TalkTalk
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PRELIMINARY RESULTS FY20

11 June 2020

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Agenda

FY20 Overview	Financial Review	Our Plan & COVID-19	Outlook	Q&A
Tristia Harrison	Kate Ferry	Tristia Harrison	Tristia Harrison	

FY20 OVERVIEW

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We have remained resilient during the COVID-19 pandemic

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- Access to reliable, affordable connectivity has never been so important
- Responded quickly to ensure the majority of employees could work from home safely
- Elected not to access furlough scheme or any government loans
- Network remained highly resilient in face of material daytime traffic increases
- Lower churn and lower gross additions due to Openreach capacity constraints and customer behaviour
- ‘Digital first’ customer service approach accelerated
- Continue monitoring potential bad debt risk in Consumer and B2B
- Provided connectivity at key locations including NHS Nightingale hospitals, care homes and supermarket distribution centres

Acceleration of Fibre strategy; good EBITDA growth year on year; outlook stable including COVID-19 impact

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- 9.7% Headline EBITDA (pre-IFRS 16) growth to £260m, including £3m COVID-19 provision
- No formal FY21 guidance due to COVID-19, however trends suggests:
  - FY21 EBITDA stable YoY, assuming c.15m COVID-19 impact
  - Strong cash conversion; dividend of 2.5p maintained
- Excellent progress on cost savings offsetting industry-wide revenue trends
- Acceleration of Fibre strategy
  - 605k Fibre net adds in FY20 (FY19: 490k), taking base to nearly 2.4m
  - 78% of new Consumer customers took Fibre in FY20 (FY19: 58%), whilst in B2B 58% of new partner connections took Fibre (FY19: 42%)
  - 32% share of new Openreach FTTC lines in FY20 (FY19: 22%)
  - Completed sale of Fibre Assets Business to CityFibre for £206m, underpinned by long-term, competitive wholesale agreement

FINANCIAL REVIEW

Kate Ferry

Year on year Headline EBITDA growth driven by significantly lower cost base

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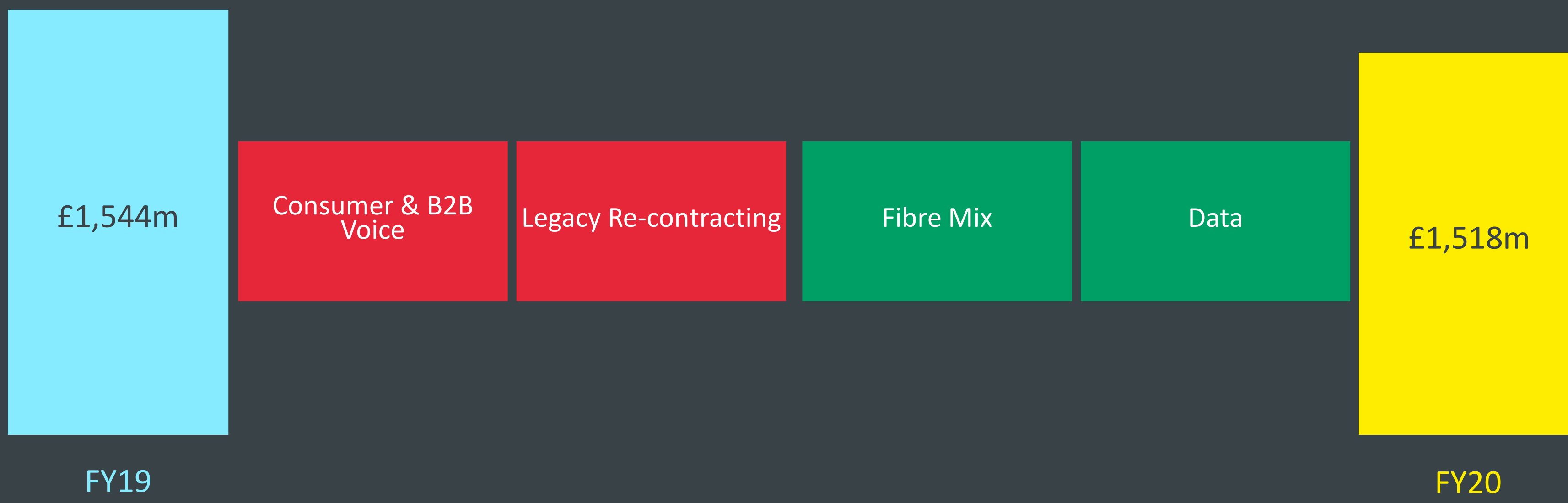
	FY20 As reported (£m)	FY20 Pre-IFRS 16 (£m)	FY19 Pre-IFRS 16 (£m)
Headline revenue	1,557	1,557	1,609
Headline revenue (excluding carrier and off-net)	*1,518*	*1,518*	*1,544*
Gross profit	794	794	850
Margin	*51.0%*	*51.0%*	*52.8%*
Operating costs & SAC	(486)	(534)	(613)
Headline EBITDA	308	260	237
Margin	*19.8%*	*16.7%*	*14.7%*
Headline profit after taxation	61	76	69
Headline EPS (Basic)	5.3p	6.6p	6.0p
Dividend per share	2.50p	2.50p	2.50p

NB The above numbers apply IFRS 16 to the current year, but not the prior year under the modified retrospective approach

- Revenue and gross profit impacted by voice drags in Consumer and B2B, alongside ARPU dilution from legacy base re-contracting activity
- Fibre penetration helps offset revenue drags, whilst higher input costs dampen gross margin
- Significantly lower operating costs driven by HQ move savings and Fibre mix improvements to cost to serve, as well as SAC & Marketing efficiencies due to change in distribution model and more digital marketing
- Small COVID-19 provision to reflect increased bad debt provisions in Consumer and B2B
- EBITDA (pre-IFRS 16) up 9.7% YoY

Revenue and ARPU impacted by Voice decline and legacy re-contracting, offset by Fibre penetration



EBITDA up 9.7% year on year; with Fibre mix driving significantly reduced cost base

- Increasing Fibre mix benefitting cost to serve with fewer faults and calls
- Move to self-service model has seen fewer calls and engineer visits driving lower cost to serve
- Lower outsource partner costs
- FTE reduction and property savings from HQ move and associated re-organisation on track for annualised £25m-£30m target range
- £3m COVID-19 bad debt provision in FY20
- Change in distribution model and shift to digital marketing channels
- Data usage exponentially increasing traffic on the network offset by driving down our cost per Gb

Fibre mix driving materially lower costs to serve

More efficient SAC & Marketing contributing to year on year savings

Cash flow and net debt

	IFRS 16 FY20 (£m)	Pre-IFRS 16 FY19 (£m)
Opening Net Debt (pre-leases)	**(742)**	**(745)**
Finance leases	(39)	(31)
Other leases	(179)	–
Opening Net Debt (post-leases)	**(960)**	**(776)**
Headline EBITDA	308	237
Working Capital	(181)	11
Capital Expenditure	(116)	(113)
Interest & Taxation	(54)	(50)
Non-Headline Items	158	(47)
Investments	(13)	(7)
Dividends	(28)	(28)
Non-cash movement in leases	(68)	(8)
Closing Net Debt (post-leases)	**(954)**	**(781)**
Finance Leases	38	39
Other Leases	179	–
Closing Net Debt (pre-leases)	**(737)**	**(742)**

- Underlying Capex was £97m, excluding £19m spent on the Fibre Assets Business prior to sale
  - Looking forwards we expect Capex to be £90m–£100m
- Investments represent our continued contribution to YouView JV, as well as some investing activity in the Fibre Assets Business
- Dividend payment of 2.5p

Working capital outflow driven by timing of payments and change in distribution model

Working capital

£181m

Other

£75m
Early settlement of key supplier monthly invoice

£20m-£25m
Timing of FY19 payments reversal

£40m-£50m
Change in distribution model

Timing of payments

- Benefitted in the prior year with some payments falling into FY20 from FY19
- Early settlement of key supplier monthly invoice (resulting in additional payment year on year)

Change in distribution model

- Payment related to exiting previous distribution agreement
- Upfront costs relating to new distribution agreement

Other

- Accelerated Fibre growth sees working capital impact due to IFRS 15 deferrals

Looking forwards

- Working capital normalises in FY21

Re-financing activity and Fibre Assets Business inflow saves £48m over 5 years

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- Issued new Bond
  - Increased size of Bond from £400m to £575m
  - Improved interest rate to 3.875% from 5.375%
  - Extended tenor from 2022 to 2025
- Revolving Credit Facility (RCF)
  - Reduced from £640m to £430m to reflect increase in Bond and Fibre Assets Business sale proceeds
  - Extended tenor to 2024
- Sale of Fibre Assets Business reduces borrowings by £206m (pre-transaction fees and discretionary bonus)
- Net impact is c.£48m saving over 5 years and additional liquidity

Funding Structure	FY20 £m	FY21 £m	Change
Bond	400	575	+175
RCF	640	430	(210)
Securitisation	75	75	–
Total	**1,115**	**1,080**	**(35)**
Fibre Assets Business Sale			+206
Additional liquidity			**+171**

Underlying non-Headline items continuing to reduce

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P&L – EBITDA

- Continuing to bring down non-Headline items as the business is simpler and leaner
- Sale of Fibre Assets Business saw profit on disposal recognised in non-Headline items (see appendix)
- Slightly higher than planned costs related to HQ move driven by dual-running and retention costs

Cash

- Excluding Fibre Assets Business inflow, underlying cash costs were higher than P&L costs due to timing of Group restructure and MVNO exit payments related to prior year activity

Looking forward

- Minimal non-Headline P&L items
- Phasing will see cash items continue to exceed P&L items, mainly due to the Fibre Assets Business transaction payment to employees and HQ move

P&L	FY19	FY20	*FY21 Outlook*
MVNO closure	£3m	£7m	*£1m*
Network transformation	(£15m)	(£11m)	*(£8m)*
HQ move	(£22m)	(£15m)	–
Total	**(£34m)**	**(£19m)**	***(£7m)***
Fibre Assets Business disposal	–	*£109m*	–

Cash	FY19	FY20	*FY21 Outlook*
MVNO closure	(£18m)	(£6m)	*£1m*
Network transformation	(£16m)	(£10m)	*(£9m)*
HQ move	(£2m)	(£28m)	*(£7m)*
PY Property rationalisation	(£4m)	–	–
PY Group re-organisation	(£7m)	–	–
Total	**(£47m)**	**(£44m)**	***(£15m)***
Fibre Assets Business disposal	–	*£202m*	*(£21m)*

Cash outlook – strong cash conversion

With stable Headline EBITDA, we see a clear path to cash generation in FY21

- Significantly lower working capital outflow due to fewer one-off impacts
- Underlying Capex c.£90–£100m with no FibreNation expense
- Re-financing and lower average net debt will result in lower interest
- Vast majority of the simplification has been completed and therefore non-Headline items will be considerably lower (excluding Fibre Assets Business disposal)

	FY21 Outlook
Working Capital	↓
Capex	↓
Interest & tax	↓
Non-Headline items	↓
Investments	↓
Dividends	=
Cash generation	↑

Summary

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- Good momentum in Fibre, with cost to serve benefits starting to come through
- Excellent progress on cost savings, more than offsetting revenue contraction
- 9.7% growth in Headline EBITDA (pre-IFRS 16) including £3m COVID-19 provision
- Reaping the rewards of three years of simplification, with business on a much more stable footing to deliver on our plans
- Given COVID-19 uncertainty we are not formally guiding, however;
  - we expect stable EBITDA, assuming a c.£15m COVID-19 impact; and
  - see a clear path to strong cash conversion in FY21

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OUR PLAN

Tristia Harrison

Our plan remains unchanged despite changing COVID-19 landscape

- Uniquely positioned as the only scale value provider in this challenging economic environment
  - Strong demand for faster speeds and higher bandwidths; accelerated by COVID-19
  - Affordability now paramount given the scale of economic challenge
- Britain's demand for and transition to Full Fibre reinforced; remains major government priority to deliver essential economic growth and boost connectivity
- Essential role of broadband networks providing critical national infrastructure emphasised by COVID-19

Medium term shape; acceleration in higher speed and bandwidth products, structural price advantage, ongoing cost reductions

FY20 (pre-IFRS 16)	£m		Over the medium term		Drivers
Revenue	1,557	→	Revenue	Modest growth	Fibre penetration Sensibly priced add-ons, offsetting Voice drag and acceleration of re-contracting legacy customers
Costs of Sales	(763)	→	Costs of Sales	Modest increase	Increased Fibre mix offset by lower wholesale pricing
Gross Margin	794 / 51.0% margin	→	Gross margin %	Stable	
Operating Expenses	(534)	→	Operating expenses	Significantly lower	
			Cost to serve	Lower	Fibre penetration and self-service
			Management overheads	Lower	HQ move and organisational structure
			Network & IT	Flat	Increased usage offset by reduced cost per Gb
			SAC & Marketing	Lower	Shift to digital marketing
EBITDA	260 / 16.7% margin	→	EBITDA	Ongoing growth	

Underpinned by vast majority of customers on Fibre and Ethernet products, and continued flexibility in cost base, especially post-COVID-19

Our Priorities

1. Fibre for Everyone
2. Consumer
3. B2B
4. Network & Connectivity
5. Cost Reduction
6. People

‘Fibre for Everyone’ initiative seeing rapid uptake of Fibre, resulting in cost to serve savings

<u>Fibre to the Cabinet (FTTC)</u>

- Driving scale adoption of part Fibre products – nearly 60% of base now on FTTC
- Taking c.32% of all Openreach Fibre net adds
- WLA and Openreach commercial discounts has reduced wholesale FTTC prices

<u>Future-proofed Fibre products</u>

- Already launched G.Fast and Openreach FTTP to customers on trial pricing
- Selling FTTP at scale on FibreNation footprint with CityFibre

Underpins lower churn, lower cost to serve, increasing ARPU and EBITDA growth

Acceleration to Fibre products in Consumer & B2B

TalkTalk is an important national aggregator of wholesale FTTP; providing future-proof connectivity

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TalkTalk and BT Openreach

- We have been building systems and capability to provide FTTP services and have launched Openreach FTTP to customers on trial pricing
- We remain in discussions regarding a national FTTP wholesale agreement
- We are willing to commit meaningful volumes of customers nationwide in return for competitive pricing and attractive terms to incentivise migration

With multiple routes to market through TalkTalk Consumer, Business and Wholesale, as well as a significant existing base, we are one of the few scale operators able to offer significant volume commitments to network builders and drive commercial advantage

Sale of FibreNation sees acceleration of Fibre strategy with a wholesale-only approach

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TalkTalk and CityFibre

- Sold Fibre Assets Business to CityFibre for £206m, locking in highly competitive wholesale price for 1GB access in a multi-year agreement
- We will migrate our customers to CityFibre's FTTP network on an exclusive basis, subject to certain exclusions and with variable volume commitments
- Working with CityFibre on a roll-out plan that will enable us to bring FTTP to as many customers as possible, as fast as possible

TalkTalk and other altnets

- We will also seek to enter into wholesale agreements for FTTP with other altnets where we are able to do so

Consumer: Structural price advantage, accelerating Fibre mix and reducing cost to serve

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- Acceleration of Fibre mix
  - Over 75% of new Consumer customers took Fibre in FY20, peaking at 85% in March
  - Faster speeds (80mbps) increasingly popular
- Well positioned in competitive market
- Unique FLPPs continue to resonate well, offering 10-15% price delta vs competitors over the life of contract
- Commitment to fairer deals for consumers; welcome Ofcom fairness drive
- Sensibly priced add-ons, offering consumers access to great value bundles
- Continued improvement in customer service; complaints down and full roll-out of ‘My Online Service Centre’

Aspiration for 100% of customers to take a Fibre product by 2025

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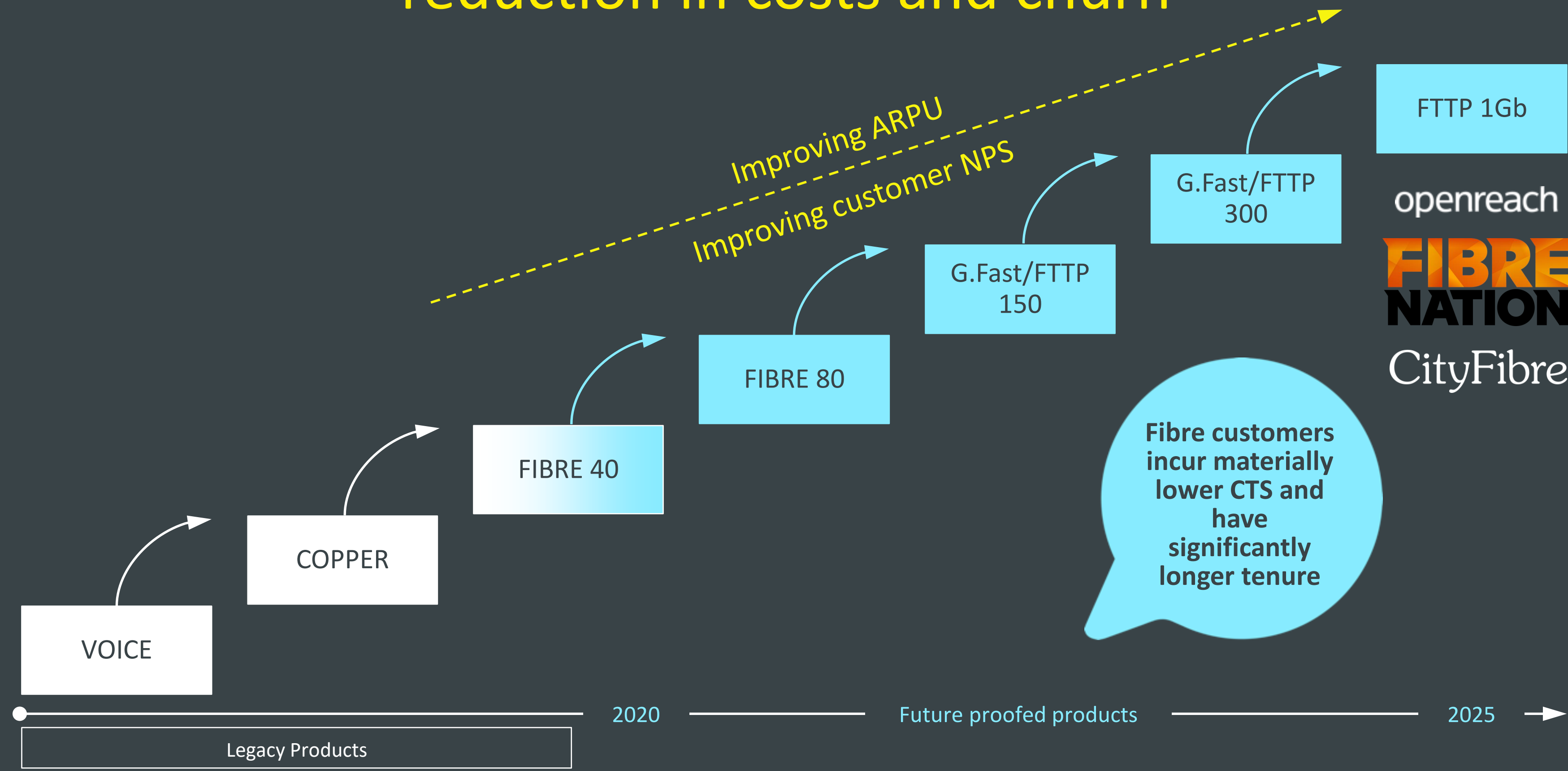
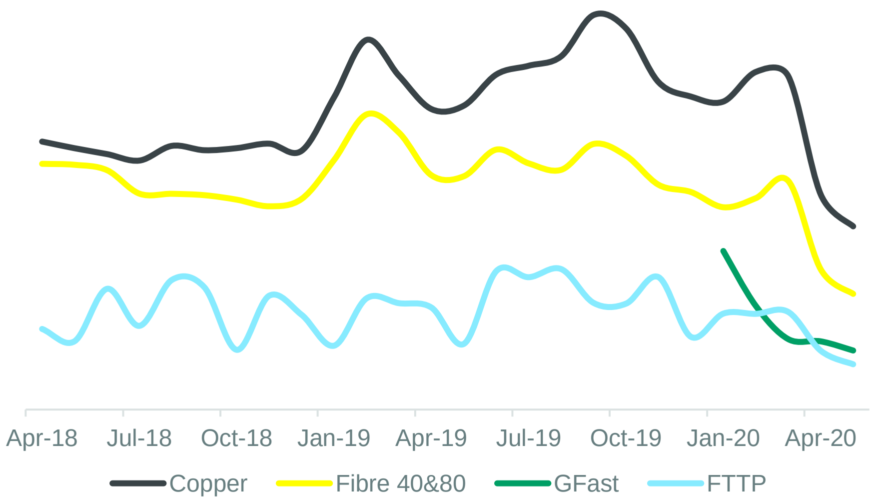
Acceleration of speed and bandwidth; underpinning reduction in costs and churn

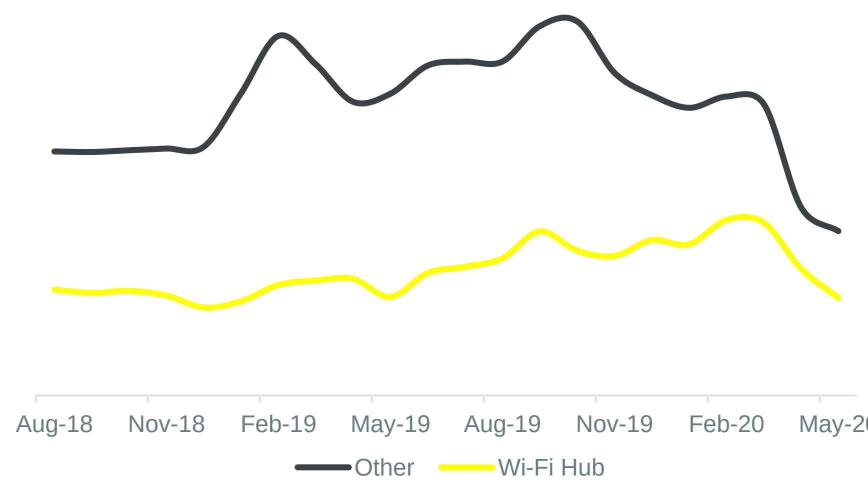


Customers with higher speeds and a Wi-Fi Hub are less likely to churn

Churn rate by product



Churn rate by router



- The greater the speed the lower the propensity to churn
- When customers also have a Wi-Fi Hub the churn rate further improves
- As Fibre mix of the base increases, churn rates continue to improve

Customer experience – what we've learned since COVID-19; accelerated move to 'digital first'

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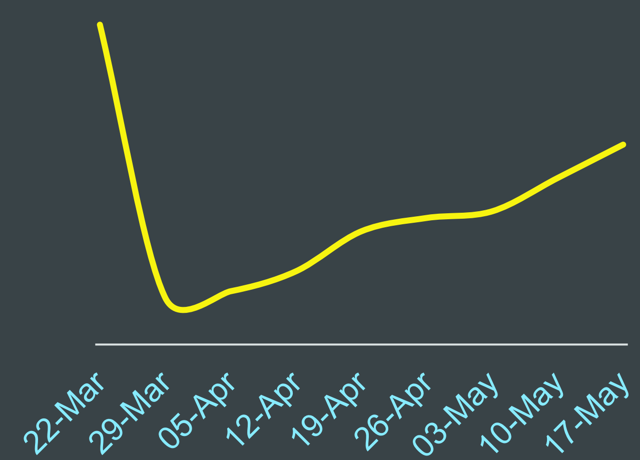
- Acceleration of move to 'digital first' service options; re-purposing TalkTalk staff to service customers; more UK based agents
- More 'First Time Fix' as customers empowered and choose to 'self-serve' to action changes or resolve issues – faster problem solving with no need to speak to agents
- Prioritisation of Voice contact opportunities for vulnerable customers to help better serve those most in need
- Temporary closures of international call centres now easing; prioritising welfare of agents
- Opportunity to review third party support structure going forward

Contact centre FTE reduction



Pre-COVID-19 trends: Improving NPS | Increasing CSAT | Lowest ever Ofcom complaints

Good trading resilience through COVID-19, with value provider position serving us well

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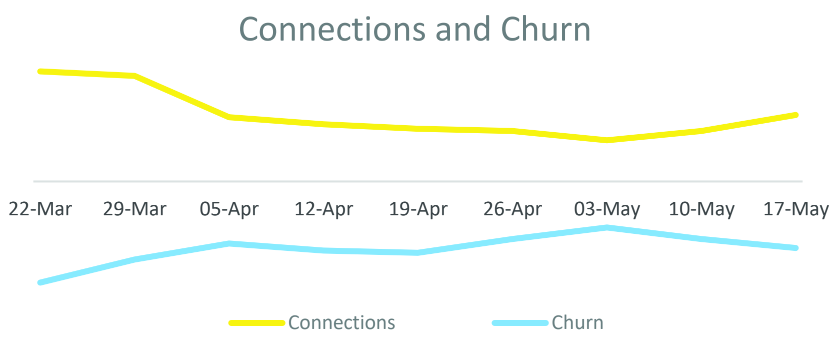
- Greater reliance on the internet, as an essential utility, has meant less churn
- Pull back on marketing and reduced Openreach capacity has impacted new customer numbers
- Good natural demand has seen relatively buoyant gross additions, as consumers look to save money in these uncertain economic times
- Demand still strong for Fibre – as many as 88% of new customers in one week – but Openreach capacity impacting volume
- Acceleration of pre-existing strategy
- However, more payment deferral requests and increasing direct debit cancellations, albeit within expectations



Consistent strategy in B2B with move to higher bandwidth products

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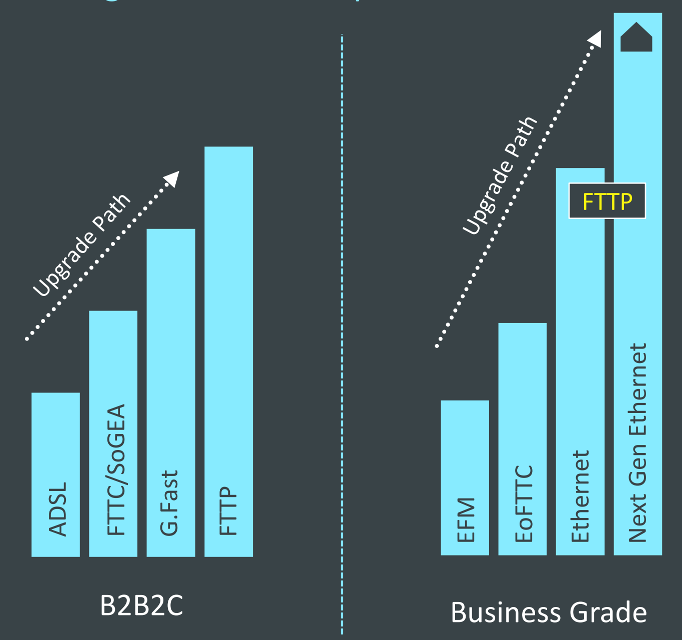
- Single minded focus on B2B data and connectivity
- Simple strategy consistent across Direct and Wholesale
- Locked in a number of key Broadband and Ethernet partners with long-term deals
- Acceleration to higher speed Ethernet products
- Renewed focus in Direct, delivering record Fibre net adds in FY20
- Remain Britain's largest provider of wholesale broadband, with over 50% market share



Strong ARPU and margin growth | Reducing costs to serve | Continued base growth

COVID-19; B2B impact better than expected, but business failure creates uncertainty

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- Impact of business inactivity so far smaller than feared; small bad debt provision recognised in FY20
- Implemented significant supportive measures for B2B customers
  - dialling up or down bandwidth as required
  - customer engagement on revised payment plans
  - 'soft cease' process for businesses - pausing payments during temporary line cessation
  - developed content hub for customers and partners detailing all government financial assistance available to them
- Have provided connectivity at critical sites including NHS Nightingale hospitals, care homes, and supermarket distribution centres
- Sadly, not all businesses will survive COVID-19, which represents a risk to our short and medium term B2B plans
- Economic climate and regrowth post-COVID-19, including the development of new sectors, likely to drive increased demand for value providers

Optimising our network, exponential data usage

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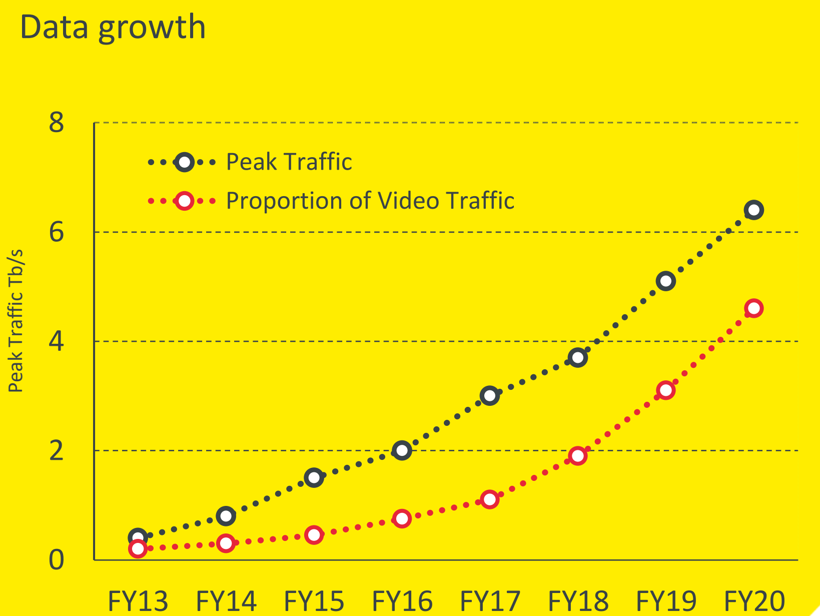
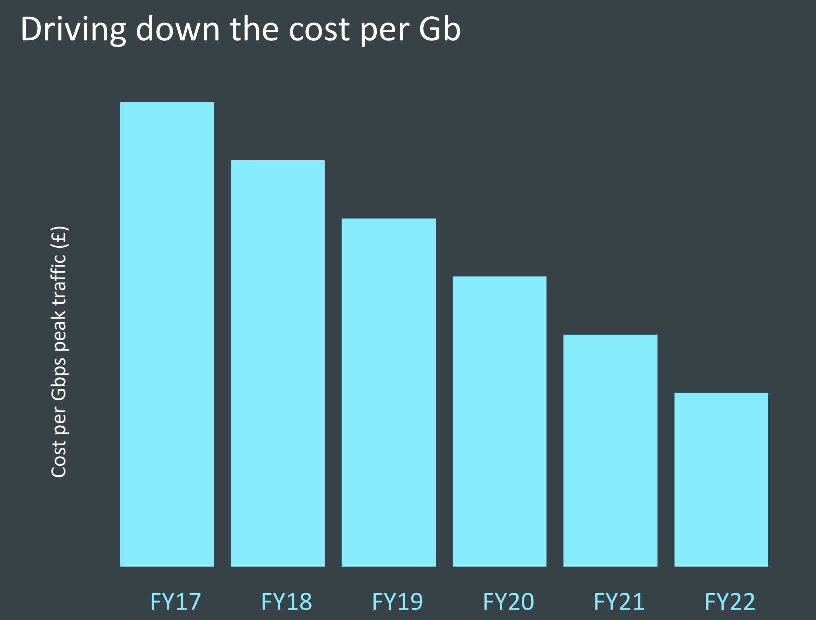
We are meeting data usage demands whilst reducing our cost per Gb by evolving our network





Gold standard connectivity at a brilliant price across our Fibre products

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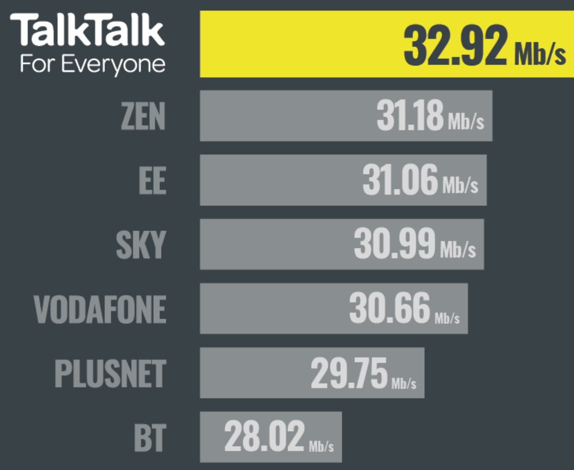
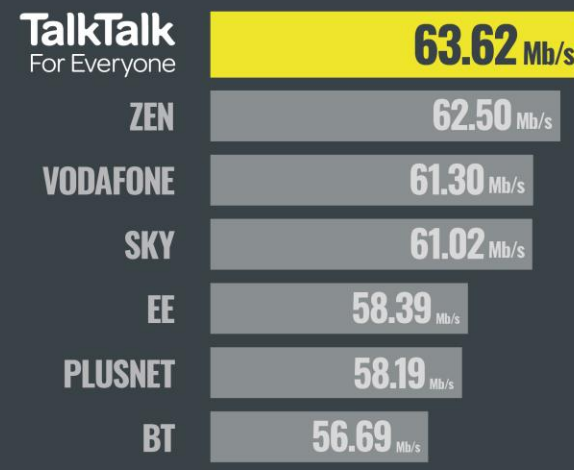
According to data from Ofcom, TalkTalk have the fastest average download speeds over 24 hours on our Faster Fibre and Superfast Fibre products

Faster Fibre



Superfast Fibre



Ofcom

* According to data from Ofcom, the industry regulator, comparing average download speeds over 24 hours (in November 2019) for TalkTalk's Superfast Fibre versus BT's Fibre 2, Sky's Superfast Fibre, Plusnet's Unlimited Fibre Extra, Vodafone's Superfast 2, Zen's Unlimited Fibre 2 and EE's Fibre Plus Broadband.

Simpler, leaner cost base – optimisation continues

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- Making good progress resetting TalkTalk as a simpler, lower cost business
- Now deliver non-core products (TV and mobile) in capital light way
- Fibre focus, aided by our wholesale discount agreement with Openreach bringing down Fibre input costs, benefitting cost to serve
- Self-service model, with new digital tools such as ‘My Online Service Centre’ benefitting both Consumer business and now Wholesale partners too
- Central costs materially lower due to HQ move – smaller, lower cost operating model
- External spend review – ensure cost base aligns with smaller set of priorities
- Move to new distribution model and digital marketing approach has seen SAC & Marketing efficiencies
- Re-financing of Bond and RCF, combined with receipt of consideration from sale of Fibre Asset Business will see lower interest costs

Operating costs **12.9%** * lower YoY

** On a like-for-like basis prior to the application of IFRS 16*

HQ move operationally complete

Continued flexibility in cost base, especially post-COVID-19

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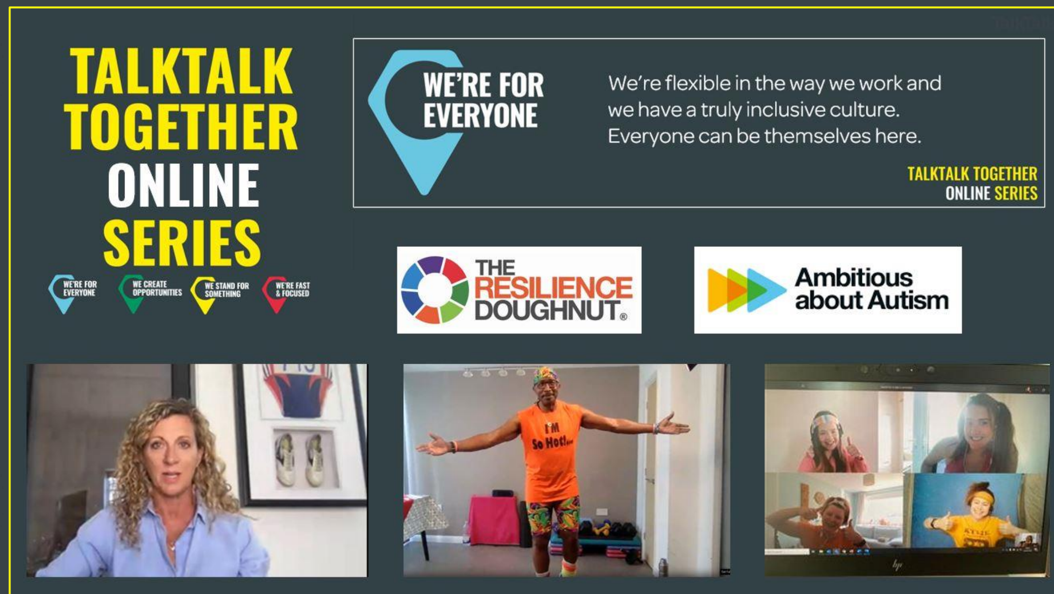
Proud of our people; wellbeing of workforce paramount

Vast majority able to safely work from home

Online events to stay connected and have fun



Preparing for a phased return to work, supported by a 'Safe', 'Gradual', 'Flexible' and 'Structured' planning framework

No TalkTalk staff have been furloughed

Employee NPS
+43
up 69 pts since HQ move announced in November 2018

OUTLOOK & SUMMARY

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Outlook

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- The global economic impact of the COVID-19 pandemic, whilst uncertain, is likely to be significant
- We exit FY20 in a more robust operational and financial position but will not be immune to upcoming challenges
- Given this uncertainty, we are not providing formal guidance for the year at this stage
- However, we do not expect a significant deviation from our previous FY21 objectives
- Expect Headline EBITDA to be stable, assuming a c.£15m COVID-19 impact, with strong cash conversion in FY21

Summary

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- Strong operational and financial performance in FY20
  - Continued acceleration of Fibre strategy
  - Transformational sale of FibreNation business
  - Excellent progress on cost saving initiatives
  - Good year on year Headline EBITDA growth
- Simpler, stronger business, with robust liquidity and funding position
- Well placed to navigate uncertain COVID-19 situation
- More than ever broadband is critical national infrastructure
- Proud to have played our part in keeping the nation connected in unprecedented times

APPENDIX

IFRS 16 – impact on TalkTalk

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- IFRS 16 'Leases' replaces IAS 17, changing the treatment of leases
- TalkTalk must now recognise additional discounted lease liabilities on the balance sheet, which effectively increases net debt and finance costs
- EBITDA increases with lease expense being taken through depreciation and amortisation rather than operating expenses
- These leases predominantly relate to arrangements within our network, e.g. backhaul circuits and data centres
- There is no cash impact on the business, it is purely an accounting treatment
- Covenant calculations are unaffected by IFRS 16 (continue under IAS 17)

FY20	Pre-IFRS 16	IFRS 16 impact	As reported
Operating costs	(£534m)	£48m	(£486m)
EBITDA	£260m	£48m	£308m
Depreciation & amortisation	(£132m)	(£53m)	(£185m)
Finance costs	(£56m)	(£10m)	(£66m)
Net debt	(£737m)	(£217m)	(£954m)

TalkTalk have not restated FY19 under IFRS 16, instead providing FY20 numbers under both pre and post IFRS 16 to allow for year on year comparisons. FY21 will be reported under IFRS 16 only

Fibre Assets Business disposal accounting

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P&L	£m
Net assets disposed of	(72)
Consideration [1]	206
Transaction costs [2]	(7)
Profit on disposal	**127**
Discretionary employee payment [3]	(15)
FibreNation operating loss (FY20)	(3)
Total non-Headline items	**109**

Cash	£m
Consideration	206
FibreNation operating loss (FY20)	(3)
Transaction costs [2]	(1)
Cash inflow FY20	**202**
FY21 outflows	
Discretionary employee payment [3]	(15)
Transaction costs [2]	(6)
Net cash inflow	**181**

[1] As per transaction announcement; the Group was also repaid, up to an agreed capped amount, the increase in the amount of intercompany indebtedness between the Group and the Fibre Assets from and including 15 November 2019 up to and including completion
[2] Fees relating to third party advisory services and legal
[3] Following the successful completion of the disposal, a discretionary payment of £15m was made to all employees to share some of the value arising on the sale of the Fibre Asset Business. This one-off incentive is directly associated with the disposal and separate to the annual bonus programme of the Group and therefore classified as non-Headline.