TalkTalk FY20 Preliminary Results - Transcript of Pre-recorded Presentation

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Please check against delivery. The actual speech as delivered may deviate from the script made available on TalkTalk Group PLC's website.

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Slide 1: Cover Page

Slide 2: Agenda

Good morning. Thank you all for joining TalkTalk's full year 2020 results presentation.

Kate will shortly present the financial review. I will then take you through our plan in more detail as well as share the outlook for the year ahead.

Slide 3: FY20 Overview (Cover slide)

Slide 4: We have remained resilient during the COVID-19 pandemic

Of course, we would usually be with you all in one room to present our full year results, however, as we all know, we are living in extraordinary and unprecedented times

Before Kate takes you through the financials, I wanted to share a little bit of the detail about how we've responded to the Covid-19 pandemic and the impacts we've seen.

Clearly, as a subscription annuity business, and a provider of essential, affordable connectivity, we have been fortunate and are resilient, compared to many in other sectors. However, like other telcos, we will not be completely immune from the impact.

Throughout this crisis, staff wellbeing has been paramount and almost all of our team have been able to work safely and effectively at home.

As providers of critical national infrastructure, our team are key workers, and have put in a herculean effort, working around the clock to keep the country connected at such an important time. I am hugely proud of everything they have done.

We are fortunate also, we have not needed to rely on any Government support through this period, nor have we furloughed any of our staff.

Our strong and resilient network has kept families, friends and communities connected; and provide vital services for the NHS, care homes and supermarket distribution centres.

We have seen a material increase in daytime traffic, however we have robust measures in place to manage any uplift and network headroom remains – and that's even as live sport begins to get going next week. So we have the capacity to withstand these increases in particularly video data volume.

In terms of behavioural changes, the general uncertainty alongside restrictions on engineer visits has driven lower gross additions and lower churn. That said, new sales are starting to pick up again; churn remains very low.

We've also been supporting our customers throughout the pandemic. We have accelerated our shift to digital; creating new roles onshore and protecting of course, our most vulnerable customers by setting-up dedicated support lines.

And while the closure of third party overseas contact centres did initially lead to some challenges, we now have more capacity as restrictions in the Philippines and South Africa continue to be eased.

And it has been all hands on deck as some of our HQ staff were retrained to provide front line support to all of our customers.

Clearly the extended lockdown and subsequent economic challenges faced by the country as a whole, businesses and consumers clearly poses some bad debt risk. In particular in B2B there may well be business failures, as Government support and furlough schemes fall away in the Autumn. The long term consequences clearly, are not known.

As Kate and I will come on to explain, we have obviously provided prudently for this.

Despite this, current circumstances mean that access to reliable, affordable connectivity has never been so important - and considering the current economic climate, low prices matter more than ever before – that clearly makes us very well placed as the only national value provider in the market.

As a business, we are returning to offices, following our 'Safe', 'Gradual', 'Flexible' and 'Structured' framework, and of course in line with Government guidelines. We' are already trialling a return to our HQ in Salford, in the North West, with some volunteers and it's going very well so far.

Working closely with Government throughout COVID-19 and also, alongside other ISPs, we have provided connectivity to a number of key critical locations, including several of the NHS Nightingale Hospitals, numerous care homes and GP surgeries right across the country and supermarket distribution centres.

Slide 5: Acceleration of Fibre strategy; good EBITDA growth year on year ; outlook stable including COVID-19 impact

Moving to the next slide, and today's announcement. We are very pleased that our clear focus on Fibre and cost reduction has delivered solid results in full-year 20.

Not only have we seen a surge in customers taking fibre with 34% growth year on year, we have also seen a headline EBITDA growth of nearly 10% (pre-IFRS 16), at £260 million. Whilst we have seen some ongoing industry-wide revenue trends, we have made excellent progress on cost savings which have more than offset this revenue drag. We have also completed our HQ move from London to Salford, consolidating all of our employees in a single northern campus and we've seen fantastic increases in both engagement and productivity – especially over the last few weeks.

Like many other companies, we are not going to be giving formal guidance today, but as we look at current trends, the outlook for the next twelve months sees stable EBITDA year-on-year, and that includes a COVID impact of around 15 million pounds. We also expect to see strong cash conversion. And as you will have seen from the RNS, we are also maintaining our dividend of 2.5p

In numbers:

- The Fibre base grew to nearly 2.4m, and as I've said, strong Fibre uptake in both Consumer and B2B throughout the year
- 78% of new consumers are taking Fibre, that compares to 58% last year
- and in B to B to C, we're seeing strong take up also, at 58%.
- We accounted last year, for nearly a third (32%) of new FTTC connections on the Openreach network – so significantly ahead of our market share.

- We also of course completed the sale of our Fibre Assets Business, FibreNation, to CityFibre Holdings for £206m. This is clearly underpinned by long-term, competitive wholesale agreement. And of course, the sale represented an excellent return on investment.

As Kate will explain, we also refinanced our long-term debt, significantly improving our interest payments.

So, a robust set of results, underpinned by fibre growth, cost savings and EBITDA improvement. Despite the impacts of COVID-19.

Shortly, I'll take you through the strategy and a little bit more of the outlook, but now I'll hand over to Kate for the financial review.

Slide 6: Financial Review

Thank you Tristia, and good morning everyone.

Over the next 15 minutes or so, I am going to take you through the financial performance of the Group for the year.

Clearly there is a great deal of focus at the moment on COVID-19. However, much of our financial year was completed in a pre-COVID-19 world, and as such, my section will focus on a look back at the year, with reference to COVID-19 where applicable.

Tristia will then provide a bit more colour about the COVID-19 impact on TalkTalk and on our outlook.

Slide 7: Year on year Headline EBITDA growth driven by significantly lower cost base

As you will remember from the half, we are now required to report under IFRS 16. We have adopted this on a modified retrospective basis, which means that we have not re-stated Full Year19 under IFRS 16.

We have instead provided numbers for full year 20 under both IFRS 16 and IAS 17, so you can still see like-for-like comparisons versus the prior year.

I will mostly talk to the pre-IFRS 16 numbers. There is a slide in the appendix that outlines the adjustments and if you have any questions you can of course pick up with Tim or me later today.

Similarly to the half, we have seen a contraction in revenue and gross margin, whilst making significant progress on cost savings.

This has enabled us to grow Headline EBITDA by nearly 10% year on year – even after including a c.£3m increase to our bad debt provision to account for COVID-19 uncertainty.

As a result of this EBITDA growth, we have seen improved profit before and after tax, and consequently earnings per share are also up year on year.

As per our stated policy, the dividend for the year is 2.5p.

Slide 8: Revenue and ARPU impacted by voice decline and legacy re-contracting, offset by Fibre penetration

Moving on to the next slide.

Whilst the blocks are deliberately the same size, the chart gives you a sense of the moving parts within revenue and ARPU. The red ones are the short-term trends, whilst the green blocks we see these as our fundamental strategy.

We have seen a continued contraction in the second half, with revenue excluding carrier and off-net down 1.7% for the year. There has been little change from previous trends we have talked about, with industry-wide headwinds from voice usage and boosts continuing as consumers and businesses use cheaper or even free VOIP or video call services rather than traditional landlines.

Within Corporate, Voice dropped 16% year on year, equating to £14m, and there was a similar decline in the Consumer division across usage and call boosts, which made up a large proportion of the overall revenue contraction.
The year-on-year Voice decline will of course become less of a negative as the absolute voice revenue decreases.

It is probably worth noting here that there was a small uptick post-COVID-19 in voice usage, but this was short-lived and returned to normal levels as consumers and businesses adopted video calling platforms like Zoom and WhatsApp.

We also continue to encourage our remaining legacy customers to re-contract onto our Fixed Low Price Plans. We've increased our in-contract base to 71% from 68% at the end of full year 19. With a high proportion of our base in-contract, we feel this puts us in a strong position with regard to regulatory and industry commitments towards out of contract pricing.
It has come with some ARPU dilution - largely from higher-paying copper customers - but again, we see this as a short-term headwind, with these customers signing up for longer term deals and taking faster speeds with Fibre, making them more profitable over the customer tenure.

Waking up some of these legacy customers in a competitive market has seen a little bit of incremental churn from this cohort, leaving us with a slightly smaller average base compared to the prior year, which also contributed to lower revenue.

Increasing the Fibre mix continues to partially offset these headwinds, whilst Data revenue growth of 4.6% also had a positive impact, driven by Ethernet base growth and a higher take-up of our 1gig services.

These green blocks are the key long-term drivers of ARPU and revenue growth.

Q4 was impacted by a number of the headwinds previously mentioned and also saw some COVID-19 challenges with lower sales; the cancellation and pausing of Sky Sports boosts when the Premier League stopped; and the removal of voice usage caps.

Whilst some of these will have an impact on Q1, we are now starting to see sales return to more normal levels, and the return of the Premier League next week will of course see an uptick in TV boost revenue.

Worth noting here that even if we do see some ongoing revenue weakness we are very confident we can offset this with cost savings, where we still have significant levers to pull.

Slide 9: EBITDA up 9.7% year on year; with Fibre mix driving significantly reduced cost base

Moving on to the next slide, whilst revenue has contracted, cost of goods sold has remained broadly flat year on year despite higher Fibre penetration. Whilst Fibre comes with higher input costs, we had the full twelve months of BT Openreach Fibre discounts versus only seven months in the prior year.

The moving parts I've just described within revenue have flowed into gross profit, but we are already seeing significant benefit further down the P&L from increasing the Fibre mix.

Like-for-like operating costs are down £79 million year-on-year, more than offsetting the gross profit contraction, enabling Headline EBITDA growth of 9.7%.

As you all know, we have completed our head office move from London to Salford, with Salford now our registered address. The move has delivered ongoing cost savings of £23m to date, with £19m coming through operating expenditure, and we are well on course to deliver our £25m-£30m range for annualised savings, with more to come in FY21.

The remaining year on year reduction is split between cost to serve and SAC and Marketing. The rapid migration of customers onto Fibre lines means more customers benefiting from higher speed and more resilient connections. As a result, we are seeing fewer faults, less engineer visits and fewer calls into the call centre.

In tandem with this, the full roll-out of 'My Online Service Centre' has seen more and more customers self-serving, reducing calls to our contact centres, meaning we have significantly reduced our costs to serve year on year. We expect these reductions to continue in FY21 as we further increase our Fibre penetration of the base.

Within SAC and Marketing, we have fully transitioned to a more targeted, digital approach to marketing. We have largely moved away from price comparison websites and entered into alternative customer acquisition and marketing models with different partners. Enhanced by a new distribution relationship, this shift to digital channels has enabled us to bring down customer acquisition costs year on year, and we believe we can continue to make savings in this area.

It's worth mentioning at this stage that we included a c.£3m increase to bad debt provisioning to account for COVID-19 uncertainty in full year 20. As we plan for full year 21 we have currently assumed, what we think is a prudent, £15m incremental bad debt impact in the current year.

Aside from the increased bad debt provision, we expect the positive momentum in cost reduction to continue, which underpins our EBITDA growth in the long-term.

Slide 10: Cash flow and net debt

Moving onto cash. This year has seen us continue to simplify and restructure the business, so as previously flagged, the relationship between EBITDA and cash is somewhat distorted by one-offs.

However, the actions we've taken to date, that have impacted the cash flow this year, like exiting Mobile, the move to Salford and entering a better distribution agreement, are now largely behind us. Of course we have also had a significant inflow from the transformational sale of our FibreNation business.

I will take you through working capital, interest and non-Headline items in more detail in a moment, but the rest of the cash flow should be largely as expected.

Capex was broadly stable year on year, and this was despite £19m spent on FibreNation throughout the year. This compared to £13m spent on FibreNation in the prior year. As such, underlying Capex of £97m in FY20, represents a decrease year on year. We would expect to further reduce Capex in full year 21, as a simpler business focusing on fixed connectivity and our network capability.

Investments, as you'll remember, relates mainly to the TV business and our YouView joint venture, although there was also some incremental investment this year in the FibreNation business prior to the sale to CityFibre. Therefore, this should reduce next year to a similar level to FY19.

Finally, you have the £28m dividend payment. We are reiterating our dividend policy today and have said we will review that policy as we continue to de-lever over the medium term.

Slide 11: Working capital outflow driven by timing of payments and change in distribution model

You'll remember at the end of the first half that we had a working capital outflow of £80m, which was driven by some Full Year 19 payments falling into Full Year 20, the move from one distribution model to another and the IFRS 15 impact of significant growth in Fibre volumes.
We explained that we didn't expect these to reverse in the second half, so the outflow would remain around the £80m mark.

At the year end we had an additional working capital outflow due to settling a key supplier monthly invoice earlier than forecast, resulting in an additional payment year on year, to the tune of £75m.

Slide 12: Re-financed activity and Fibre Assets Business inflow saves £48m over 5 years

While interest and tax was broadly flat year on year, we have recently re-financed our borrowings so I wanted to spend a couple of minutes explaining the changes.

In February we issued a new bond, to replace our previous bond. We increased it from £400m to £575m, whilst improving the interest rate to 3.875% (from 5.375%) and extended the tenor from 2022 to 2025.

This, combined with the Fibre Nation sales proceeds, enabled us to reduce the size of the Revolving Credit Facility from £640m to £430m, extending it to 2024. There were some one-off fees but over the next 5 years we will save around £48m, with a greater proportion of fixed, long-term, lower cost debt and additional liquidity.

Slide 13: Underlying non-Headline items continuing to reduce

Now to non-Headline items. The last few years have seen high levels of exceptional items, all relating to simplifying and reorganising the business, which is now broadly done.

Leaving FibreNation aside for the moment and looking at non-Headline items from a P&L perspective, we continue to bring down overall non-Headline items. Excluding FibreNation, we report £11m exceptional costs for network transformation, £15m costs for our head office move and £7m exceptional profit from the MVNO business we are winding down. These three items totalled £19m, as compared to £34m in the previous year.

Looking ahead to next year, we see these being lower again, and anticipate non headline items in the P&L being less than £10m.

From a cash perspective, again excluding FibreNation for the moment, non-Headline costs were broadly flat year on year, as we incurred the bulk of the cash costs from the head office move, as well as the final exit payment relating to discontinuing our MVNO operations. The cash costs continue to lag slightly behind the P&L costs due to the timing of payments, but whilst they will be higher than P&L costs in FY21, they will be significantly lower year on year pre Fibre Nation.

Turning now to FibreNation, there is plenty of information on this in the appendix and in the notes to the RNS. However, in short, we recognised £109m in the P&L as a non headline item - that's broken down as £206m consideration, less the net asset value, less transaction fees and a discretionary payment to all employees.

From a cash perspective, you can see a £202m inflow, which represents the £206m consideration less the operating loss incurred by FibreNation in full year 20 prior to disposal. The remaining cash outflow in full year 21 represents the discretionary employee payment and transaction fees.

Slide 14: Cash outlook – strong cash conversion

Looking ahead to next year, you should expect strong cash conversion, around 25% before the dividend and final Fibre Nation cash flows.

With significantly lower working capital movement, a small outflow, simply a function of growing the Fibre base and incurring some upfront costs from our new distribution model;

lower Capex by virtue of there being no FibreNation spend, but also reduced underlying Capex;

Interest and tax £5m-10m lower year on year;

Excluding FibreNation Non-Headline items also lower;

Investments back down towards the £7m seen in full year 19 and the dividend remaining flat.

With stable to growing EBITDA expectations we will generate cash net of all these items in full year 21.

Slide 15: Summary

So to conclude, we have continued to see good momentum in Fibre, and the cost to serve benefits of these customers is really starting to show in the P&L.

That, combined with excellent progress on other cost savings initiatives, has enabled us to deliver 9.7% growth in Headline EBITDA (pre IFRS 16), including a £3m COVID-19 provision.

We are starting to feel the rewards of three years of simplification, with the business on a much more stable footing.

Whilst we are not formally guiding due to the COVID-19 uncertainty, from the trends we are currently seeing we expect stable EBITDA, even after assuming around £15m COVID-19 impact; and we see a clear path to cash generation in full year 21.

And with that, I will hand back to Tristia to run you through our plan.

Slide 16: Our Plan

I'm now going to take you through our plan in a little more detail.

Slide 17: Our plan remains unchanged despite changing COVID-19 landscape

COVID-19 has only further validated our market position as the scale value provider. The need for reliable, affordable connectivity is more important than ever at this critical time.

There is also clear demand for faster speeds, higher bandwidths – and this has simply been accelerated by the COVID lockdown as people do much much more from home and of course online

The drive towards Full Fibre is also accelerated – it remains a major priority for the Government, especially as a boost to economic growth post the Covid period.

Moving on to the next slide.

Slide 18: Medium term shape; acceleration in higher speed and bandwidth products, structural price advantage, ongoing cost reductions

Most of you will have seen this slide in our previous results presentations taking us through the medium-term outlook.

However, I did want to remind you about the plan.

As you can see, we'll continue to accelerate Fibre and higher bandwidth, higher speed products. These will come with higher ARPUs and over the medium-term will lead to modest revenue growth. Though of course we will see some short term impacts due to both ongoing voice and copper declines and indeed COVID-19.

We also expect a modest increase in the cost of sales – Fibre is more expensive than copper on a wholesale level, but we have offset that with some of the very very competitive commercial agreements.

Gross margin will remain relatively stable. That is despite the drag on voice services and boosts and of course our proactive approach to encouraging legacy customers often paying very high prices for copper to re-contract.

As we continue to make good progress on cost reduction, driven mainly by accelerating Fibre take-up. We will also see continued flexibility in our cost base, and in particular our Covid experiences mean that we have learned real lessons about how things can be done differently, largely via digital and are effectively much much more cost efficient.

Therefore, we are confident we can deliver ongoing EBITDA growth over the medium term due to the modest growth in revenue and a persistent focus on cost reduction.
All of this is underpinned by having the majority of our base on Fibre and Ethernet products over the medium-term. Which will be further accelerated by the increased demands of home-working that we're seeing today and clearly the need for reliable, affordable connectivity.

Slide 19: Our Priorities

Moving on to our priorities

Our strategy remains unchanged, you'd expect me to say that, clear focus on providing best value for money connectivity to our customers in B2B and Consumer, and radically simplifying TalkTalk to focus on fewer priorities as a leaner and more efficient business.

For the year ahead, we focus on the same six key areas:

- Driving Fibre
- The Consumer business
- B2B
- Network and Connectivity
- Cost Reduction and of course,
- Our People.

Moving on to the next slide

Slide 20: 'Fibre for Everyone' initiative seeing rapid uptake of Fibre, resulting in cost to serve savings

As we've been saying for a while now - we are very very focussed on delivering Fibre for Everyone and rapid uptake, the year just gone shows exactly that.

We continue to drive scale adoption of our superfast Fibre-to-the-Cabinet products.

- nearly 60% of the base is now on FTTC
- and as I said earlier, we're taking nearly a third of all of Openreach's Fibre new net adds, significantly ahead of our share.

This follows a reduction in wholesale prices after Ofcom's Wholesale Access Review (WLA) as well as commercial agreements with Openreach.

We're also launching other higher speed, higher bandwidth products.

- That includes Gfast, which is in the market now. Still a part fibre product – but it offers speeds at 150mbps and 300mbps.
- Plus we have our Fibre to the Premise trials with Openreach well underway and we'll be scaling those from July.

As you would expect, we are selling Fibre to the Premise at scale on the FibreNation footprint and that's with City Fibre and we expect that to continue as they rollout their homes.

The acceleration to Fibre in Consumer and B2B underpins lower churn, lower cost to serve, and increasing ARPU underpinning the EBITDA growth that I talked about earlier.

Moving on to the next slide.

Slide 21: TalkTalk is an important national aggregator of wholesale FTTP; providing future-proof connectivity

TalkTalk is determined to be a national scale aggregator of wholesale FTTP, providing future-proof connectivity across the UK.

The long-term solution is really to transition all customers to these new full fibre networks and the Covid-19 experience has really shown us that. We are committed to this and the conditions need to be right.

Fibre to the Premise network investment only really works if it is underpinned by high, fast take-up by scale, national ISPs such as TalkTalk.

- With multiple routes to market through the Consumer business, B2B and indeed Wholesale, we offer a significant existing base, and we are one of very few scale operators able to offer significant volume commitments to network builders underpinning their business case to build and drive commercial advantage.

We're in close discussions as everyone knows with Openreach on the scale FTTP rollout – we hope to be able to say more on that very soon.

We are also committed to driving meaningful volumes of customers nationwide in return for competitive pricing and attractive terms to incentivise migration.

That is simply the best way to accelerate FTTP rollout and ensure the whole of Britain benefits.

Moving on to the next slide.

Slide 22: Sale of FibreNation sees acceleration of Fibre strategy with a wholesale-only approach

Clearly last year we saw the sale of FibreNation to City Fibre Holdings, and as part of that sale we have locked in a highly competitive wholesale price with CityFibre.

We will be migrating our customers to their FTTP network on an exclusive basis, subject to certain exclusions and with variable volume commitments. We're now working together to bring FTTP to as many customers as possible, and as fast as possible.

We would of course also look to enter into alternative wholesale agreements with other FTTP providers if it makes sense to do so.

Moving on to the next slide.

Slide 23: Consumer: Structural price advantage, accelerating Fibre mix and reducing cost to serve

Let's now focus on our Consumer, our residential division.

In a competitive market where value matters, we have a clear structural price advantage over our rivals. With an accelerating Fibre mix and reduced cost to serve.

Three quarters of new Consumer customers took Fibre last year, peaking at 85% in March, with the faster 80mbps product increasingly popular, not surprisingly.

Our Fixed Low-Price Plans continue to resonate. With a guarantee of no mid-contract broadband price increases, customers can save around 10-15% over the length of their contract compared to what they would pay with an alternative provider.

We have a very clear commitment to fairer deals for consumers; and we fully support Ofcom's fairness drive. During the pandemic, we have continued to send end-of-contract notifications, so customers are kept informed about the best deals available to them.

While the focus is clearly on Fibre, we continue to offer competitive bundles and drive ARPU growth through our sensibly priced add-ons such as TV, mobile and voice services.

As we continue to improve the customer experience, we saw an overall fall in complaints and an acceleration of online services. I'll share more on that in a moment.

There was a short-term impact from the COVID-19 lockdown, complaints are now stabilising following the easing of restrictions and the re-opening of our overseas contact centres.

Our ambition to see 100% of customers on a Fibre product by 2025 is clearly borne out by these customer trends.

And as we've said before, we have flexibility in our cost base, which has been more than accelerated by COVID-19.

Next slide.

Slide 24: Acceleration of speed and bandwidth; underpinning reduction in costs and churn

The move to fibre fundamentally improves the economics of our business as we've said.

This image shows the acceleration of re-contracting customers from copper to Fibre deals: And on the left you can see the legacy products - copper and voice – with even Fibre 40 becoming a legacy given the increasing take-up of higher 80 meg speeds and above.

Many customers have initially been going for our entry level Fibre product. But the demand now is really there for the 80/20 product.

- 49% of new Fibre customers took the higher ARPU 80/20 product last year.

Gfast has launched as I've said, FTTP is being trialled and we're going to full launch in July.

As we move up the ladder, ARPU starts to increase, cost to serve and churn continues to come down and of course profitability improves. We see Fibre customers being significantly less likely to churn – and I'll explain a little more on that in a moment.

That is why we are fully committed to our Fibre for Everyone plan.

Slide 25: Customers with higher speeds and a Wi-Fi Hub are less likely to churn

This slide starts to put a little bit more data behind the points around churn and that customers with higher speeds and a Wi-Fi Hub are materially less likely to churn away from us.

These charts clearly demonstrate how both the greater the speed (on the left), reduces propensity to churn.

But also the presence of the new Wi-Fi Hub further improves churn rate.

The lower lines on each graph indicate faster speeds – and the presence of a Wi-Fi Hub

And when a customer has both FTTC and a Wi-Fi Hub, churn is 50% less.

So overall, as the Fibre mix of the base increases, churn rates continue to improve.

Moving on to the next slide.

Slide 26: Customer experience – what we've learned since COVID-19; accelerated move to 'digital first'

We have learned many lessons through the Covid-19 period and particularly we've been absolutely committed to driving the best possible support for our customers through this difficult time. We absolutely believe also that this will lead to some positive long-term changes.

Firstly, an acceleration of our move to digital tools. We've moved many of the TalkTalk team from other areas to prioritise customer service; we have hired more agents; and we're really focussing on 'First Time Fix' as customers are empowered and choose 'self-serve' options to resolve problems and make changes to their packages.

Around 115,000 customers are using our online service centre every single week. That's up from only 40k before Covid-19.

We've prioritised Voice for Vulnerable Customers so that those most in need get a dedicated service.

The sudden closure of call centres in Manilla and Durban has now being eased – and we have been working very closely with partners locally to make sure that we manage agents back into the offices in a safe way.

And in the last year overall, we started to see some very positive metrics in external NPS and complaints.

- We had our best-ever NPS scores
- We also had a marked increase in CSAT.
- And we continue to make solid improvements with Ofcom complaints. And in fact, the recently published figures for Q4 includes some of our lower ever complaint levels.

Slide 27: Good trading resilience through COVID-19, with value provider position serving us well

Moving now on to trading.

We've seen some really good trading resilience throughout the Covid-19 outbreak as our value position continues to serve us well.

A greater reliance on the internet, essential utility, clearly has meant less churn.

Like other companies, we've pulled back on marketing and there have been reduced engineer visits. That has impacted new gross adds however that started to come back and we see a relatively buoyant gross adds market in the recent days and weeks.

We did see a short-term increase in Voice volumes; although now we are pretty much back to pre-Covid levels as online communication via video calling platforms such as Zoom, Microsoft Teams etc overtook that.

Good news for us is that the demand for Fibre remains strong - as many as 88% of new customers took Fibre in one week –but again, Openreach activity has now started to open-up and therefore help volume.

We are therefore accelerating our pre-existing plan – and as we speak to today, things are generally looking stronger: sales levels are resuming to more normal levels, contact centre capacity is increasing, and so far, customer debt looks ok.

We are seeing more payment deferral requests and some direct debit cancellations – but these have not gone up nearly as much as we have expected.

Slide 28: Consistent strategy in B2B with move to higher bandwidth products

Moving now on to B2B.

Business customers are just like consumers, they are demanding more data and higher bandwidth products. These charts show the upgrade path for our different B2B customers.

Higher bandwidth products come with a higher ARPU and lower cost to serve – leading to a sustained margin growth.

It will come as no surprise that the acceleration to higher speed Fibre and Ethernet products is the primary focus for both our Wholesale and Direct B2B business.

- Nearly 60% of partner gross adds took a Fibre product in Full Year 20.

We also strategically locked in several key long-term Broadband and Ethernet partners with long-term commitment deals in the year, and that added 5.3k to the Ethernet base, taking our overall base to 42.6k.

Renewed focus on Direct B2B is working since we structured it as a stand-alone business and is bearing fruit delivering record Fibre net adds in FY20.

Wholesale still represents the vast majority of TalkTalk Business. It remains Britain's largest provider of wholesale broadband, with over 50% market share. ARPU for wholesale customers as we've talked about before is typically lower than a direct customer. And they have much lower cost to serve so the overall profitability is very similar.

Slide 29: COVID-19; B2B impact better than expected, but business failure creates uncertainty

In terms of Covid-19, thus far, the impact of lockdown and business inactivity has not been as bad as one might expect. We have seen a little bit of bad debt, but we have as Kate explained, made sure we've prudently provided for that.

We've implemented significant measures to support B2B customers, such as

- Allowing businesses to dial up or down bandwidth as required
- Talking to customers about payment plans
- 'soft cease' process for businesses - pausing temporary payments during temporary line cessation

- We've developed content hub for customers and partners detailing all the government financial assistance available to them.

And we've been working with the Government throughout COVID-19 to provide connectivity as I've talked about to many critical NHS sites.

Sadly, and as we know, not all businesses will survive COVID-19, which represents some risk to our short and medium-term plans. However, as Kate described:

- we've provided as necessary at the year end and we are mitigating through our c. £15m provision going forwards.
- we are also driving new sales pipeline – we're well positioned as the value provider to win business, including those in key or new sectors.

Slide 30: Optimising our Network, exponential data usage

Moving now to our network.

The push to higher bandwidth products alongside 40% year on year increases in data, predominantly driven by video, means that having a resilient, stable network has never been more important.

COVID-19 has pushed daytime traffic higher – and although evening peaks have remained more stable in part due to live sports being suspended, we are actually seeing very very good network delivery and good headwind.

It's important that we strike the right balance. We're using our Capex carefully to manage consumer demand today whilst also of course investing in futureproofing and modernising the network.

Video streaming and online gaming continues to dominate peak, growing consistently and particularly through the last few weeks. Bandwidth consumption contributes to our peak usage record of over 6.4tbps.

We've invested carefully to improve how we manage that network demand and ensure the cost per Gb continues to come down as data increases.

To help manage this demand, we have successfully continued our strategy of storing (or caching) content as close to the network as possible, minimising buffering and optimising required network expansion.

We now serve over 90% of Netflix's content at the network edge, and with recent market entrants such as Disney+ and Amazon Prime Video driving more over the top content, we are working closely with those providers to adopt similar strategies.

So, all in all we can keep our network costs down while absorbing the increased demand for data. This is key to how we ensure the rapid growth of Fibre delivers improved profitability.

Slide 31: Gold standard connectivity at a brilliant price across our Fibre products

Moving on. And our investment in the network is now really bearing fruit.

According to the recent Ofcom data, we now have the fastest average download speeds over 24 hours on our Faster Fibre and our Superfast Fibre products. And that is compared to BT, Sky, Plusnet and Vodafone equivalents.

Fibre customers are experiencing the shortest waiting times while browsing the internet or accessing video content via Netflix, YouTube and iPlayer.

We are best in the market for these metrics – and these are measured in milliseconds - meaning our fibre customers experience a brilliant service getting to their content immediately and on demand.

55% our total traffic is delivered on-net from our caching platform, delivering content closer and closer to our customers, and therefore improving our customer experience.

And all of this is highlighted in the latest Ofcom speed report from November 2019.

Slide 32: Simpler, leaner cost base – optimisation continues

Moving now on to cost optimisation.

So, from how the network runs in the most efficient way – to how we do the same for the whole business

You will know extremely well that over the last three years, we've been more focussed than ever as we become a simpler, leaner business.

We continue to deliver our non-core products – TV and mobile - in a very capital light way. That won't change.

And on our core products, the combination of regulatory and commercial discounts has made Fibre more profitable.

Our Self-service model, with new digital tools such as the Service Centre benefitting both Consumers and now the Wholesale partners also.

Central costs, as Kate has shown, are materially lower due to our HQ move to Salford – we have a smaller, lower cost operating model - and we will continue to benefit from this in Full Year 21 as clearly these savings annualise.

We are undergoing like any business an external spend review – to ensure the cost base aligns with a smaller set of priorities

We have a new distribution model and digital marketing approach. We have seen significant SAC & Marketing efficiencies.

And lastly as Kate has described, the re-financing of the Bond and RCF, combined with the receipt of consideration from sale of the Fibre Business will see lower interest costs

Slide 33: Proud of our people; wellbeing of workforce paramount

Moving now on to our People.

I'm immensely proud of the TalkTalk team as I've said earlier. They've been working around the clock in often very challenging times.

It's been possible for almost all of our team to work safely from home, and as virtual working has become the norm, we have made a huge effort to make sure people feel supported and connected.

So despite these circumstances, we have seen employee NPS now up at record levels – increasing 69 points and that is since the HQ move was announced. It now sits at +43.

We are now working very hard to prepare for a phased return to work. We don’t anticipate everyone will be back in the office withing weeks. We absolutely believe that flexible This is supported by a ‘Safe’, ‘Gradual’, ‘Flexible’ and ‘Structured’ planning framework – and following Government guidelines closely.

Slide 34: Outlook and Summary (Title slide)

Slide 35: Outlook

The global economic impact of the COVID-19 pandemic, is going to be uncertain and clearly significant.

As a subscription annuity business selling an essential service, we exit the year in a more robust operational and financial position but clearly like any other telco we are not going to be immune to the upcoming challenges.

Given this uncertainty, and like many other companies, we are not providing formal guidance at this stage of the year.

However, we don’t expect a significant deviation from our previous objectives.

We expect Headline EBITDA to be stable and that assumes a c.£15m COVID impact. We also expect strong cash conversion in the year.

Slide 36: Summary

So to summarise, we’ve delivered a robust financial performance in the last 12 months. The main highlights of that include:

- Continued surge in take-up of Fibre and acceleration of our Fibre strategy
- Transformational sale of FibreNation
- Strong progress on cost saving initiatives
- And good year-on-year Headline EBITDA growth of close to 10%

We are now a much simpler and stronger business.

We are well placed to navigate the uncertain COVID-19 situation and we’re extremely proud to have played our part in keeping the nation connected in these extraordinary times

Broadband is critical national infrastructure and the need for affordable and reliable connectivity has never been greater.

And that brings us to the end of our Full Year 20 annual results presentation. Thank you very much for joining us. Kate and I hope to see you all very soon.

/ENDS

Please note that the actual speech as it was delivered may deviate from the script made available on TalkTalk Group PLC’s website.