

NBN Co FY19 Financial Results

Stephen Rue – Speech: Part One

Good morning and welcome to NBN Co's results announcement for the year ending 30 June 2019.

I trust you've all received the email containing the media release and presentation slides. If not, these materials are now available on our website.

Joining me here today is our Chief Financial Officer Philip Knox – welcome Philip. Also joining me are Chief Customer Officer Residential Brad Whitcomb and Chief Customer Officer Business Paul Tyler.

Before we get to the details of fiscal 19's results, I'd first like to take you through the key financial results and highlights of our achievements for the year. Philip will then take you through the detailed financials before I provide an update on our operations and we open up for Q&A.

Today's full year results are particularly impressive for two reasons. The first is that 2019 marks the tenth year that NBN has been in operation, during which time we've made more than 10 million homes and businesses ready to connect to the network, bringing connectivity to parts of Australia that never before had access to high-speed broadband.

Ten million is certainly an impressive number, but to me the more incredible part of that figure is that three million of those were added in just the last financial year alone.

This is an extraordinary effort from the people here at nbn but also from our delivery partners. It is this one team approach which has underpinned the success of rolling out the network across this vast continent.

The other reason why these results are impressive is not so much about what we have achieved, but what we will achieve in the year ahead - and that is the completion of the build by the end of June 2020.

But before we look ahead, I'd like to touch on the results of the past year and lead you through some of our achievements.

Fiscal 19 was our busiest ever year of network construction as the company and its employees deployed new technologies like fibre-to-the-curb at scale, rolled through some of the nation's busiest metropolitan centres, and continued to hit our construction milestones and financial targets.

Activations on the network maintained strong momentum in fiscal 19 to total more than 5.5 million as 1.5 million new customers signed up to the network.

Of those new customers, almost 80 per cent are signing up to wholesale speed tiers of 50Mbps or faster. This is great for those customers and their experience of the potential that the nbn network promises.

Fiscal 19 was another year of strong growth for our revenue base which increased 43 per cent to \$2.83 billion.

In a significant sign that we are moving towards financial sustainability, we achieved solid gains in blended ARPU, which increased to \$46 a month, compared to \$44 just twelve months ago. There were three main drivers of that ARPU increase in the past 12 months: customer migration to higher speed plans, increased data consumption, and strong growth in our business segment.

I'll now hand over to Phillip who will take you through the finer detail of the financials.

Thanks Philip.

--- PHILIP KNOX ---

Thank you Stephen, and hello. It's great to be with you today.

The financial results I will present today are detailed in our Annual Report.

The 2019 Annual Report, which includes a Directors' report and an audit opinion from the Australian National Audit Office, will be published on our website following the tabling of the report in Parliament.

Now, turning to our performance for fiscal 19, I would like to begin by talking to the headline results.

The headline results for fiscal 19 show another year of strong performance with the Company exceeding its core targets for activations, revenue and premises ready to connect. At the end of the year, more than 5.5 million Australian homes and businesses were connected to services over the **nbn**[™] network, representing a 37% increase on the prior year.

Strong revenue growth continued in fiscal 19 with revenue increasing by 43% on the prior year to more than \$2.8 billion. The growth in revenue is primarily driven by the increase in active premises and was supported by the uplift in total ARPU from \$44 in the prior year to \$46 in fiscal 19.

Our network rollout continues to expand with almost 10 million premises ready to connect at the end of the financial year and as Stephen stated with this level of progress we remain on track to complete the build by the end of June 2020.

On the following slide we can see the quarter on quarter growth in premises activated with more than 5.5 million premises connected to services over the **nbn**[™] network at the end of June.

During the past twelve months, we activated 1.5 million premises whilst working to improve both the residential and business customer experience. The strong take up of services over the past year means that now almost fifty percent of Australian homes and businesses are connected to services over the **nbn** network.

On the right hand side of the slide, we can see the breakdown of active premises by technology.

With respect to total ARPU, this has increased to 46 dollars in fiscal 19, up \$2 on the prior year. This growth was primarily driven by the significant increase in the customer take-up of higher speed tier plans and greater penetration into the business segment with business revenue up 54% on the prior year to almost \$400 million in fiscal 19.

We have also included Residential segment ARPU for the period and we will continue to report this metric going forward. You can see that Residential ARPU has increased by \$1 over the past twelve months to \$44 in fiscal 19.

The driver of this growth is not related to price increases, in fact, we have discounted our CVC pricing with the introduction of the bundled discount plans. However, the take up of higher speed tier plans by customers and the growth in household data consumption have lifted Residential ARPU over the past twelve months.

Now turning to revenue in more detail on the following slide.

The chart on this slide depicts the quarter on quarter growth in revenue over the past 12 months.

Our revenue growth has continued with fourth quarter revenue of \$784 million dollars bringing total revenue for fiscal 19 to 2.8 billion dollars.

On the right hand side of the chart you can see that growth in revenue has continued across all technologies.

Other revenue includes revenue from developers, licencing fees, commercial works activities and the technology choice program. These revenue streams have continued to grow with the expansion of the **nbn** network.

Now turning to the speed tier mix on the next slide.

Following the launch of our wholesale bundled discount products in fiscal 18 we have been extremely pleased with the significant take up of faster speed tier products. As at 30 June, 64 percent of all customers were on a speed tier plan of 50mbps or higher.

In Fixed Wireless, 52% of customers are on the 50/20 tier and 34% on 25/5. For Satellite, 69% of customers are on the 25/5 tier.

Moving onto construction on the next slide - you can see the growth of premises ready to connect over the past 12 months, with an increase of more than 2.9 million premises in comparison to the same time a year ago and an increase of more than 1.1 million premises in the fourth quarter alone.

This progress means that at the end of June, nearly 10.0 million premises were Ready to Connect, representing more than 85% of Australian homes and businesses. On the right hand side we can see the breakdown of premises ready to connect by technology.

In March 2018 we launched our latest access technology FTTC and during fiscal 19 we continued to scale the deployment of this technology with over 600 thousand premises ready to connect at the end of June.

During the year we continued to release optimised HFC footprint with more than two million premises now declared Ready to Connect. This includes the re-release of all premises impacted by the HFC pause decision.

In total, nearly all of Australia's households and businesses are now either in design, construction or are already able to order a service over the **nbn**TM network.

Underpinning the progress of the build is our continued capital investment in the network as shown on the following slide.

During fiscal 19, **nbn** incurred 5.9 billion dollars in capital expenditure. In addition to building the network, we have invested in initiatives to raise the quality and performance of the network, including HFC optimisation, FTTC serviceability and capacity upgrades on the fixed wireless network.

The largest area of capex during the period was in relation to the HFC network with a total capex spend of 1.5 billion dollars for construction and connection activities as well as further network optimisation and capacity upgrades.

With the continued scaling of the FTTC network, \$1.4 billion was incurred during fiscal 19 on construction and connection activities for the rollout of this technology.

Capital expenditure has also continued on the FTTP network, relating to the FTTP Greenfields network, and connecting customers to the FTTP Brownfields network. In addition, we have invested in the development of enterprise grade capabilities and products to service the business segment, which includes extending fibre infrastructure into selected business dense areas.

Capital investment on the Fixed Wireless network reflects the acquisition of wireless sites and integration of base stations as well as the additional capital investment to uplift fixed wireless capacity to enhance customer experience.

We continue to incur capital expenditure on the Transit Network as we cater for both the demand for increased capacity and the growth in the customer base. In addition, investment has continued on network platforms, business support systems, product development and data quality, which is reflected in common capital expenditure.

Moving to cost per premises on the following slide.

HFC CPP of \$2,590 dollars has increased during the year due to further network optimisation and the higher volume of new lead-in conduits and civil works required in the build.

In relation to FTTC, the CPP of \$3,129 has increased compared to the CPP at December of \$3,058. The increase is due to greater civil works required in the build and higher customer connection costs.

The CPP across the other technologies remain materially in line with our expectations and the guidance set out in the Corporate Plan.

Now regarding operating expenses on the next slide.

Operating expenses grew to 2.2 billion dollars for the fiscal year, from 2.1 billion dollars last year.

Direct network costs have grown to nearly \$750 million.

These costs directly relate to operating the network and have increased due to the expanded network footprint and the growth in customers. The increased costs are primarily due to assurance, maintenance and restoration services, rental of network infrastructure, site access and network power.

The increase in employee benefits expenses is driven by the change in the resourcing needs of the Company and a reduction in the percentage of employee expenses capitalised.

Other expenses have remained flat year-on-year and relate to marketing and advertising, IT and back-office costs to support business and operational growth.

Subscriber Costs decreased by 2% compared to the prior year and reflect the timing of customer activations onto the **nbn** network.

On my last slide, you can see a summary of our financial statements for the year ended 30 June 2019.

I would like to draw your attention to the EBITDA before subscriber costs result. In accordance with statutory accounting requirements, EBITDA before subscriber costs was \$608 million dollars for fiscal 19 compared to a loss of \$103 million dollars in the prior year.

This achievement is extremely pleasing as we continue to focus on growing profitability for the future to enable re-investment to benefit our customers and achieve cash flow positive status following the completion of the build. With that, I will hand you back over to Stephen.

Stephen Rue – Speech: Part Two

Thanks Philip.

I said upfront this year was an incredible year for the build program, leaving us on target to complete the build and pass more than 11 million homes and businesses by the end of June next year. This is an incredible achievement for a company that only came into existence a decade ago.

Anyone who knows about long term multi-year construction projects knows the success rate of coming in on time and on budget is rare. But this is not just any project. This is a construction program of enormous complexity, one that sees us connect every premises

in every town and suburb across this vast continent. In fact, it is one of the most complex projects this nation has ever seen.

In the face of these considerable challenges, we have almost completed the regional and rural construction of the network and nearly all of Australia's households and businesses are now either in design, construction or are already able to order a service over the nbn network.

This has placed us in a very strong position to complete the build, on time and on budget, by the end of June 2020. This will be a great achievement for nbn and its employees, and the people of Australia who will be able to experience the social and economic benefits of fast connectivity.

BUSINESS

In the business space, fiscal 19 marked the launch of wholesale products capable of delivering gigabit speeds for government and enterprise customers and tailored broadband bundles for small and medium sized businesses.

We are very bullish on our business segment going forward and believe it will greatly benefit competition and broadband access for thousands of businesses across the country.

Most recently we were delighted to partner with Australia Post who last week announced plans for a digital transformation to upgrade services across the country, with **nbn** as the wholesale broadband provider.

As Phillip mentioned, the business segment has had a great year and is on its way to becoming a billion-dollar-a-year business unit by fiscal 22. We have a steady pipeline of new business products to launch over the coming years, and I look forward to updating you on these as we continue to grow this part of the business.

WHOLESALE PRICING

Meeting our construction and operational objectives continue to be important markers for NBN, but against this background we need to intensify our focus on completing the rollout and delivering the best possible experience we can for customers.

A critical part of serving customers hinges on not only creating a sustainable nbn, but also a sustainable industry where we can all work together to bring connectivity and its benefits to more homes and businesses.

Recently, there has been much industry and media conjecture around NBN's wholesale pricing and where it should move in the future. And as you all know, we are in the middle of consultations with the industry on this very matter.

As with any discussion between a wholesaler and retailer on price, there are competing interests and pressures at play here.

While RSPs continue to call for cheaper prices, NBN has to stay focused on striking the balance between creating a competitive environment for internet and phone providers, while ensuring we can create a sustainable business model to allow us to reinvest into the network and deliver the social and economic benefits that broadband promises.

That's why we remain committed to lifting take-up on the nbn, to bring broadband to customers not yet connected – including more price-sensitive customers - while also maintaining the cashflows needed to reinvest in the network and keep ahead of consumer bandwidth requirements.

WRITE-DOWN

Before we move on from pricing, I'd like to take this opportunity to clarify our position on whether or not NBN's assets need to be subjected to a write-down.

I want to be absolutely clear on this point: they do not.

NBN Co assesses the carrying value of its assets, applying an annual fair value assessment in accordance with accounting standards. This looks at the replacement cost of assets and the expected future cashflows of the business. Based on recent assessments, no impairment issues exist and we do not see any basis for a write down.

When commentators and industry repeat calls for a write down, what they are really calling for is a reduction in wholesale prices. These are two very different issues.

We are not philosophically opposed to price reductions as we have demonstrated with discounted bundles but we need to be pragmatic and carefully consider the impacts such moves would have on the nbn and its core reason for being which is to connect the nation with better broadband so we can help create a more prosperous Australia.

To do this we need to have sufficient cashflows to complete the build, improve customer service, upgrade the network, and most importantly deliver the social and economic benefits that this technology unlocks.

CX

I'd now like to update you on NBN's key customer experience metrics which largely remained steady throughout fiscal 19. The key highlights included installations of nbn™ equipment Right First Time coming in at 91 per cent; agreed installation times were met on 96 per cent of occasions; and just 6 faults after connection for every one thousand premises per month.

While these statistics remained steady in fiscal 19, it's worth noting that customer satisfaction for overall broadband experience continues to climb, increasing by almost 5 per cent from a year ago.

We acknowledge that we still have work to do to improve the customer experience. But, at the same time, it is pleasing to report that we have maintained steady, consistent customer KPIs, as we have scaled up our business. This has been our biggest build year to date – and we have significantly grown our business to serve the needs of more than 5.5 million residential and business customers.

OUTLOOK

As I come to the end of my first year as Chief Executive, I'm pleased to report that the momentum from fiscal 19 continues to roll into fiscal 20 with 200,000 customers joining the network in July to make it our biggest ever month for connections at nbn.

This is a fantastic start to fiscal 20 as we zero in on completion of the build, but we know we are set for another big year ahead as we tackle some of the hardest to reach, most complex to build, and difficult to access premises in the country.

These include premises in the hearts of our bustling city centres, culturally significant sites and heritage listed homes and buildings.

We look forward to tackling these challenges in the year ahead, knowing that our strong focus on customer experience and the commitment of our people to complete the build will help position the nation and the economy for the benefits that this network will unlock.

Thank you. We will now take questions.

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