

Interim Management Statement

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TalkTalk Telecom Group PLC

28 July 2011

Thursday 28 July 2011

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Interim Management Statement - First Quarter FY 2011/12

- Q1 performance in line with management expectations, exiting with improving churn
- Added 35k on-net customers, including 76k broadband & voice (MPF)
- Delivering major improvements in customer experience, with 40% y-o-y reduction in customer calls in Q1
- Group on track to deliver all Full Year guidance
 - EBITDA margin 17-18%
 - 200-250k on-net adds; revenue broadly flat
 - Exit the year with positive broadband net adds

Q1 operating metrics

- 35k on-net customers added
- 87% of broadband customer base on-net
- 27k net broadband customer loss
- Broadband ARPU £24.7 (Q1'11: £23.9)
- Total revenue £423m (Q1'11: £444m)
- Broadband revenue £310m (Q1'11: £301m)

Dido Harding, Chief Executive of TalkTalk commented:

"In the first quarter we delivered positive on-net customer growth of 35k, and now have more than 87% of our customers on our own network. Improving our customers' experience has resulted in lower churn as we exit the quarter, and this gives us confidence that we will see accelerating on-net customer growth throughout the year.

We are now seeing the tangible results of our efforts to simplify and improve our business processes and create a better experience for our customers. Technical support and general service calls from customers in Q1 were 40% lower than last year, and more than 50% of all customer contacts are now on-line. We are now connecting new customers more quickly and have halved the number of calls from new customers joining us. In addition to improving our customers' experience, these fundamental operational improvements have allowed us to reduce the number of our outsourced providers outside the UK, and start to reduce our total service costs.

We have reinforced our position as the best value for money service provider in the market, with customer demand for our

unique new HomeSafe product and our Mobile Minutes Boosts running well ahead of plan; more than 100,000 customers have activated HomeSafe in the eight weeks since launch, and 160,000 customers now take Mobile Minute Boosts.

Revenue in the quarter was lower, as expected, reflecting the impact of the unusual holiday pattern, lower mobile termination rates, the reduction in the customer base, and investment in our value-for-money proposition. With our customers' experience now improving, churn falling, new services gaining traction in the market, and the next phase of our unbundling programme accelerating, we are confident that we will build real momentum and deliver growing revenue in the second half."

Q1 OPERATIONS

Total revenue in the quarter was £423m, compared to £444m in the same quarter last year, reflecting a combination of the unusual holiday pattern in the quarter, lower mobile termination rates, the year-on-year reduction in the total broadband customer base, and investment in our value-for-money proposition.

Broadband revenue grew by 3%, to £310m, reflecting ARPU growth partially offset by the reduction in the total customer base. Broadband revenue growth was more than offset by the £20m decline in non-broadband revenue, in line with our expectations and recent trends, and by the £10m reduction in B2B revenue, which reflected the £3m impact of lower mobile termination rates and lower voice usage, as expected, as well a tougher year-on-year comparator.

Broadband ARPU grew to £24.7, compared to £23.9 in the first quarter last year, mainly driven by the continuing improvement in the customer mix. We added 35k on-net customers in the quarter, comprising 76k net new MPF broadband and voice customers, partially off-set by the net loss of 41k SMPF broadband-only customers. The off-net base declined by 62k, resulting in a total broadband customer loss of 27k. This evolving customer mix is in line with our aim of offering value for money services to grow our on-net base, reduce churn and drive higher ARPU.

OUTLOOK

TalkTalk is the UK's leading value for money broadband and voice provider and we are well positioned in the tougher economic environment that both consumers and businesses are now facing. We remain on track to deliver all our full-year guidance, with revenue expected to be broadly flat year-on-year, and our EBITDA margin expected to be in the range 17-18%.

As indicated in May, we expect our revenues to be lower in the first half, with the second quarter continuing to reflect several of the drivers of lower revenue in Q1, but we expect momentum to build strongly through the second half, as churn comes down and the next phase of the unbundling programme accelerates. We expect to exit the year with positive broadband net additions, and revenue growth driven by our improving customer mix and higher ARPU.

BUSINESS REVIEW

1. Largest unbundled UK network

The first exchanges in the next wave of our network expansion started to come on stream, on schedule, right at the end of the quarter. The majority of the 450 exchanges that we plan to unbundle this year will go "live" over the course of the next two quarters, with a steady stream of customers then being migrated onto our network through the rest of the year. We expect to end the year with an additional 200-250k customers on-net, and unbundled customers comprising around 90% of our total broadband base.

2. Operating efficiencies

We made major progress in simplifying and improving our underlying customer management processes, and this was reflected in the total number of calls from customers falling by almost 40% compared to the same quarter last year. This in turn has led to an improving trend on churn as we exit the quarter.

Better diagnostic processes and tools, and greater network stability following completion of the customer migration programme, were reflected in a substantial reduction in technical support calls. Improved "self-serve" capabilities and higher first-time problem resolution resulted in lower volumes of general service calls, including billing queries. More than 50% of our total customer contacts are now on-line, compared to around 30% in Q1 last year.

This reduction in call volumes has enabled us to reduce the number of out-source partners we use. Following a tender process we have now selected two long-term partners and over the next nine months we will wind down the work we do with the two unsuccessful bidders. We have also restructured our out-source partnership contracts to base reward on overall quality of service, which will incentivise our partners to reduce call volumes further and continue to improve the overall quality of the customer interaction. We are well on track to deliver the next phase of our target of £40-50m of operating efficiencies.

We have made significant improvements in the speed and reliability with which new customers are provisioned. In June 75% of our new joiner orders were completed within 20 days, up from 50% six months earlier. The number of internal escalations required during the joining process has fallen by 38%, the number of calls from joining customers has halved and the rate of "leakage" of customers between sale and connection has fallen significantly.

Intensive work is ongoing to improve and simplify our processes further, to enhance the service we provide for our customers, improve churn, and at the same time to lower costs. The next major project milestones involve simplification of our home-mover and new-line processes, which are planned to go live during the third quarter.

3. Value-for-money quad play

In early May we launched a series of new prices and new products, to emphasise to our customers that TalkTalk delivers the best value for money services in the market. These initiatives included reducing the headline prices of our Essentials and Plus broadband and voice packages to £6.50 and £14.50 respectively, launching our unique HomeSafe service and a "500 mobile minutes" Boost. YouView TV remains on track for launch in early 2012.

HomeSafe is a network-level safety and security service that protects all the devices using the internet connection in the home. Exclusively available to TalkTalk customers, HomeSafe allows customers to control effectively what the internet brings into their homes, and appeals strongly to parents in particular. It is free of charge and demonstrates our commitment to give customers best value for money packages. In the first eight weeks since its launch more than 100,000 customers have activated the HomeSafe service.

More customers are also saving more by buying more from TalkTalk. Our premium Plus product continues to sell well and now accounts for 16% of the total base, compared to around 14% at the end of the previous quarter. Our new Mobile Minute Boost gives customers 500 minutes of calling to mobiles for just £5. Addressing customers' perceptions that calls to mobiles from fixed lines are far too expensive, and taking advantage of falling mobile termination rates, our two Mobile Minute Boosts have now attracted almost 160,000 customers, well ahead of our original expectations.

4. TalkTalk Business services

In line with our strategy to grow advanced data services in order to offset falling legacy voice volumes, we are continuing to exploit our market-leading spread of Ethernet enabled exchanges. As well as faster speeds and improved bandwidth Ethernet also offers more resilience and reliability for businesses that need continuous connectivity. More than 1,000 Ethernet and Ethernet-First-Mile lines have been installed this year, and a strong order book is in place, particularly in the educational sector.

5. Fibre access

Our Fibre Optic Boost was available throughout the first quarter but demand remains modest, with only around 1,000 customers taking this service at the end of the quarter. Fibre connections are currently running at a rate of around 200 per week.

We are offering this Boost, priced at £10, to customers who are actively seeking to upgrade to faster speeds. At the same time we are working with Openreach to develop the product further, focusing on improving the customer connection process and reducing the initial set-up and ongoing provisioning costs.

APPENDIX 1 : QUARTERLY METRICS

BROADBAND	FY 2010/11				11/12
	Q1	Q2	Q3	Q4	Q1
On-net adds ('000)	+157	+174	+130	+36	+35
Off-net adds ('000)	-123	-156	-155	-61	-62
Total Net Adds ('000)	+34	+18	-25	-25	-27
On-net base (m)	3.267	3.441	3.571	3.607	3.642
Of which:					
MPF base (m)	2.434	2.607	2.686	2.751	2.827
SMPF base (m)	0.833	0.834	0.885	0.856	0.815
Off-net base (m)	0.964	0.808	0.653	0.592	0.530
Total Base (m)	4.231	4.249	4.224	4.199	4.172
On-net (%)	77%	81%	85%	86%	87%
ARPU (£)	23.9	24.7	24.9	25.0	24.7
New LLU exchanges	112	149	4	0	30
Total LLU exchanges	1,854	2,003	2,007	2,007	2,037

NON-BB					
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Total Base (’000)	910	838	755	678	621
ARPU (£)	19.3	18.1	20.1	17.7	18.8

REVENUE (£m)	444	443	444	434	423
Of which:					
Broadband (£m)	301	314	316	316	310
Non-BB (£m)	56	47	48	38	36
B2B (£m)	87	82	80	80	77

Conference Call

The group will host a conference call for investors and analysts starting at 8.30am.

UK/International: +44 (0)20 7806 1950

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Confirmation Code: 3188488

Replay: Available until midnight 4 August 2011

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The event will also be audio webcast at www.talktalkgroup.com.

Next results

The Group will announce its Interim Results on 15 November 2011.

For Further Information

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This information is provided by RNS
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