the profitability perspective, this is increasing our profitability. So we see that this is a decision which was sensible to be made.

On Page 14, we are clearly seeing that the importance of different types of video services, entertainment services is becoming more and more important. And one of the major release and launches we made during Q3 was the release of DNA TV-hubi, which basically is the new generation Android TV based digital set-top box, which basically is combining the set-top box features, online applications, games, music, easy-to-use entertainment systems. And we believe that this actually is a very important launch in terms of improving our position in the future when it comes to the overall customer experience, combining the connectivity services on both mobile and fixed as well as the entertainment services.

The sales of the device has been very promising, and we are very happy with the start of the sales after the launch.

On Page 15, I'm just repeating these 4 pillars which are on the basis of our operations which will be also the continuation of our operations. We really believe that the personnel is a very important element in terms of supporting the best customer experience. We also are committed to make sure that we have a great experience for our customers when they're using our services, both on mobile network side and fixed network side. We are heavily investing into the modern IT systems, data analytics capabilities; online capabilities are becoming more and more important, not only to increase the amount and effectiveness of cross-selling and upselling, but also improving the very personalized customer experience in different channels.

And finally, we think that being a challenger brings a certain benefit into marketplace. Our culture is based on speed, it's based on cost effectiveness, and I think that customers are really appreciating this way of operations when we go forward.

Then on next page, you see again our core corporate-level targets, KPIs, more satisfied Consumer and Corporate customers, DNA as being a great employer, industry-leading financial development in terms of the relative development and faster than market average growth. And I think that we can say in all of these aspects, we have been progressing very nicely, and we are very happy with the results after the first 9 months of this year.

Market outlook, no changes to the Q2 results, so I'm not going to go through those right now. Economy seems quite nice, and I think that this is boosting the business for the whole market, and we see that this is one of the areas which has been safe since the last few years, where we had this long-term recession in the Finnish marketplace. So -- also the macroeconomic situation seems very positive, and it will be supporting the future development of the business.

So now I'm going to hand over to Timo Karppinen, CFO, who will go through the financial review in more detail. Timo, please.

Timo Karppinen - *DNA Oyj - CFO*

Hi, good afternoon also from my part. So let's start from -- going through the financials. So it starts on the Page 19, which is sort of giving the summary of the key financials.

So in Q3, really -- and again a -- and a continuation of that we have a strong momentum in profitability increases and then -- and also increases in the cash flow.

On the net sales side, I will go through the -- more of the details in the next slide. When we talk about the EBITDA, so the EBITDA itself, on a comparable level, improved this 2.3%. And we actually became happy that now the comparable EBITDA margin reached one of the highest levels that we have had in the history of DNA of this 33.2%.

Really on behind of the EBITDA improvement are the 2 main things, which is that the improvement and increases in the service revenues and there, especially, the mobile service revenues; and then our continuation on the operational efficiencies as we go, which we get out from the service revenue sales.

And in more detail on the operational efficiencies, the operative leverage is improving all the time, but then second, other item is our -- this 4G network cost efficiency, which we get out from the fact that the 4G network rollout completed last year. And now this year, we see clearly an improvement in all areas actually in the network, whether it's in our own or on a joint operation site.

Then when it comes down to the -- this comparable operating results, there, the further -- or the benefit is coming from the fact that our depreciation in Q3 was EUR 1.7 million lower than it was in Q3 last year. So -- and this is then sort of getting further improvement into the operating results. And this decrease -- so that decrease in the depreciation is coming from the fact that we have certain items in our fixed network where the full depreciation is completed and, therefore, we will see the depreciation level also for the whole second half of this year to be lower than what we had in 2016.

So -- and then it comes down to the operative CapEx. So there, we really are at a lot lower level than we had a year ago, almost 9 -- or more than 19% less than Q4 -- Q3 2016. And there, the reasons are that in operative CapEx overall will be -- so there's a reduction in the spending because we are now in a capacity increase more rather than network building. But actually, mainly the reduction is simply from the fact that from the booking and timing issues of the CapEx that we have not actually -- rolling out the capacity increase in the network as planned, but there are certain issues when we book those CapEx into our books and when those are activated to be used. But here, we can say that in the operative CapEx level, overall, in Q4 will be higher than we were in 2016, which will then result that as a whole year, our operative CapEx will be few million lower than we had in 2016. So all of this extremely good result that we have on profit side and then lower CapEx then is leading to the fact that this operating free cash flow is at a high level, which is then improving also the fact that our net debt levels are now decreasing. But I will cover more in detail of this net debt situation in further slides.

So let's move on to the Slide #20. So here, we then give you the split of the sales elements. So here, the key thing is that in our mobile service, revenue continue to grow. In Q3, the growth was this 9.4%, which is then again continuation of this sort of strong growth that we have had over the last few quarters and actually over the last couple of years. And the main reason there is this 4G migration, which is continuing to go as we planned. And there are -- this is bringing the ARPU increases, which it was this 4.5% compared to the year ago.

Right now, our sort of mobile postpaid 4G base is now more than 52% and this was roughly about 2% increase compared to the end of Q2.

Then on other element, like Jukka already highlighted, the fixed nonvoice rate was reduced in Q3 compared to the year ago. And there, the main reason is this pay-TV sale, which was impacted by this geographical coverage decrease from about 100% coverage to up -- down to 80% coverage. And there, we lost a few tens of thousands of customers, pay-TV customers. But those -- also the cost side of those were reduced. So overall, that had basically no or actually positive margin impact. But the underlying -- the other key element there is fixed broadband sales, we actually had a small growth compared to the year ago.

And then third element is the mobile equipment sales, which we -- actually was in a good level in Q3 this year, but in a year ago, we had an unusually high sales in it for many reasons, where perhaps the main one was that there was this Pokémon application or game trending in Finland at the time, and that resulted that the terminal sales was extremely high. And also, we had a very good year overall a year ago. So the comparing quarter was high but, in this year, we saw a reduction in overall sales.

Then other items, when it comes down to fixed voice or mobile interconnection revenues, those continued to decline, as we have been saying and actually exactly according to our estimates.

Then on Page 21 is the split of our 2 divisions. And if you start on the Consumer side, again, there the net sales was impacted by the -- negatively on the mobile sales. But on the positive side, the service revenue continued to increase. And there, the mobile service revenue especially is the one that is growing fast and according to our plans. There, you can see that the revenue per user, ARPU improvement again was quite significant of this 6.9%, resulting of more than EUR 20 of ARPU on the Consumer side.

On EBITDA level, the consumer EBITDA improved this 7.1%, and there the reasons are this service revenue part of the revenue's growing and then improved operational efficiency overall.

On the Corporate side, the net sales were flat. And there, the positive impact came from the increase of the mobile subscriptions. And then on the downside was this interconnection revenue decline and also somewhat on this antenna rental business decline, as we have explained earlier this year.

On a comparable EBITDA side, especially this cost efficiency that we get from the network platforms has improved the EBITDA also on the corporate side and the fact that these mobile subscriptions are increasing.

We had -- on a year ago in Q3, we had a reduction on the provision for unused premises, which was some -- actually over 2 -- actually, it was EUR 2.4 million a year ago, which then if you take that impact out, we would have had the comparable EBITDA on the Corporate Business flat or actually a bit more than what the Q3 last year.

Then on the Page 22 is a certain highlight and summary of the capital expenditure side. So like said, the CapExs are now, and has been actually all this year, at the lower level than it was a year ago. And this is mainly on the issue that those major items of our network capacity increase expansion; and timing-wise, we will seek more towards Q4. And like I said, we will see an increase in Q4 which will be then resulting to the fact that, overall, this year, our operative CapEx will be a few million lower than it was in 2016.

And also the sales ratio of operative CapEx to sales will be somewhat lower than it was in 2016.

Then on this free cash flow to equity on the Page 23. Here, the whole sort of first 9 months of the year is -- and the direction that we are all going, it's been -- perhaps in Q3 was unusually high. But anyway, there, we have like said, the comparable EBITDA continued to grow as we have been planning. But on the operative CapEx side, we are somewhat behind of our plans or actually in -- booking wise, so this is resulting that our operating free cash flow is at the very high levels and a bit unusually high level because of the -- on the CapEx levels overall being somewhat behind.

But then other items which are impacting the free cash flow to equities are these taxes which are, this year, will be higher as we have kind of used the previous tax credit that we have had and we go, as we have been saying, into the normal level of paying taxes. So this year, we'll see the taxes to grow.

But then on the other side, our net working capital is, especially in Q3, saw a quite significant reduction. And this is -- main reason there is that we have ongoing and kind of long-term actions towards improving our net working capital. And now we start seeing those actions to come into working well and bringing really good results. And that this is then showing already in Q3. And for the whole year, our sort of net working capital change is zero, which is then leading to the fact that free cash flow to equity is at a very high level in Q3.

If you look that on where we're going to end up in whole year 2017 is the fact that in the EBITDA, we'll continue to grow. CapEx level will grow as well. And then on taxes, we'll be a bit higher. But on network capital side, we should see in a positive trend, which then lead to the fact that this free cash flow to equity for the year will be at least higher -- about EUR 100 million. But we don't know exact number as we speak now. But anyway, will be bigger than it was a year ago.

Our capital structure, again, there we see a quite significant reduction into our net debt levels and especially the net debt to EBITDA, so we are now at 1.17. And there, the main 3 reasons is the high profitability that we have had all year, and the low CapEx levels that we have had all this year and then thirdly, this network capital improvement, like I explained earlier. So this is then resulting that the debt level are lowest than we had for 4 years. And this -- I will estimate that because of this operative CapEx increase in Q4, we should end up the year somewhere around 1.2 or a little bit higher than that.

Finally, and the last slide is this Slide 25, so talking about the objectives and -- financial objectives and the policy. So like Jukka said earlier, we announced a week ago that our -- the guidance for this year was revised up. So right now, we still see the net sales to remain at the same level, but the operating results, our comparable operating results, we expect that to improve substantially this year compared to last year. And there, the main reason for this increase in guidance is coming from the fact that we had an excellent first half and now we have better visibility on the second half results, which then gave a reason to increase the guidance. The midterm objectives remain unchanged.

And that's it. We are now ready for any questions.

Marja Mäkinen

Yes, thank you, Jukka and Timo. And operator, we are now ready to take questions from the telephone lines.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from Simon Coles of Barclays.

Simon Coles - *Barclays PLC, Research Division - Research Analyst*

So I guess there's been a lot of talk about competition in Finland this week. I was hoping you could give us a bit more color on what you're seeing on that front. And then I guess you've seen your competitors post higher churn than you've reported today. Could you give us any color on why you've been able to retain customers better than your peers in the market?

Jukka Leinonen - *DNA Oyj - CEO and President*

Okay. If I take first the competition question, yes, I think that's it's been very clear that the competition has been intensified going back to Q3 mainly on the external channels. We have been seeing a higher commissions paid for the external channels and we have been also seeing this device discount vouchers for the end users which, of course, is then causing some extra cost for this -- for the operators when they are selling kind of subscribers, with the customers. I think that if we look about the subscription development of DNA and also the others who have been providing their results from the Q3, we have been quite successful there so we are very satisfied with the Q3 results. I think that it's fair to say that we have seen different types of campaigns coming -- going from most of our competitors. But if you look about Q3, I think that it's fair to say that it's been fairly up, it's been more aggressive on that front during the last couple of months. Our strategy has been to basically match whatever offers are coming from our competitions towards our customers. And I think that we have been very successfully defending our customer base, which basically is one of the reasons that the CHURN of DNA is lower than the churn of the competition. I think that the other reason for the lower CHURN is related to the fact that, since last summer, we have been mainly trying to kind of put preemptive efforts into defending our existing customer base. We have been very actively contacting our customers. We have been launching initiatives where our existing customers have a possibility to purchase new devices, new mobile phones at a slightly lower cost than what is the market price. And this has been leading to the situation that we have been seeing increasing customer satisfaction. But we have been also seeing fairly significant positive results in terms of upselling and cross-selling results. So I would say that the competition is fierce, but I think that the fact that we have been successful not going up or exceeding any offers what the competition has been made, but matching those and mainly concentrating into defending our existing customer base proactively, it's showing that our basic strategy, which is based on excellent customer experience in terms of the network quality and excellent customer experience in terms of the customer interactions, whether we talk about the sales or whether we talk about the deliveries or whether we talk about any other processes, that's the best way to kind of keep the customers happy. And I think that this is a very sound strategy, and we believe that we will be also able to defend our customers in the future by continuing this very, very kind of a clear strategy, which is based on the customer experience and getting -- making sure that the network quality is at the high level. I think that this is maybe my comments, the competition have also lower churn figures.

Operator

Our next question comes from Terence Tsui of Morgan Stanley.

Terence Mun-Sion Tsui - *Morgan Stanley, Research Division - VP*

Just to follow up on the question about the competitive landscape, I'm just wondering whether you see any risk that some of the aggressive nature that you're seeing in the third-party channels spills over onto some of the website prices, which have, so far, been pretty stable over the last couple of years? And then my second question was just on the financials. Obviously, the EBITDA margin is pretty solid for the first 9 months at 32%. Can you talk about some of the cost initiatives that you've been working on and whether you see the potential to expand the margin over time?

Jukka Leinonen - *DNA Oyj - CEO and President*

Okay, I'll take the first one, and Timo will continue on the latter question. When it comes to the competition at the marketplace, I think that it seems to be that all the initiatives and campaigns what we have seen on the market are now related into the increased kind of channel commissions and also some discount vouchers towards the end-user customers, whether it's the mobile phones or other devices. But we have not seen any indication that there would be any kind of subsidies towards the service prices or we have not seen any indications that any of the competitors would be kind of going into discounting the actual subscription service prices. So at least, I think that it seems to me that the market reacts from that perspective very rationally. Everybody sees that there is a great potential in this 4G upgrade and migration. And there is no sales in terms of discounting the service prices. So I'm not seeing any indications, I'm not afraid that this kind of development would be probable when going forward. So if this situation will continue, I think that it will continue based on the similar logic, what we have been seeing earlier this year, meaning discount vouchers and maybe the higher commissions. But Timo, if you take the question about the EBITDA and cost-efficiency measures?

Timo Karppinen - *DNA Oyj - CFO*

Yes, okay. So we're now at the first 3 quarters of the year, so we now reached the EBITDA margin of this 31.6% on comparable level. Given it's, of course, for the whole year, remember that the Q4 always is, on a margin-wise, the lowest because of the high spending that will come because of the Christmas sale. But overall, this is -- the EBITDA margin improvement is basically on a very solid trend that we have with this, all the time coming from the fact that the service sales or part of our sales continue to increase. And that is bringing all the time more and more the operative leverage; actually to the whole organization, but mostly into the sales, marketing and our network site. And there, we see that the margin improvement continue to come and grow as the service sales continues to grow. And kind of other additional examples of what the operative leverage is improving, here, we see that the one element is now the -- from the network side, like said, we will see a big improvement on the 4G network; that when the whole network was transformed into 4G technology, we see there significant reduction in electric cost, maintenance cost and overall efficiency. That's one element. And then on the IT side, we are ongoing on IT transformation, which then bring us sort of additional savings when it comes down to the kind of automating certain sales or marketing or after-sales activities. So I think, overall, the margin improvement will come from the fact where the operative leverage improves and we see the margin expansion going forward in the future.

Operator

Our next question comes from Peter Nielsen of ABG.

Peter-Kurt Nielsen - *ABG Sundal Collier Holding ASA, Research Division - Lead Analyst*

I've got a few, please. Sorry to press the same point, but I just want to make sure I understand you. You've given good comments on why the CHURN is up and the competitive environment issue. You are saying that CHURN will remain at a higher level in Q4. Is the correct interpretation that you haven't seen any changes to the things you've been discussing yet, at least yet in Q4? The situation is unchanged? And secondly, you've obviously been very strong in terms of net adds within the corporate segment. I think I've asked you this before. Is there anything -- you're obviously coming from a smaller base, but is there anything you want to highlight why you seem to have good momentum within the corporate market? And just interested on the new TV-hubi, I understand this is early days, but is there any change to the economics from your point, positive or negative, with the new TV-hubi? Sort of medium, long term, how do you see this development -- developing on the business model from your side of things?

Jukka Leinonen - *DNA Oyj - CEO and President*

Okay. If I'll first take this competitive environment issue. I think that after the Q2 presentation, I was commenting that we are seeing some slight signs that the competitive situation could be easing up. Let's put it this way, that we are hoping that, that will happen because I think that from the industry perspective, this current situation is not benefiting anybody in the sense that we are all paying kind of higher commissions and giving extra kind of discounts to the customers by device fees. And as we can see from the results, nothing changes in terms of the market sales. So I think that it doesn't make any sense. But when it comes to the view, we are prepared, as we have been stating also in our kind of a message, that this intensified competition might continue for the Q4. So we are prepared to this one. But of course, we are hoping that it would be starting to --

starting to ease up. So far, after a couple of weeks in this last quarter, I can't say that we would have been seeing any significant changes in the situation. But we are hoping that the situation would be easing up, especially when we saw some of the comments that also the competition is seeing that there is extra costs, which, of course, is not benefiting anybody. So that may be about the competitive situation. When it comes to the net adds in Corporate Business, indeed, we are extremely happy with our performance on the Corporate segment. And I think that your point that we are having a significantly lower markets in B2B area helps us in this kind of situation. It's always easier to kind of increase the base when you are coming from the kind of [front-end] position. Maybe the other element, what we could actually say, is that we have been working with our kind of a new communication services platform. And I think that the significant element in terms of this increase is that we are having the very competitive solutions currently on the market in terms of the new customer acquisitions. And this is another reason why we see that there is a significant increase in the subscriber numbers. Then when it comes to the DNA TV-hubi, I think that this is kind of a very logical step in our strategy, which is based on the logic that customers should be able to select whatever content they want, whether it's traditional pay-TV, whether it's the video library services, whether it's game or anything else. And I think that we are really trying to create services which are creating value for the end users in terms of the end-to-end customer experience. And I think that DNA TV-hubi is an excellent example of this kind of strategy, where we can combine the traditional pay-TV, IPTV. We can combine the OTT video library services. But also, we are able to combine whatever Android applications there is in the app store or Google Play store. I think that from a marketing perspective, DNA TV-hubi, as such, is not changing anything, but I think that it's fair to say that when we are seeing the consumption moving slowly from the traditional pay-TV packages into the different types of OTT or video services, it will, of course, means that the content margin will be slightly lower for the operators. But we have to remember that when we talk about DNA's perspective, we are looking this kind of pay-TV or paid content business as a total business case. And we are seeing that those customers who are our DNA TV customers have a significant lower churn, because they are using our services more. And secondly, we are also seeing that those customers who are heavy users of DNA TV services, they typically buy higher-speed mobile broadband and fixed broadband services, so we have a higher ARPU. So all in all, we are seeing this launch as a every important step, both in terms of managing the CHURN, creating more value from our customers, but also increasing the revenues via this element I was mentioning. Hopefully, this answered your question.

Operator

(Operator Instructions) The next question comes from Sami Sarkamies of Nordea.

Sami Sarkamies - *Nordea Markets, Research Division - Senior Analyst of TMT*

I have a couple of questions. Firstly, I would still want to continue on the competitive landscape [D paid]. My question there is that are you willing or planning to change your behavior, one way or another, in order to sort of ease or facilitate easing of the competitive landscape? Because judging from postpaid net adds, you've been actually quite successful and may have triggered counter actions at your rivals.

Jukka Leinonen - *DNA Oyj - CEO and President*

I think that what we have basically said is that from day 1 when this intensified competition started early this year, we have never been the first one to kind of initiate any elevated commission increases to the external channels or giving vouchers. As you remember, during Q1, we were the only operator who basically stated very clearly that we are not going to respond. And we did not respond for 3 months, which led to the situation that we lost 20,000 customers in Q1. After that, when we saw that the competition continued, let's say, aggressive attacks to our customer base, we changed our strategy, and we stated very clearly that we are replying 1:1 to whatever comes to our customers, but we are not exceeding anything. So I think that maybe my answer to you, Sami, would be that I think that our strategy is such that we are not the one who will be basically giving new benefits for the external channels or new benefits for the customers. But if somebody's attacking our customer base by giving these, we will be replying 1:1. And I think that as we saw in Q3, the end result will be that nothing changes, everybody just pays more. And I think that doesn't benefit any of us in the operator scheme. So I think that this is very clearly our strategy. We want to see that the competitive situation will be easing up. But we already in Q1 were the one who actually tried to kind of turn it down. And now we are in a situation that we basically are committed that we are not initiating any new activities, but we will respond if somebody goes towards our customers. And as I was saying earlier, we are -- mainly now our own activities are targeted proactively to our existing customer base. So we are contacting our existing customers. We have been creating programs where our existing customers can basically get some valuable benefits in terms of being able to buy new mobile phones at slightly discounted prices. And we see that this has been increasing the customer satisfaction. It's been also a very good way to encourage customers to buy more in terms of the cross-selling and upselling. And I think that this is our main activity of our own, otherwise, we are just defending.

Sami Sarkamies - *Nordea Markets, Research Division - Senior Analyst of TMT*

Okay. I have a couple of more questions, which continue on sort of the DTT coverage changes you did in the third quarter. You were saying that this was the reason for weaker top line development on the fixed side. Can you quantify the positive EBITDA impact you saw in the third quarter?

Timo Karppinen - *DNA Oyj - CFO*

Actually, we cannot go into details on this, but it's very, very -- a simple answer is that then we are losing, like we said, we lost few tens of thousands of those customers which were buying a pay-TV content. And then we lost -- or saved all of the content cost out of those subscriptions. So there is some margin impact positively, but not very high.

Sami Sarkamies - *Nordea Markets, Research Division - Senior Analyst of TMT*

Okay. And then second detailed question. You were once again hit by this -- the change in provisions for unused premises in the third quarter. Did I understand correctly that the delta between last year was EUR 3.4 million in the third quarter? And then also can you confirm that this will not be an issue going forward, as I think you were having a similar incident in Q4 and Q1?

Timo Karppinen - *DNA Oyj - CFO*

Yes. So remember in -- what we -- we had this last year Q4 impacting on the similar type of things, which were related to these unused premises. And now what we can say then, in this year, we don't see any -- we have had not any provision changes on these unused premises and looks like we will not have any major changes either by end of this year. This is basically it.

Jukka Leinonen - *DNA Oyj - CEO and President*

Yes, I think that the issue was such that this effect of this provision change, that was kind of affecting the Q3 last year. And now when we are comparing, let's say, the Q3 last year to Q3 this year, we basically saw that there was a decline in profitability. But this EUR 2.4 million was actually increase in profitability last year Q3. So this year, we haven't had any changes and, as Timmo said, we are not expecting to have any changes.

Sami Sarkamies - *Nordea Markets, Research Division - Senior Analyst of TMT*

And then my final question on taxes. So year-to-date, you've had sort of cash taxes corresponding to income taxes. Will this be the case also going forward?

Timo Karppinen - *DNA Oyj - CFO*

Yes. So now we are moving into more normalized level of paying taxes. We don't have any material tax credits anymore in our books. So as going forward, there will be our -- sort of, cash taxes will be close to the booked taxes, which will be at the normal level of the Finnish sort of taxation. There are always some minor items that you can benefit, which then given a small difference between cash taxes and booked taxes, but then those are not major.

Operator

And our final question in the queue coming from Sunil Patel of Bank of America.

Sunil Praful Patel - *BofA Merrill Lynch, Research Division - VP*

I just had 2 questions. One, just on the fixed nonvoice revenues. When I look at sort the Q3 number and also the

(technical difficulty)

Jukka Leinonen - *DNA Oyj - CEO and President*

We lost somebody.

Sunil Praful Patel - *BofA Merrill Lynch, Research Division - VP*

Sorry, can you hear me now? yes, sorry about that, I think it's the headset. I just had 2 questions. One was on fixed nonvoice revenues. When I look at the declines for the 9 months of this year and I think about how that can trend in 2018, do you think fixed nonvoice revenues could actually be stable in 2018? Or do you think we'll continue to see declines? And my second question is around the guidance. I mean, when I look at your 9 months of 2017, I mean, your total revenues are up, I think, on average something like 3%, even if you sort of account for the Q3 '17 decline in net sales. And your guidance is for flat, which implies a decline in Q4, quite a steep decline. Is that how I should think about Q4?

Jukka Leinonen - *DNA Oyj - CEO and President*

Maybe if I'll take this fixed nonvoice issue, and Timmo can reply to this revenue development side. When we look about the pay-TV of paid content revenues, I think that if we go back for the last years, I think that what we have been seeing there is a steady kind of a decline when pay-TV customers, who have been earlier buying these traditional services related to the movies or series content, are moving more and more into the kind of OTT-based video library services. And this has been affecting that the pay-TV revenues has been steadily kind of going down. However, what we actually are seeing already this year is that it seems to be that those customers who basically have been users of these movie channels or series channels have already been moving into the Netflixes and other services. And we clearly have been seeing a kind of, let's say, stabilization of the decline, so that we are not seeing any more significant decline. Sports channel customers are very, very heavily staying on the pay-TV, even increasing the alternative services. Now what happened this spring was that we made the structural change into our DTT delivery capabilities, which was then leading to the situation that we had to terminate the contracts from several tens of thousands of customers. But my thinking at this moment is such that we are expecting to see in the future a fairly steady revenue level when it comes to the pay-TV as a whole. So it will be stabilizing and it will be not kind of continuing going down at the same rate that it has been during the last couple of years. That's my current understanding, that's how we are seeing the development.

Sunil Praful Patel - *BofA Merrill Lynch, Research Division - VP*

Before we get to the guidance, sorry, can I just clarify that? But I mean, fixed nonvoice revenues is the summation of everything, right, which is not PSE and voice. So if you look at pay-TV now stabilizing; but broadband, I imagine, is still a growth segment, does that mean the total fixed nonvoice revenues you think can be flat to up next year?

Jukka Leinonen - *DNA Oyj - CEO and President*

Yes, I think that when we talk about the fixed nonvoice, there are 3 elements. As said, one part is a significant amount of the B2B data services, and the other element is this fixed broadband on the consumer side and third element is this pay-TV. And I think that what we are basically kind of expecting and seeing is a slight increase in B2B, a slight increase in revenues of the consumer fixed broadband services and then maybe slight decrease in the pay-TV on the coming year. So I think that, overall, when we talk about the total fixed nonvoice, it should be kind of stable or slightly growing when we go forward. That's the current estimate.

Timo Karppinen - *DNA Oyj - CFO*

Okay. And then back to your question about the sales guidance for the whole year. So in the first quarter of this year, the net sales have increased by 2.8% compared to a year ago. And the kind of guidance for the Q4, clearly, is that we continue to see increase in the service revenue part and there, especially the mobile service revenue continues to grow; and also on the fixed broadband side, how this fixed nonvoice part will continue to grow somewhat. But then we have these couple of other items that will impact negatively. One is this antenna TV, pay-TV side, which has lost these pay-TV customers. Of course, we will not get all of those back. So that's a part that will impact negatively. And then Q4 is always in very high sales in the mobile devices due to the Christmas. And last year, we had a very strong Q4 on these mobile devices sales, and that's always a question mark that how well or how much we're going to sell this year. And here, we need to remember as well that on volume-wise, we probably will sell more. But the average prices of those handsets are continuing to decline. So total sales is always -- and making good estimates there are a bit difficult. So putting that all together, we definitely are confident in our whole year guidance that the wholesales in total will be around the same level. And the same level doesn't mean exactly the same, so you can have a 1% or 2% up or down, plus or minus, so that would still be at the same level.

Operator

As there are no further questions in the queue, that will conclude today's question-and-answer session. And now I would to turn the call back to our speakers for any additional or closing remarks.

Marja Mäkinen

All right. Thank you, everybody, for your participation and good questions. Thank you, Jukka and Timmo. This concludes our conference call today. And I would like to remind you that DNA's full year results will be published on the 2nd of February. But before that, we are arranging a Capital Markets Day here in Helsinki on the 21st of November, and maybe see you there. Thank you. Goodbye.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.
