TalkTalk
For Everyone

INTERIM RESULTS FY21

17 December 2020

Overview

TalkTalk
For Everyone

- Importance of fast, reliable and affordable connectivity never been so clear – only accelerated by COVID-19
- We are well positioned to benefit from the switch to FTTP – which will lead to ARPU improvement, cost to serve and churn reductions, supported by continued customer experience improvements
- Strong position in wholesale markets given underlying network and B2B platform
- Shorter term challenges from immediate impact of COVID-19, and acceleration of industry-wide Voice drag and erosion of high margin but lower quality legacy products
- COVID-19 uncertainty ongoing – therefore we are withdrawing FY21 guidance

Robust operational performance; strong Ethernet and Fibre growth; COVID-19 impacted financials

TalkTalk For Everyone

- Resilient network in the face of unprecedented increases in data usage
- Strong Fibre and Ethernet base growth
  - 187k Fibre net adds; Q2 at 120k represented 37% of new Openreach FTTC connections
  - 2.1k Ethernet net adds; Q2 at 1.7k represented 24% of new Openreach connections
- However, we have not been immune to the effects of the pandemic
  - Headline revenue (excluding Carrier and Off-net) contracted by 6.2% YoY primarily due to COVID-19 and ongoing industry-wide Voice decline
  - Headline EBITDA contracted by £18m to £122m with an estimated £9m of this relating to COVID-19 and much of the remainder due to legacy Voice decline
- In light of ongoing COVID-19 uncertainty we are withdrawing formal guidance

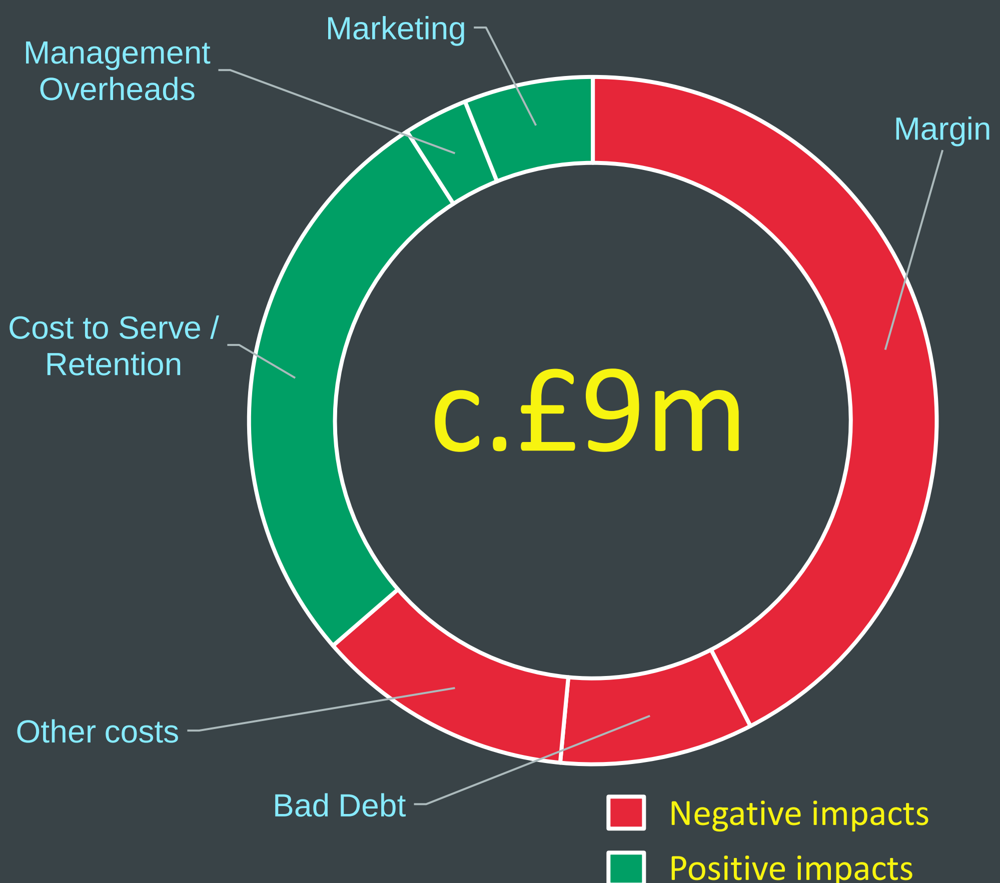
Year on year Headline revenue and EBITDA impacted by COVID-19 and legacy Voice decline

TalkTalk
For Everyone

	H1 FY21 (£m)	H1 FY20 (£m)
Headline revenue	**736**	786
Headline revenue (excluding carrier and off-net)	***717***	*764*
Gross profit	**358**	402
Margin	***48.6%***	*51.1%*
Operating costs & SAC	**(236)**	(262)
Headline EBITDA	**122**	140
Margin	***16.6%***	*17.8%*
Headline profit before taxation	**–**	15

- Revenue contracted by c.6% YoY, with broadly half of this attributable to COVID-19 (see next slide) and the bulk of the remainder due to the continued industry-wide decline in legacy Voice
- Gross profit impacted by flow through of revenue impacts and higher input costs for increasing Fibre penetration in the base
- Operating costs significantly lower due to cost to serve efficiencies from greater Fibre mix. Additionally, there were some cost benefits from COVID-19 (see next slide)
- EBITDA down 12.9%, with COVID-19 and Voice decline being the main drivers

Estimated £9m COVID-19 impact on first half



- COVID-19 effects seen across the P&L, with a total impact of c.£9m
- Contraction in gross margin
  - Trading restrictions saw fewer connections and churn
  - Removal of call usage caps
  - ARPU dilution from earlier re-contracting
- Increase in bad debt provisioning and other costs
- Reduction in cost to serve and retention
  - Closure of third party overseas call centres saw significantly reduced numbers of call centre agents
  - Fewer connections due to trading restrictions meant lower engineer fees
- Vacancy freezes and reduced discretionary spending saw lower management overheads
- Pull back on marketing spend and promotions during lockdown

Net debt and cash

	H1 FY21 (£m)	H1 FY20 (£m)
Opening Net Debt	**(954)**	**(960)**
Headline EBITDA	122	140
Working Capital	41	(80)
Capital Expenditure	(46)	(50)
Interest & Taxation	(21)	(22)
Non-Headline Items	(31)	(19)
Investments	(4)	(9)
ESOT* Share Purchase	(19)	–
Dividends	(17)	(17)
Non-cash Movement in Leases	(38)	(24)
Closing Net Debt	**(967)**	**(1,041)**
Leases	220	211
Closing Net Debt (excluding leases)	**(747)**	**(830)**

* ESOT = Employee Share Ownership trust

- Working capital inflow driven by the timing benefit of a key supplier payment, partially offset by the IFRS 15 impact of our accelerated investment in Fibre.
- Capex lower YoY predominantly due to the sale of the capital intensive FibreNation asset
- Non-Headline items include £21m related to the completion of the FibreNation sale;
  - £15m discretionary payment to all employees
  - £6m of transaction and advisor fees
- The ESOT purchased 24m shares (£19m) in order to satisfy the ESOT's obligations under the Group's long-term incentive plans.

Longer term tailwinds will outweigh short term headwinds

- Accelerated importance of fast, reliable and affordable connectivity
- FTTP a game changer; improvements in ARPU and reductions in cost to serve and churn
- Unique position as aggregator of Fibre provision in Wholesale markets
- Continued customer experience and NPS improvements
- Significant opportunities to further simplify and reduce cost

- COVID-19 – short-term drag due to restricted trading during lockdown and small increase to bad debt
- Industry-wide Voice decline – will be less pronounced over time as overall Voice revenue within total revenue mix falls
- Re-contracting ARPU dilution – reducing now with a large percentage of base in-contract and fewer legacy customers
- Lower average base – short term drag as we expect modest base growth going forwards

Our strategy remains unchanged

1. Transition to Full Fibre

2. B2B Data Provider of Choice

3. Optimising our Network

4. Simpler, lower cost base

Summary

TalkTalk For Everyone

- Resilient operational performance throughout COVID-19 pandemic
- Continued momentum in Fibre and Ethernet growth
- Ongoing COVID-19 uncertainty means we are withdrawing guidance
- Strategy remains unchanged
- Robust medium term outlook