BT Group FY24 Results Presentation

Slide 1: Cover

Slide 2: Forward looking statements

Slide 3: Allison Kirkby title slide

Good morning everyone and welcome to our full year results presentation. Thank you for taking the time to join us today. It's a real honour to present BT Group results for the first time as CEO.

By way of an agenda, we will begin by looking back at some of the progress we have made this financial year, before looking forward: outlining our sharpened focus and outlook, and then moving onto Q&A.

I'll start with the full year highlights on slide 4:

Slide 4: Continued strong delivery against strategy

First and foremost, I believe our strategy is the right strategy; to **build and connect** our customers to next generation networks at pace, to **create standout customer experiences** and to **lead the way to a bright and sustainable future**. This strategy continues to prove itself, delivering another set of solid results.

- Our focus to improve customer experience has meant that Group NPS trends were positive throughout the year, up 1 point to 24 overall.
- And, a solid operating and financial performance led to growth in both adjusted revenue and EBITDA.

- Capex reduced to £4.9 billion despite record build, driving normalised free cash flow ahead of our guidance to £1.3 billion.
- And, as a result of structural efficiencies, especially in Openreach, I am today announcing that we have passed peak capex. Yes, you heard that right, we have now passed peak capex. This, together with ongoing operating efficiencies, means we expect normalised free cash flow to increase from this point on.
- We achieved our £3 billion pounds of gross annualised cost savings 12 months early and at a cost of £1.5 billion, which is £100 million lower than forecast. This is a great achievement and I see a huge opportunity for further savings which I will outline later.
- Enabled by this performance, demonstrating our confidence in our plans, and in line with our progressive dividend policy, we are increasing our total dividend to [8.0] pence per share.

Personally, I am pleased with these results, as they give me confidence in the strategy that has delivered them. However, I do believe that with greater focus, improved operational discipline, and an acceleration of pace of modernisation, we can deliver an even brighter future for BT Group, faster. More on that in a moment, but first I want to reflect on how we have performed in each of our CFUs…

Slide 5: Openreach | Strong performance driven by CPI linked pricing and growth in sales of FTTP and ethernet

Openreach delivered another strong performance with growth in both revenue and EBITDA.

Our full fibre footprint today stands at more than 14m premises, and in Q4 our annualised build rate accelerated to 4 million.

Customer demand for full fibre has remained high, with just under 5 million premises now connected. Which means we have market leading take-up of 34% and an 'excellent' Trustpilot rating.

Our ethernet business is often overlooked but it's actually a >£1bn business in its own right and it's also growing, with revenue up 11% and ARPU up 6%.

With respect to broadband lines, I'd like to start with some context. We have a significant, 74% share of the UK's fixed wholesale broadband lines. And, as outlined in the Openreach business briefing back in November 21, we always assumed we would lose some lines, roughly 2% per year, and we have. We did however expect market growth to offset some of these losses, but in fact the market has declined on the back of the downturn in house building and the cost-of-living crisis hitting broadband adoption. But, to be clear:

- We are not seeing any meaningful acceleration in competitor losses, as they have been broadly flat in recent quarters;
- In areas where we have built full fibre our broadband line base has grown;

- ARPU, given recent inflation, is ahead of expectations, up 10% and rises with the mix improvement to full fibre which far outweighs the drag from the losses of [lower value and higher fault rate] copper lines;
- And so, we remain very comfortable with the expected returns on our investment.

Considering our significant market share, our best defence has been to build full fibre faster, and more efficiently, than anyone else… which is exactly what we have been and are doing!

Finally, I am really pleased to announce today that the Department for Science, Innovation and Technology has notified Openreach of its preferred bidder status for the Type C Project Gigabit cross-regional supplier contract, which in the early phases covers over 100,000 hard to reach premises. The Government have currently stated that Type C contracts are up to half-a-million premises including £800m of grant funding. This allows us to build momentum even further in the coming years.

Moving to the next slide…

Slide 6: Consumer | Growth delivered through CPI price rises, increased roaming and FTTP connections

Consumer delivered a solid performance with growth in revenue and EBITDA.

We continue to connect customers at pace, with our full fibre base up 39% and 5G connections up 22%.

ARPU for both fixed and mobile has been strong, with broadband up 5% to £41 and postpaid mobile up 9% to £19. As anticipated, the gross to net drop through from ARPU to EBITDA reduced to around

30%. This fiscal year, we expect the drop through to be even lower, following the compounding of high price rises over the last two years, and as we rebalance the front and back book, before recovering in the second half of the year and again in fiscal year 26..

However, despite significant price rises and competitive markets, we held monthly churn for the year at 1.1% for both broadband and mobile. This reflects our strength in customer service with both BT

and EE Ofcom complaints equal to or lower than industry average for mobile, broadband and landline.

In October, we launched our new integrated EE digital platform to drive convergence. This included new connectivity propositions, building on our fibre and 5G leadership, and better tech products and services delivered via a simpler, set of customer journeys. Overall, this is improving customer experience, with those that have migrated showing a higher rate of convergence and NPS, and sets us up for a return to growth in both our base, our ARPUs, and in the number of services our customers buy from us going forward.

Moving to slide 7…

Slide 7: Business | Legacy declines and higher input costs partially offset by growth in SMB and security

In spite of a 2% drop in revenue, Business is showing the early signs of operational improvement.

The trends are clear: the market is shifting to next generation products and solutions and we need to migrate our customers at pace, to all of them - full fibre, 5G, Voice over IP and secure, cloud-based services. Progress, albeit from a low base, has been good

this year with our 5G base up 80% and our full fibre connections up almost 60%. We also have over 50% of our customers on Voice over IP. And high NPS scores speak to the relatively seamless way in which we have managed migrations.

In certain revenue streams Business is performing more positively, such as security up 11%, SMB up 4% alongside improvements in NPS.

The biggest challenges for Business have been the speed at which we have been able to move off legacy services and the effectiveness of offsetting rising costs with pricing. These legacy, pricing and cost pressures, combined with FX headwinds, led to the weak EBITDA outcome, which Bas and the team have been working to address, since "ripping off the plaster". And that effort continues.

Now let me hand over to Simon to take you through the numbers.

Slide 8: Simon Lowth cover

Thank you Allison, and good morning to everyone.

Slide 9: Delivered in line with our outlook across the CFUs

So, starting with our individual unit results on slide 9.

Consumer revenue was up 4% for the year on a pro forma basis. Service revenue grew by 5% driven by the annual contractual price rise, the higher FTTP base and higher roaming, partially offset by a decline in voice revenues and continued handset to SIM-only migration.

EBITDA grew by 5% driven by the increased service revenue, partially offset by higher input costs and prior year one-off items.

In our **Business** division, revenue was down 2% driven by declines in high margin legacy products and managed contracts, foreign exchange and a £41m revenue adjustment in Q4 reflecting a risk of billing inaccuracy on a small number of products with bespoke pricing. These headwinds were only partially offset by continued growth in our small and medium business segment and in security.

EBITDA declined by 16% for the year reflecting the lower revenue and higher input costs, only partly offset by the benefits of cost transformation. The one-off revenue adjustment also impacted Q4 EBITDA but was partially offset by some lower costs.

Openreach grew revenue 7% in the year, driven by CPI-linked price increases and growing sales of fibre-enabled products and Ethernet. This was partially offset by declines in the base of broadband and voice only lines. The fibre-enabled base grew, offset by declines in the copper base.

EBITDA grew by 9%, driven by the revenue flow through, improved cost transformation including around 3,500 lower FTE, partially offset by pay inflation and higher FTTP provision volumes. Q4 EBITDA was impacted by one off costs relating to a historical commercial dispute. Absent the one-off, Q4 EBITDA margin would have been consistent with Q1 to Q3.

Other EBITDA for FY24 was £(29)m driven by exit costs from terminating leases as we continue to rationalise our office estate through our Better Workplace Programme. Going forward we expect Other EBITDA to outturn closer to zero.

Slide 10: Delivered ahead of our outlook with lower capex supporting increased NFCF

Moving to our Group Results on slide 10.

Overall we saw a solid performance, delivering another year of top and bottom line growth. We have achieved our FY24 guidance for Revenue and EBITDA, delivering growth on a pro forma basis. We outperformed on normalised free cash flow, driven by capex efficiencies across the business.

Adjusted revenue for the year was £20.8 billion, that's up 2% on a pro forma basis. Growth in Openreach and Consumer was offset by a decline in Business.

Adjusted operating costs before depreciation were up 2% on a pro forma basis. In FY24, the gross benefits from our cost transformation were more than offset by the impacts of inflation, notably two pay rises and increased business rates and non-commodity charges in energy, and some increased sales commissions and network running costs.

Adjusted EBITDA for the year was £8.1 billion, that's up 1% on a pro forma basis. Revenue growth combined with cost transformation more than offset the inflationary pressures.

We have recognised a non-cash, impairment of goodwill allocated to Business of £488m as a specific item, reflecting the significant decline in profitability in recent years.

Capex, excluding spectrum costs, came in at [£4.9 billion] for the year, down 3% and below our guidance range. This was achieved through a combination of lower FTTP build unit costs, increased efficiency in our systems and IT delivery, and more targeted customer contract investments. Cash capex for the full year was £5.0 billion. This was higher than reported capex due to £160 million of grant funding including BDUK, partially offset by the timing of capital creditor payments. For FY25 we expect cash capex to be around £200m higher than reported capex due to the net impact of grant funding and capital creditors.

Normalised free cash flow decreased 4% year on year. The benefit of EBITDA growth and lower cash capex was more than offset by working capital timing and a £200 million tax rebate in the prior year. At a high level, the increased working capital outflow in FY24 was driven by £100 million of receivables timing and a net outflow of £100 million from a £500 million repayment of supplier financing offset by £300 million of handset monetisation and £100 million of forward copper sales.

We paid no UK cash tax in FY24 and welcome the Government's announcement in last year's Autumn statement to make full expensing permanent. We will continue to pay no UK cash tax in FY25 through to FY27. From FY28 onward, we will start to pay UK cash tax as our capex reduces – although we will continue to benefit from the cumulated losses early into the next decade.

The IAS 19 pension deficit increased by £1.7 billion to £4.8 billion mainly due to the increase in real interest rates and narrowing of credit spreads, partially offset by pension contributions. As a reminder, the BT Pension Scheme hedges on a funding basis which mechanically means we are over hedged on an IAS 19 basis. Our cash contributions are unaffected by the IAS 19 deficit.

And as Allison just announced, we're proposing a **final dividend** of 5.69 pence per share, an increase of 3.9%, bringing the FY24 full year dividend to 8.0 pence per share.

On that note, I'll hand back to **Allison**.

Slide 11: Allison Kirkby title

Thank you Simon. Today is my 106th day as CEO of BT, so I thought it would be a good opportunity to set out my first impressions, where I see our greatest strengths, where we need to be better, and how we will drive significant value for all our stakeholders in the years ahead.

Slide 12: BT Group has a unique set of assets

After five years on the Board, it has still been important for me to meet our customers and colleagues and really get under the bonnet of the operations. There were three key things I was looking to get a broader perspective on:

1. Where do we have the means to win?
2. What do we want to be?
3. And how are we going to get there, faster?

As many of you know, BT Group has a fantastic set of unique assets.

We're the digital backbone of the UK, with the leading next generation networks. Our fixed network covers around 98% of the country, with full fibre reaching nearly half of that, providing us a significant competitive advantage. In mobile we provide 88%

geographic coverage with either 4G or 5G. And our converged core is designed to manage peak network growth and provide the best possible connectivity experience.

We have deep relationships with our customers, whether that is our strong partnerships with CPs in Openreach, or the 25 million customers and 1.2 million UK businesses we work with. Fun fact - we keep up to 200 million devices connected across our fixed and mobile networks - every single day. Our brand equities, loyal customers and low churn are evidence of the power and stability of these connections and relationships.

In Openreach, we are our **customers' first choice**: delivering fixed access at scale throughout the UK, providing excellent customer service with a fair and predictable long-term pricing model.

In Consumer, **we are the best positioned to win** in the retail market: we have three strong brands, one of the UK's largest subscription businesses, an integrated digital platform and a growing suite of tech products and services.

And in Business, we enjoy a **relationship with more companies** than anyone else in the country, from the smallest start-up to the largest public and private sector organisations. And we have seen a really positive response to Global Fabric, our Network-as-a-Service proposition for multinational customers.

These assets combined with personal and brilliant customer service give us a unique opportunity to fully embed ourselves in the digital fabric of our customers' daily lives.

And they are underpinned by our highly experienced workforce, our unrivalled scale in digital and technical capabilities, and our strong balance sheet.

Taken together, I believe these assets represent a **distinct and unique competitive advantage**, **in** the UK, and **for** the UK.

But what does success look like?

Slide 13: Successful telcos are national champions leveraging their assets to create value for all

I have spent almost 15 years in this industry, with experience in both challenger and incumbent telcos across multiple markets. What I have seen is that the most consistently successful telcos are national champions with a proud history, clear purpose and geographic scale, and who have modernised, simplified and leveraged new technologies to stay ahead of the competition and become even more relevant for their customers in an increasingly complex, digital world. But what do they have, that BT doesn't **yet** have?

- It starts with culture. The best telcos have a clear purpose, are single-mindedly customer-focussed, and excel at execution. And they are constantly challenging themselves to be better. As a result, they have a highly engaged, empowered and productive workforce.

- Customer experience has been built as a key differentiator, relative to their peers. They use data and insights to drive deep customer understanding, resulting in high rates of brand awareness, engagement, consideration, share of wallet and customer loyalty through iconic brands excelling at service in both assisted and digital channels. They are recognised as being vital to solving their customers' everyday digital needs.

- The best telcos are of critical national importance, with the best network coverage, the best services and are always the

- most reliable and trusted provider to all parts of society. They are generally providing most of the emergency and critical services that governments and the public sector rely upon, and they are thought leaders in their country's tech, digital and cyber-defence roadmaps.

- Finally, of course, the best telcos demonstrate disciplined capital allocation, have a focus on constant cost transformation, drive consistent revenue <u>and</u> EBITDA growth and have a ROCE mindset.

- BT has some of these characteristics already, but not enough of them.

- As you have seen from me elsewhere, you can expect that I will be [highly] focussed on all of these pivotal enablers to drive value for all our stakeholders – colleagues, customers,

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the country and most importantly now, our shareholders – and to achieve these best-in-class levels of performance.

So what are we going to do, now?

Slide 14: Our existing strategy is set to drive long term value

This slide will be familiar to many, setting out our current strategic framework, including the three pillars, the five priorities and our one, unifying ambition: "to be the world's most trusted connector of people, devices and machines'. I believe this is the right strategy, but we now need to sharpen our focus and double down on a few key areas, recognising that:

1) The transition from fibre build to fibre monetisation is happening now
2) We are going to concentrate on the UK
3) And we will focus our transformation efforts to accelerate end-to-end, pan BT, product, process, platform and service simplification

Slide 15: Our strategy remains, now with a sharpened focus to accelerate progress

Whilst we have clarified our ambition to now be the UK's most trusted connector, our sharpened focus remains centred around our existing priorities.

- In Openreach, it's more of the same: continuing to build out the highest quality fibre backbone for the country, faster and more efficiently than anyone else, without the need to

increase Group capex levels further. We will build 4m homes this year, at the same total cost as it took us to build 3.5m homes last year, keeping us on track to deliver the returns we committed to when we first started.

- In Consumer, we have made significant investments into our networks and our new digital platform. We now need to bring the benefits of both to our customers, by accelerating migrations to these next generation platforms, and delivering the best converged customer experience in the country.
- In Business, we need to deliver on the "Better on BT" strategy that we launched last year, with a focus on the UK as we explore options to optimise our global business.
- In terms of transformation, this next phase will generate a further £3bn of gross annualised cost savings to be delivered by the end of FY29.
- And, we will continue to optimise our portfolio through efficient capital allocation to drive value for all our stakeholders, and an increased return for our shareholders.
- My confidence in us delivering these promises is reflected in our new mid-term normalised free cash flow guidance that Simon will outline later.

So, to answer my three earlier questions: 1) we will capitalise on our unique assets, 2) we will become the UK's most trusted connector of people, devices and machines, and, 3) we will get there by taking action on our culture, customer experience and operational rigour to improve consistency of delivery.

I'll now look briefly at how we will execute this through each of our CFUs, starting with Openreach on slide 16.

Slide 16: Deliver Openreach growth and strong returns on FTTP

Openreach are firmly on track to reach 25m premises passed by December 26.

We are building faster than anyone else whilst maintaining a premium quality at a lower cost than our major competitors - below £300 per premise. Our scale efficiencies and constant engineering innovation drives increased EBITDA and normalised free cash flow, which will – as said before - significantly increase post the peak build.

On connections, we excel with market-leading take-up of 34% - and this is even higher where we built two or more years ago, with take-up of over 50%. With best-in-class provisioning, full integration with our CPs and excellent customer service we are confident we

can accelerate connections which combined with indexation, will drive further ARPU growth.

In our operations, our full fibre fault rate remains about 60% lower than copper and as we migrate customers to fibre, fault volumes continue to fall, benefitting our customers and our opex.

On BB lines, we forecast that competitor losses will continue at a similar rate, as we always expected to lose a bit of market share. Of course, if current market headwinds continue, we expect moderately higher losses in this fiscal year, but this will naturally be addressed when the market returns to growth.

So, in summary for Openreach, we will continue to build and connect our customers to full fibre better, faster, further, ***and*** more efficiently than any of our competitors, driving a better product for our customers and a fair return for our shareholders.

Turning to slide 17.

Slide17: Drive Consumer growth through converged propositions and services

In Consumer, our primary focus is in winning the household and driving convergence of our core services to improve customer life-time value. We are already on this journey with both our full fibre base and 5G connections continuing to grow. Looking forward, by leveraging our brand strength, best networks, new digital ID platform and services, and one of the largest subscription bases in the country, we are confident we can grow our customer numbers and our ARPUs as we enable our customers to live, work, game and learn on the UK's best converged network.

Moving onto Business on slide 18…

Slide 18: Capitalise on Business's unrivalled assets to restore growth

Business is a clear example of where our sharpened focus is really needed.

By doubling down on the UK, alongside radical modernisation, we will: accelerate the migration of our customers to next generation secure, cloud-based products and services; streamline, standardise and scale our portfolio; and as a result dramatically improve customer relevance and experience while reducing our cost base.

This, combined with trust in the BT brand, our best networks and critical national infrastructure means there is real potential for Business to return to growth and become the most trusted "one stop digital shop" for businesses, large and small, as we help them move into an increasingly digital age.

Slide 19: Digitise, automate and reskill to transform our cost base and improve productivity

Moving to the Group as a whole.

We have had considerable success in reducing our costs. However, we are still far behind our [European] peers when it comes to productivity and moving forward this is what we must prioritise. Today I am announcing a further £3 billion of gross annualised cost savings over the next 5 years with one-time costs of approximately £1 billion. 80% of the savings comes from a small number of big programmes, focussed on …

- **Shutting down legacy**, as we build and migrate our customers to next generation platforms and networks.
- **Simplifying** our products, platforms and customer journeys, by moving to new common platforms, such as new EE.
- **Scaling the use of fewer, shared platforms, and deepening our data and AI capabilities** to drive growth, productivity and efficiency while creating brilliant customer experiences

- We still expect **headcount to reduce** from 120 thousand employees and contractors today, to between 75 and 90 thousand by the end of the decade. But more importantly, this next phase of transformation is also set up to improve customer experience, and enable the growth agendas in our CFUs.

Without doubt, the future BT Group will be a simpler, leaner and better company, for all its stakeholders.

I will now hand you back to Simon to take you through our final priority and outline our new guidance.

Slide 20: Simon Lowth cover

Slide 21: Optimise the business portfolio and capital allocation

Thanks **Allison**. Slide 21 sets out our performance objectives and capital allocation framework for the group.

Execution of our strategy with sharpened focus will deliver enhanced cash flow and returns.

As I will set out in our Guidance shortly, we will deliver see a **significant** expansion in normalised free cash flow over the next few years – starting this financial year - supported by revenue and EBITDA growth, cost transformation and lower capex. We expect to deliver normalised free cash flow of around £1.5 billion in FY25, around £2 billion in FY27 and around £3 billion by the end of the decade.

The cash flow generated will be deployed in line with our capital allocation policy:

- Our first priority is to invest in value enhancing growth.
- Our second priority is to support our commitments to the pension fund. We agreed the 2023 triennial valuation in October last year, in which we reconfirmed that we are firmly on track with our existing funding plan.
- We will maintain a strong balance sheet. We are committed to a BBB floor and a BBB+ through the cycle credit rating target.
- Residual cashflow is available to fund returns to our shareholders, underpinned by our progressive dividend policy

So, we have a clear set of performance objectives and a disciplined capital allocation framework that will drive value for our shareholders.

Slide 22: Outlook – driving consistent and predictable growth in value

Moving to slide 22 which sets out our guidance for FY25 and beyond.

Starting with FY25, we continue to expect both **adjusted revenue** and **adjusted EBITDA** growth with revenue of flat to 1% and EBITDA of around £8.2 billion. This is despite challenging macro-economic conditions, cost of living challenges and a highly competitive market for connectivity services.

In Consumer, we expect Revenue and EBITDA growth to be weighted towards the second half of FY25. Lower equipment sales, a reduced benefit from annual price rises and base decline will impact performance in the first half.

Beyond FY25 we expect consistent and predictable growth in **revenue** and **EBITDA** underpinned by pricing and adoption of next generation converged products and solutions, with EBITDA growth

ahead of revenue enhanced by cost transformation. Our further £3bn of gross annualised cost savings comprises the completion of our existing programmes in FY25, which will deliver an additional £600m of cost efficiency, followed by transformation programmes, leveraging digitisation and AI, in Consumer, Business and Openreach.

Approximately 40% of the £1 billion cost to achieve will be incurred in FY25. The remaining costs will be spread over the following years, and will clearly run at a much lower annual rate than over the past five years.

On **capex** we are reducing our outlook to less than £4.8 billion for FY25 and FY26, down from our previous guidance of £5.0 to 5.1 billion. This is underpinned by prioritising investment to our UK connectivity business and, above all, by capex efficiencies across the Group. For example, Openreach will build to 4 million premises in FY25 at the same total cost as last year's build to 3.5 million premises, while Digital have improved software development productivity by about 10% over the past year.

Once we have built FTTP to 25 million premises by December 2026, we will reduce capex by at least £1 billion pounds a year. Capex will start to decrease in FY27 with the full £1 billion impact visible from FY28 onwards.

As just discussed**, normalised free cash flow** will increase significantly by the end of the decade driven by EBITDA growth, capex reduction and broadly neutral working capital, partially offset by increased tax charges towards the end of the decade. Specifically, we will deliver normalised free cash flow of £1.5 billion in FY25, rising to £2.0 billion in FY27 and £3 billion by FY30.

The confidence in our outlook has allowed us to increase the full year **dividend** and reconfirm our progressive dividend policy into the future.

Overall, our outlook shows our confidence in the business and our conviction that we will continue to deliver consistent and predictable growth in value not only in the long term, but the short term as well. We will use any surplus cash generated to reduce leverage and provide increased returns to our shareholders. On that note, I'll hand back to **Allison to conclude.**

Slide 23: Allison Kirkby title

Slide 24: Fully focussed on creating value

Thank you Simon. So, in summary:

- BT has delivered another year of solid financial and operational progress, proof that our strategy is the right strategy;
- We have a unique position in the world, but we are especially strong in the UK, with the potential to become a true national champion, the digital backbone empowering our customers and the country;

- Our investment into next generation infrastructure has now peaked, and we are inflecting to significant cashflow growth in the coming years;
- Consequently, our returns are rising and moving forward we will demonstrate a disciplined approach to capital allocation and a focus on shareholder returns – a commitment reflected today in an increase to our dividend.
- In summary, I am excited about what the future holds for BT Group, and our stakeholders. I see significant growth potential for all – our colleagues, our customers, the country and our

investors, as we realise our ambition to become the UK's most trusted connector of people, devices and machines.

Thanks for listening. We will now move to Q&A. Given the time available and the number of people in the room and online, please keep it to one question per person.

First question please.