Stephen Rue – Half Year Results FY21

Part one

[SLIDE 1 – NBN Co H1 FY21 Results]

Good morning and welcome to NBN's results announcement for the six months ended 31 December 2020.

[SLIDE 2 – Stephen Rue CEO]

I trust you all have the media release and presentation slides for today's event. If not, these materials are now available on our website.

Joining me today is our Chief Financial Officer Philip Knox and our Chief Customer Officer Brad Whitcomb.

Before Philip takes us through the financial details for the half, I would like to reflect on some of the highlights of what has been another period of great challenge but also great opportunity and achievement for NBN.

There is no doubt that the impacts and changes brought on by the COVID-19 pandemic over the last year have continued to accelerate the digital needs of homes, businesses and schools.

And it is these very same changes that have cemented the nbn's position as the digital backbone of the nation, and reinforced our purpose to lift the digital capability of Australia.

Just one week ago we passed another significant milestone for the nbn as we connected the eight millionth premises – serving around 17 million Australians - to this vital piece of communications infrastructure.

Having achieved this in just under a decade – a feat that many said was too ambitious – is testament to the incredible work ethic and commitment of the people of nbn, and our industry and the delivery partners, who made this possible.

[SLIDE 3 – Headline results]

HALF YEAR HIGHLIGHTS

And the fact that we have connected more than eight million homes and businesses to the nbn is compelling evidence that Australians need and value the services we provide.

Over the six months to December 31, that was made clear as continued growth in activations, and the adoption of higher speed plans, helped increase total revenue by 25 per cent to $2.3 billion.

While the vast bulk of our revenue continues to come from residential customers, our business revenue has also continued to grow strongly, increasing 25 per cent to $397 million in the half.

We know tough business conditions continue to permeate across Australia and indeed the world, and this has reinforced the need for fast reliable and secure broadband like never before.

One of the big shifts we think will continue in the years ahead, is the decentralisation of businesses away from major CBDs and into regional and outer suburban areas, enabled by broadband.

Since the launch of our Business Fibre Zones in September last year, we have seen a spike for Enterprise Ethernet orders in areas like Wollongong, Mildura and Ballarat as businesses there harness the flexibility and digital opportunities that access to fast broadband promises.

We remain deeply committed to serving businesses of all sizes through our retailers - from the very smallest to the very largest enterprise and government organisations – and we will continue to update you on progress of this important part of our business in the future.

[SLIDE 4 – Activations]

The increases in revenue we posted in the half across our residential and business segments, came as more than 660,000 additional premises were connected to the nbn, taking the total number of activations to 7.93 million premises at 31 December.

[SLIDE 5 – Ready to connect]

We also continued to extend the nbn to businesses and new homes as new housing estates and business precincts continued to be built. This included an additional 160,000 residential and business premises being made Ready to Connect in the half, taking the total number of RTC premises to 11.9 million at 31 December.

Our support of the nation's increasing bandwidth demands continued through the half as more customers continued to take up higher speed plans.

At December 31, approximately 70 per cent of customers were connected to nbn wholesale speed plans, offering peak download speeds of 50 Mbps and above. And more than 10 per cent of customers are now connected to plans with peak download speeds in excess of 100 Mbps.

To support customer migrations to higher speed plans, we recently launched our 'Focus on Fast' campaign. This initiative, like our successful 'Focus on 50' campaign, has been designed to help retail partners encourage more customers to take-up higher speed plans by significantly increasing the value of our bundles with greater data inclusions.

While it is early days in this initiative, we are seeing strong customer demand for higher speed tiers with some 80 per cent of new and upgraded orders being placed for plans of 50 Mbps and above.

Together, this strong rate of customer and revenue growth, has placed us on a path to meet or surpass the fiscal 21 operational and financial targets that we set in our Corporate Plan 2021.

These targets include connecting a total of 8.2 million premises to the nbn by the end of fiscal 21, and achieving revenue of $4.5 billion.

[SLIDE 6 – NBN Co total debt]

RAISING DEBT

Having these financial targets firmly in our sights, alongside our proven financial track record, has placed us in a strong position to engage with external parties for new sources of capital.

Like a start-up transitioning out of its bootstrapping phase, we have now matured our operations and financial performance to the point where we can attract funding based on the strength of our operations and strategy.

And over the last 12 months we have done just that.

In calendar 2020 we raised over $10 billion in third party debt facilities, which has positioned us in the top ranks of Australian corporate borrowers.

Raising this debt is a significant achievement when you consider the economic uncertainty affecting the confidence of global markets. But we are a high-growth business, providing an essential service.

Raising this debt serves three important functions for us.

First and foremost it provides us with the financial flexibility to reinvest in this network so we can extend the reach and capability of the nbn to more Australian homes and businesses.

Second: it is a strong endorsement from domestic and international lenders that we have the right strategy, momentum and business case to back up our ambitions.

And third: the raising of this debt allows us to begin repaying the $19.5 billion loan from the Commonwealth Government which matures in 2024. As of December 31 we have now repaid $3 billion of that loan.

Of course, this is just the start.

We have a big job ahead and we remain focused on raising external debt to repay the remaining balance of the Commonwealth loan and fund our strategy.

I will now hand over to Philip who will share more detail on our financials and capital management plans.

Thank you Philip.

[SLIDE 7 – Philip Knox CFO]

--- PHILIP KNOX, CFO ---

Thanks Stephen – and good morning to everyone on the call today.

Despite the ongoing operational and financial disruptions of the COVID pandemic across the globe, our strong momentum and performance has continued during first half of fiscal 21.

I am pleased to say these results have placed us on a trajectory to meet or exceed our full year revenue, EBITDA and NPAT targets as set out in our latest Corporate Plan.

[SLIDE 8 – Headline results]

Now turning to my first slide, you can see the headline results for the first half of fiscal 21.

Strong revenue performance has continued with revenue increasing 25% on the prior period to almost $2.3 billion dollars. This growth was primarily driven by the significant increase in our customer base and as Stephen highlighted we now have over 8 million homes and businesses connected to the network.

This increase in revenue, when coupled with relatively flat operating costs has led to a 59% increase in EBITDA before subscriber costs to $1.23 billion dollars for the half.

In addition, the strong revenue performance during the first half coupled with declining subscriber costs has driven a substantial increase in our EBITDA result from a loss of $663 million in the first half of fiscal 20 to a profit of $424 million for the first half of fiscal 21.

That's an EBITDA turnaround of almost $1.1 billion dollars on the prior year, and a great testament of the financial strength we have built into our business.

These positive trends are expected to continue in the second half of FY21 on the back of further revenue growth and declining subscriber costs.

Following the completion of the initial build in June, Capital expenditure for the period was $1.4 billion, a reduction of 43% from the prior period.

To finance NBN's ongoing activities and further network investments, borrowings have increased by 11% since June to $22.6 billion.

I will discuss our capital management strategy and funding developments in more detail later in the presentation, but for now I would like to echo Stephens comments in relation to our successful debt raisings.

It's been a great achievement to raise more than $10 billion in the debt markets over the past twelve months. It shows us that external lenders believe in our strategy and that our high-growth business is well positioned to capitalise on a rapidly digitising economy where connectivity to fast and reliable broadband has never been more important.

Finally, on the headline numbers, our operating cash flows have increased by 86% to $1.2 billion, again driven by strong revenue and cost performance.

[SLIDE 9 – Revenue]

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

In the last six months, we connected more than 660,000 new customers to the network, ending the half with over 7.9 million homes and businesses connected to the network.

Growth in new connections continued as the ongoing impacts of COVID-19 and the evolving digital needs of Australian households and businesses accelerated demand for our services.

As I previously mentioned, the growth in our customer base was the primary driver of the 25% increase in Revenue to almost $2.3 billion dollars for the first half of fiscal 21.

Our residential ARPU has remained flat at $45. This has been achieved against the backdrop of our significant industry and customer COVID support, mainly in the form of additional CVC capacity provided to RSPs at no extra cost. The impact of these COVID support initiatives was offset by increased demand from customers for higher speed plans with 70% of customers now on a plan of 50mbps or above.

Our business segment revenues have continued to grow in a challenging market with a 25% increase on the prior period to $397 million dollars for the first half of fiscal 21.

This strong first half revenue performance means we are on track to meet or exceed our FY21 Corporate Plan revenue target of $4.5 billion.

[SLIDE 10 – Operating expenses]

Now moving to operating expenses on the next slide…

Total operating expenses, excluding subscriber costs, reduced by 1% compared to the first half of fiscal 20.

Now looking at the category level – I am pleased to say that despite the significant growth in both the network footprint and customer base, Direct network costs have remained flat.

These are costs directly associated with assuring, operating and maintaining the network.

Employee benefits expenses are 3% higher than the prior period due to higher restructuring costs and significantly lower levels of annual leave taken due to COVID-19 restrictions, as well as lower rates of capitalisation following the completion of the initial build in June.

Other expenses have declined by 9% as a result of various cost reduction initiatives.

After peaking in FY20, Subscriber costs will continue to decrease going forward in line with customer disconnection/migration activity from legacy Telstra and Optus networks.

However, subscriber costs were higher than forecast in the first half due to the accelerated timing of new connections.

[SLIDE 11 – Capital expenditure]

Now turning to capital expenditure on the following slide…

As I previously mentioned capital expenditure has significantly decreased when compared to prior periods following the completion of the initial build in June. The $1.4 billion of capital expenditure during the period primarily related to direct investments into our customer base across four main areas:

Firstly, more than $400 million was incurred in respect to customer connection costs.

Secondly, approximately $400 million was spent on serviceability and build activities as we continued to enhance and extend the network to newly built homes and businesses.

Thirdly, we spent approximately $250 million in capacity upgrades to cater for the growing demand for data. These upgrades were primarily performed across the fixed wireless, HFC and transit networks.

And lastly, we have continued to invest in the development and deployment of enterprise ethernet products to service the business segment and investments have continued across a number of customer experience initiatives

[SLIDE 12 – Capital summary]

Now moving to our capital summary overview on the following slide.

As a reminder, our capital management strategy remains focused on refinancing the Commonwealth loan by June 2024 and funding ongoing business activities and further network investments, as outlined in our latest Corporate Plan.

During the half, the Company secured its inaugural credit ratings with Moody's Investor Services assigning an 'A1' credit rating and Fitch Ratings assigning a rating of 'AA'. These high-grade ratings have assisted us to confidently approach the debt markets as we continue to progress our refinancing strategy.

Following our inaugural private debt raising in April whereby we secured $6.1 billion of bank debt facilities, in December we secured a further $2.4 billion of debt facilities from Australian and Offshore banks. In the same month, we completed our inaugural Australian medium-term note issuance for $1.6 billion, comprising a $1.2 billion five-year bond and a $400 million ten-year bond.

These bond raisings have greatly assisted the Company in establishing a strong foundation for future bond issuances in both the Australian and offshore markets.

Successfully raising more than $10 billion dollars in private debt has placed NBN among the nation's top corporate borrowers, which is a strong signal of not just our maturity as a commercial entity, but also of the confidence that external lenders have in our operations.

This new financing has enabled the repayment of $3 billion dollars of the Commonwealth loan, reducing the outstanding loan balance to $16.5 billion dollars. This repayment has also decreased our weighted average cost of drawn debt from 3.96% to 3.17%. And we expect this to continue to fall as we further progress the refinancing of the government loan.

As at 31 December, $6.1 billion dollars of private and AMTN debt had been utilised, leaving $4.1 billion dollars available to support ongoing business activities and further network investments. The refinancing of a portion of the Commonwealth loan has also enabled the Company to extend the duration of its debt.

[SLIDE 13 – Income statement]

Now turning to the Profit or Loss statement on the following slide, which is presented in accordance with statutory accounting principles.

As I previously highlighted, EBITDA continues to improve and is now positive at $424 million for the half.

Net finance costs include interest on borrowings and finance charges relating to the accounting convention for leases, which as a reminder, primarily relate to right-of-use arrangements to access and use Telstra supplied infrastructure.

[SLIDE 14 – Cash flows]

Turning to my last slide, you can see a summary of our cash flows for the six-months ended 31 December 2020. I would like to highlight the free cash flow result, which has improved by 42% compared to the same period a year ago.

This result is due to the 86% growth in operating cash flows coupled with declining capital expenditure and subscriber costs. We remain focused on growing our free cash flow position as we continue to transition from a build to a fully operational customer led service organisation.

With that, I will hand back over to Stephen.

Stephen Rue – Part Two

[SLIDE 15 – Stephen Rue CEO]

Thank you Philip.

As Philip highlighted, the first half of fiscal 21 has placed us in a great position to meet our key Corporate Plan forecasts for this financial year.

I feel this half, and indeed calendar 2020, was a real watershed year for NBN.

There were significant operational highlights as we completed the initial build and, through a process set out in the NBN Co Act, Minister Fletcher declared that the network should be treated as built and fully operational.

And there were significant financial achievements as we continued to grow our revenue base, strengthened our earnings and raised more than $10 billion of new debt facilities.

HFC UPDATE

But among these successes we also faced challenges.

Recently we made the decision to temporarily not accept new orders for services on our HFC network. We took this step due to a global shortage currently effecting chipsets used in our HFC modems.

This issue will not affect the eight million customers already connected to the nbn, but it will delay some new connections to the nbn HFC network for the next few months – and to those future customers, I apologise for the inconvenience.

In the meantime, we will continue to honour any orders that have been placed until 2 February, we will continue to reconnect and assure customers and, we will continue to connect vulnerable customers.

We are of course disappointed by this recent set-back, but we will not let it define us.

Because, when it comes down to it, we have faced these sorts of challenges in the past and overcome them.

Whether it's connecting some of the hardest to reach areas of the continent, the many and varied challenges of COVID, or the devastating bushfires and cyclonic events of last summer - the people at nbn always find a way, and in the process we become a better organisation for it.

[SLIDE 16 – Mallacoota]

COMMITMENT TO REGIONAL AUSTRALIA

I'd like to digress for a moment here to share a recent example of some of the challenges we regularly come up against.

This one is set in the far east of Victoria, in the small seaside town of Mallacoota.

A town that had been stuck on ADSL era technology for decades.

A town that was just months away from going live on the nbn when the devastating bushfires of 2020 tore through the region and incinerated the aerial backhaul link that connected the town.

After establishing interim communication services for the town, our people got to work rebuilding infrastructure in the area.

It has been a complex build, involving multiple approvals from Parks Victoria, Aboriginal Victoria and Gippsland Council.

This time we also went underground, laying 62 kilometres of cable, ducts, pits and joints between Cann River and Mallacoota, including through the National Park.

[SLIDE 17 – Mallacoota]

Today, the township and its 1000 premises are now reconnected – which is three months earlier than we initially expected.

This is a just one example of how we regularly engage with, and work with, the states and territories to help ensure communities are connected to the vital communication services that NBN provides.

I'd like to briefly address some comments that were made in the media last week in regard to bushfires and NBN sharing information around asset location with states.

As I mentioned, we are fully engaged with states and territories in sharing this data. We have already provided detailed asset location data to New South Wales, South Australia, Queensland and WA and we have deeds with Northern Territory, Victoria, Tasmania and ACT for their review.

Throughout the unprecedented 2019/2020 “Black Summer” bushfire season, we supported affected communities and worked closely with emergency services, Defence, power utilities and retail service providers.

Our community relations teams were deployed in satellite-enabled Road Muster trucks to provide affected communities access to broadband, charging facilities for mobile phones, information on weather, bushfire warnings and news, along with entertainment for children of displaced families.

In many cases, these measures provided the only connectivity available for affected communities to access critical information and get in contact with loved ones in the immediate aftermath of the fire.

We know how important connectivity is to communities during emergencies. We take this responsibility extremely seriously and we will continue to offer whatever support is required to agencies and states.

RURAL AND REGIONAL AUSTRALIA

Indeed, the investments we continue to make in rural and regional Australia are making a real difference to the social, economic and educational fabric that make up these important pockets of Australia.

Supporting areas like these with the broadband services that businesses and homes need to thrive in the digital age has become increasingly important as more Australians choose to move from our major metro centres and lay roots in regional areas.

To me this is the true reflection of what the nbn promises.

This is more than simple internet connectivity.

It is a digital lifeline to the outside world; to employment opportunities; to education; to entertainment; and to each other.

It is the enablement of new businesses and new modes of work for those living in bustling metro centres and rural towns alike.

It is the reinvigoration of remote regions as Australians migrate away from fixed workplaces to new hybrid models that place less importance on where you work, and more importance on how you work.

[SLIDE 18 – Network Investment Plan]

NETWORK INVESTMENT UPDATE

It is for reasons like these, and the clear acceleration of the digitisation of Australia, that led us during the half, to unveil the next evolution of the nbn network.

The blueprint for this evolution was laid out in our Corporate Plan 2021 through $4.5 billion worth of new investments to enhance the nbn network to meet the evolving data needs of the nation.

We are making good progress on this plan that aims to deliver nbn Home Ultrafast broadband to up to 75 per cent of premises on the fixed line network by 2023.

Designs have been drawn and we have identified and allocated contracts to our Delivery Partners to commence work to pass the first 200,000 premises in the FTTN network that will become eligible for FTTP services to support higher speed tiers.

We have also commenced our HFC network program, which has seen the proportion of HFC customers able to access nbn Home Ultrafast increase from 7 per cent in May 2020, to more than 46 per cent today.

[SLIDE 19 – Sustainability]

SUSTAINABILITY REPORT

While we are working hard to progress our network investments, it's worth pointing out that this next phase is not just about bringing the benefits of broadband access to more Australians.

It is also about evolving our operations and increasing our focus on issues of sustainability, not only within our Company, but in the way we contribute to communities and the environments in which we operate.

To that end, we recently released our first Sustainability Report. This report plays an important role in formalising current and new initiatives to guide our organisation and people towards a more sustainable business and future.

[SLIDE 20 – Sustainability pillars]

To me, being sustainable is fundamentally about maintaining and promoting an inclusive, diverse and safe workplace. It's about being transparent and accountable. It's about building a resilient network that brings social and economic benefit to the nation. And it's about making positive changes to address our climate impact.

[SLIDE 21 – Industry collaboration]

INDUSTRY COLLABORATION AND WBA4

Both our sustainability goals and our network investment plan are ambitious projects for us. But we have great faith in our people, and our internet providers and delivery partners to make them a success.

Throughout the half, we continued our deep and detailed collaboration with internet providers as we launched our fourth Wholesale Broadband Agreement, or as we call it WBA.

The latest iteration of this agreement has been designed to provide enhanced customer service commitments with clearer accountabilities between us and internet providers.

It has also been designed to deliver greater price certainty for retailers and enhanced value for customers.

It is great to see the industry support WBA4. With 65 retailers now having signed up, and with at least 70 new initiatives within the agreement to improve the customer experience of the nbn – it is without a doubt our most successful and important wholesale broadband agreement to date.

While WBA sets the foundations for service and pricing over the next two years, we remain committed to ongoing consultation with the industry to ensure they can access the wholesale pricing and services they need to be successful.

To that end, we will soon be releasing our latest Wholesale Pricing Review Consultation Paper to seek industry feedback on how wecontinue to deliver more value and greater certainty to the industry while also supporting customers' broadband needs.

OUTLOOK

We expect the remainder of this fiscal year will be another incredibly busy period for nbn and the industry.

As I said earlier, 2020 was indeed a watershed year for us as the digital needs of homes, schools, businesses and individuals, became more important than ever.

We've witnessed firsthand the transformative effects that COVID has had on our social, work and educational lives.

Not only have the impacts of this virus made clear the absolute need for fast, reliable and secure broadband – it's triggered irreversible changes in consumer behaviour, the way we socialise, how we access education and how we work.

By providing access to the digital tools and services made possible by high-speed broadband, we will continue to support communities and businesses as we work together through the nation’s economic recovery and build a more digitally inclusive society for us all.

Thank you, we will now take questions.

[SLIDE 22 – Questions]