NBN Co Full Year Results FY21

Stephen Rue – Chief Executive Officer

[Slide 1 – FY21 results]

Part one

[Slide 2 – Stephen Rue CEO]

Good morning and welcome to NBN's results announcement for the 12 months ended 30 June 2021.

Our media release and presentation slides for today's call should be with you – but if you have not received them, please visit our website where they are now available.

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

I will make some introductory remarks and touch on the highlights and achievements of the year before Philip will take you through the numbers in more detail. We will then go to Q&A.

[Slide 3 – Financial highlights]

FINANCIAL HIGHLIGHTS

Fiscal 21 was another strong year of performance for NBN as you can see here with our highlights.

As at 30 June, total revenue for fiscal 21 came in at $4.6 billion which was a 21 per cent increase on the previous year.

Together with our continued focus on costs, we posted a $2 billion improvement in EBITDA compared to fiscal 20, to bring our total earnings result to $1.35 billion for fiscal 21.

Excluding the cost of acquiring subscribers from Telstra and Optus, our earnings increased by 46 per cent to $2.6 billion.

[Slide 4 – Activations]

At 30 June, we had connected 8.2 million homes and business to NBN, which represents an increase in connections of 933,000 premises when compared to fiscal 20.

We also continued to extend the NBN network to businesses and new homes as new housing estates and business precincts continued to be built. This included an additional 230,000 residential and business premises being made Ready to Connect in the year, taking the total number of ready to connect premises to 12 million at 30 June.

[Slide 5 – Speed tier mix]

In the 12 months to 30 June, we not only connected more Australians to the NBN, but Australians increasingly took up higher speed services as the proportion of homes and businesses on 50Mbps and faster grew to 75 per cent.

Pleasingly, we are seeing more premises also look beyond our 50Mbps plans with the proportion of customers now on 100Mbps and higher at 17 per cent, which is almost double the 9 per cent at the start of fiscal 21.

This is a huge shift in the makeup of our speed tier mix, especially when you consider that just four years ago, the vast majority of customers, some 84 per cent, were on plans of

25Mbps and slower. Over that same period, the average monthly download amount per customer has increased from 207 gigabytes to more than 350 gigabytes a month.

This didn’t just happen. As Australia’s major broadband wholesaler we have supported this migration up the speed tier stack by offering a series of discounts and additional data inclusions to meet our customers’ growing digital needs.

And this is great for many customers because it allows them to access data intensive applications, it allows them to host high-definition video calls, access telehealth consultations and many other applications that were not possible in the days of dial-up.

Having access to higher speeds is becoming increasingly valuable to many Australian households as the number of connected devices continues to grow, driven in part by the adoption of online gaming consoles and connected devices like digital assistants and security systems.

The point I’m making here is that speed isn’t just downloading files as quick as possible. It’s also about being able to do more, across multiple devices, with your broadband connection.

This week we will be releasing some new research from Accenture, commissioned by NBN, that shows the average NBN customer has saved more than 170 hours in time and effort, or around four working weeks per year, thanks to the ability to perform essential tasks using broadband connectivity.

This research shows that the most time saved from using devices over the NBN includes services like telehealth and remote working, which saves on average, approximately an hour and ten minutes in travel and helps increase productivity.

The fact that we have built this network to support the technological trends of today is a great thing for the country.

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

Thank you Philip.

[Slide 6 – Philip Knox CFO]

Philip Knox – Chief Financial Officer

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

I am pleased to say that despite the continuing operational and financial disruptions of the COVID-19 pandemic, NBN Co met or exceeded its full year guidance for activations, revenue, EBITDA and NPAT as set out in our 2021 Corporate Plan.

HEADLINE RESULTS

[Slide 7 – Headline results]

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

Strong revenue performance has continued with revenue up 21 per cent on the prior year to $4.6 billion dollars. This growth was primarily driven by the significant increase in our customer base and as Stephen highlighted, 8.2 million homes and businesses are now connected to the NBN network.

This growth in revenue, when coupled with relatively flat operating costs has led to a 46 per cent increase in the EBITDA before subscriber costs or ‘underlying EBITDA’ result to $2.6 billion dollars.

Our strong revenue performance and declining subscriber costs have also translated into a considerable increase in our EBITDA result, which has grown from a loss of $650 million in fiscal 20 to a profit of $1.35 billion for fiscal 21. That’s an EBITDA turnaround of $2 billion dollars on the prior year, and a great testament of the financial strength we have built into our business.

Following the completion of the initial build in June 2020, Capital expenditure was $2.8 billion, a reduction of 45 per cent from the prior period.

To finance NBN’s ongoing activities and our new $4.5 billion network investment plan, which we announced in September 2020, borrowings have increased by 16 per cent to $23.8 billion. I’ll talk more to our debt raising progress later in my presentation.

PROFIT OR LOSS STATEMENT

[Slide 8 – P & L]

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

I'll talk to the details on revenue, expenses and EBITDA on the following slides but would firstly like to discuss the bottom line NPAT result.

The statutory net profit after tax or NPAT result for fiscal 21 was a loss of $3.8 billion, which is a 27 percent improvement on the prior year loss of $5.2 billion. I would like to highlight that this result and the improvement achieved in FY21 is in line with our expectations and reflects the current stage of the Company's maturity. Like all large-scale infrastructure companies, significant up-front investment in the construction of the network and customer connections has been made well before our EBITDA position reaches its maturity. And you can see this upfront investment reflected in the depreciation, finance and subscriber cost lines.

In respect to Finance Costs, as a reminder these costs not only include interest on borrowings but also finance charges relating to the accounting convention for leases, which primarily relate to right-of-use arrangements to access and use Telstra supplied infrastructure.

REVENUE AND ACTIVATIONS

[Slide 9 – Revenue]

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

In the last twelve months, NBN Co and its delivery partners connected more than 933 thousand new customers and as I previously mentioned, this growth in our customer base was the primary driver of the 21 per cent increase in Revenue to $4.6 billion dollars. Our residential ARPU has remained steady at $45.

And 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 on ARPU was offset by increased demand from customers for higher speed plans with 75 per cent of customers now on a plan of 50 Mbps or above.

And finally on FY21 revenue performance, our business segment revenues continue to grow in a challenging market with a 26 per cent increase on the prior period to $840 million dollars for the year.

OPERATING EXPENSES

[Slide 10 – Operating expenditure]

Now moving to operating expenses on the next slide.

Operating expenses, excluding subscriber costs, have reduced by 1 per cent compared to the prior year.

Now looking at the category level – I am pleased to say that despite the growth in the network footprint and a 13 per cent increase in our customer base, Direct Network Costs grew by only 4 per cent.

Employee benefits expenses were 5 per cent lower due to a reduction in FTEs following the completion of the initial build and other expenses were flat year-on-year.

After peaking in FY20, Subscriber costs will continue to decrease going forward and we expect that these costs will cease in FY23. However, subscriber costs were higher than forecast in the year due to the timing of customer disconnection and migration activity from legacy Telstra and Optus networks.

STRONG EBITDA GROWTH

[Slide 11 – EBITDA]

Moving to EBITDA on the following slide.

You can see on this slide that our EBITDA position has continued to improve in recent years and as I previously mentioned is now positive at $1.35 billion.

I am delighted to say that fiscal 21 was the first year in which NBN Co recorded a positive EBITDA result.

EBITDA before subscriber costs is equivalent to an “underlying EBITDA” result, as subscriber payments are non-recurring expenditure. Again, we are extremely pleased in the growth in our underlying EBITDA result and the underlying EBITDA margin trajectory you can see on the slide. The growth in these metrics going forward is imperative to fund both our debt and future capital expenditure requirements.

CAPITAL EXPENDITURE

[Slide 12 – Capex]

Now turning to capital expenditure on the following slide.

As I previously mentioned, capital expenditure has decreased significantly in FY21 when compared to prior periods as a result of the initial build being completed in June 2020.

However, it's important to note that while the initial build has been completed, significant growth and maintenance capex will always be required to ensure the health of the network is maintained and future customer demand is met… and most importantly that we continue to deliver on our purpose to lift the digital capability of Australia.

So, while we have seen a decrease in this fiscal year, our capex trajectory will fluctuate going forward as we continue to reinvest to expand the reach and capability of the network. Our new $4.5 billion network investment plan that we announced in September

2020 will be a significant driver of this, but we will also continue to focus investment into rural and regional Australia, ongoing capacity enhancements and connecting new home and business premises.

And we can already see our capital expenditure profile shaping from that of predominately a build company to an operating company with $2.8 billion of capital expenditure in FY21 primarily relating to direct investments into our customer base. Specifically, during FY21 we:

- incurred significant capital expenditure in respect to connecting more than 933 thousand new customers and to deliver capacity upgrades to cater for the growing demand for data.

- Build activities continued during the year to extend the network to newly built homes and businesses to ensure all Australians have access to our ubiquitous network

- We have also continued to invest into our fixed wireless and Satellite networks, which deliver significant economic and social benefits to Australia’s regional, rural and remote communities.

- Immediately after its announcement in September 2020, we began working on our new $4.5 billion network investment plan, which will increase the accessibility of our highest speed plans to more and more homes and businesses across Australia.

- And finally in respect to capital expenditure, we understand the critical role the network plays in keeping communities connected and the nation productive. Therefore, we continue to invest in 'network resilience' and 'security' to ensure the health and performance of the network is maintained in a rapidly digitising economy where connectivity to fast and reliable broadband has never been more important.

CAPITAL SUMMARY

[Slide 13 – 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 maintaining a strong liquidity position.

In order to refinance the government loan and to execute network upgrade investments we are planning to raise a total of approximately $27.5 billion of external debt by June 2024.

As at 30 June 2021, the Company had raised in excess of $14 billion from debt capital markets and bank facilities, with $8 billion of this raised in FY21.

These raisings have established a strong foundation for future bond issuances in both the Australian and offshore markets.

These raisings have also enabled the Company to repay $6.3 billion of the Commonwealth loan, which has a fixed interest rate of 3.96 per cent.

In addition, the diversification of our funding sources has enabled the Company to increase the average tenor of debt and importantly reduce our weighted average cost of drawn debt to 2.79 per cent - and we expect this to continue to fall as we further progress the refinancing of the government loan.

Successfully raising more than $14 billion dollars in private and capital markets debt has placed NBN Co among the nation’s top corporate borrowers. The support and interest we have seen from the debt markets 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 and business model.

CASH FLOWS

[Slide 14 – Cash flow]

Turning to my last slide, you can see a summary of our cash flows for the 12 months ended 30 June 2021. I would like to highlight the free cash flow result, which has improved by 53 per cent compared to the prior year. This result is due to the 64 per cent growth in operating cash flows driven by growing revenues and prudent cost management coupled with the decline in capital expenditure and subscriber costs.

Notwithstanding the great financial performance in FY21, we still have a big job ahead of us in continuing to grow our revenues and free cash flow position. These remain our key financial targets in the medium-term, as generating sustainable positive cash flows is essential to enable investment in the network to meet future customer demand; to deliver great customer service; to meet our Telstra lease obligations; and to enable the raising and servicing of debt.

With that, I will hand back over to Stephen.

PART 2 – Stephen Rue chief executive officer

[Slide 15 – Stephen Rue CEO]

Thank you Philip.

As you've just heard, fiscal 21 was another strong period of financial and operational success for NBN as we met or exceeded our key targets.

This has been a commendable achievement by the company when you consider that over the last 18 months, the importance of and need for NBN has been reinforced as Australians relied on the network like never before.

Over this period, we have witnessed the rapid digitisation of society and the economy that would otherwise have taken many, many more years.

Even under the strain of COVID, we have continued our business-as-usual activities: rolling out the network, connecting homes and business, and investing in better customer experience.

Building, these sustainable financial foundations, while also continuing to meet and fulfill the digital needs of Australian homes and businesses goes to the core of why we exist: to lift the digital capability of Australia.

By achieving our operational and financial targets we are putting ourselves on a trajectory to build the revenue base we need to reinvest in the business and fulfill our purpose.

It is this trajectory that allows us to continue our efforts to improve customer experience, and upgrade access technologies to meet growing and evolving demand.

To be clear, NBN does not build revenue for our own benefit.

Revenues build the NBN for the benefit of all Australians, well into the future.

But to get to the level of financial independence where we can efficiently reinvest, we still have lots of work to do.

Anyone who knows networks, knows that there is no such thing as a set and forget build.

The NBN is like a living, breathing organism. It needs to be managed, maintained and looked after. When you consider that we do this over an entire continent you can appreciate it is no small feat.

And, considering the needs of tomorrow also means we must continue to invest in upgrading the network.

If you take a simple view of our expenditure over the last twelve months, you can see we spent $2.8 billion of capex, $1.2 billion in subscriber costs, $900 million in lease payments predominantly to Telstra, and another $2 billion in operating expenses.

Together, that's almost $7 billion we have spent in the last year, operating and rolling out the network to new homes and businesses, upgrading capacity to support increased customer usage, and keeping rural and regional Australia connected to our cities and suburbs, and indeed the rest of the world.

While we expect our operating costs to continue to decline and subscriber costs to cease, to sustain this level of investment and operating expenditure, and to raise and service debt, it is critical that we operate a highly efficient business that generates sufficient revenues, so we can not only meet customer demand, but meet their expectations of service.

We know we have a big job ahead of us, but in our short history we have already seen our efforts result in positive impacts in competition, consumer access and affordability.

Just recently we saw Australia's largest bank, the Commonwealth Bank, announce it would soon be selling NBN services. It joins a growing group of new entrants, like AGL from the energy sector, that see real value in bundling and reselling our services to attract and retain customers.

Seeing these sorts of organisations enter the telco sector reinforces our view that we are on the right track when it comes to balancing our important policy goals of improving access and competition, with that of our financial obligations.

Of course there will be those who don't agree with us. And there will always be debate between retailers and NBN.

To that, I would point out that for our retailers, overage costs as a percentage of their total NBN costs have continued to fall, and now sit at under 5 per cent across the industry.

For Australians, I would say that competition is better because of NBN, that prices for telco services have fallen in real terms since the NBN came along, and that we have always remained well below what we are allowed to charge under the regulatory rules that determine our pricing.

We don’t see these debates as unhealthy though. Rather, our determination to work in collaboration with industry and regulators is what we believe will deliver the best outcome for Australians.

NETWORK INVESTMENT UPDATE

As we move through and beyond COVID, it will become increasingly important that we work together with the industry and regulators, to sustainably reinvest in this network on behalf of all Australians.

You will all be aware of where our reinvestments are being directed in the next few years.

[Slide 16 – Network investment plan]

In September last year we released our Corporate Plan 2021 and unveiled our $4.5 billion investment to advance the capability, reach and value of the NBN.

We have already made great progress on this plan and I am pleased to confirm we remain on track to make our highest wholesale speed plans available, on a customer demand basis, to up to 75 per cent of homes and businesses on the fixed-line network by 2023.

[Slide 17 – Investment progress]

More than 1.1 million premises have already been identified in the Fibre-to-the-Node network that will undergo local fibre network enhancements allowing them to become eligible for Fibre-to-the-Premises services.

And of those premises identified, 467,000 were in the design phase at 30 June, with construction commencing on more than 100,000 premises.

Recently, we awarded construction contracts to delivery partners with a total value of approximately $1.1 billion as part of this upgrade program.

The award of these contracts means we are on track to deliver greater broadband access to more homes and businesses. Importantly, this work will also help stimulate job creation and retention through new build activities that would otherwise have scaled down at the end of our initial build.

[Slide 18 – Download speeds available]

Our fibre-to-the-curb network is also set for significant enhancements after we took the decision to expand our on-demand, full-fibre upgrade program to premises in the FTTC footprint.

Using FTTP as the upgrade path in the fibre-to-the-curb footprint provides a range of advantages when considering long-term costs, operational cost savings through IT simplification, and consistency with our objective to deepen fibre deployment across the network.

We have also made considerable progress in a very short time with our HFC enhancement program.

As at 30 June, all of the 2.5 million premises in the HFC footprint can access wholesale download speed tiers of up to 250Mbps, and around 87 per cent of HFC premises can access our fastest speed tier, Home Ultrafast. This has been great progress when you consider that a little over a year ago, just 7 per cent of the HFC network could get Ultrafast.

Together, these investments have already made a material difference to the capability of our network.

From a total fixed-line network perspective, and in less than a year, the proportion of customers now able to access our Ultrafast plans has doubled to 40 per cent and is climbing higher every month.

SUPPORTING RURAL AND REGIONAL

We also continue to dedicate significant resources and capital to improve the service and capacity of our network to help more communities in rural and remote Australia realise the socioeconomic benefits that access to high-speed broadband can unlock.

Our support of rural and remote Australia has become more important than ever over the last 18 months as more Australians choose to relocate to regional areas, often taking their city jobs with them, thanks to the connectivity benefits made possible by the NBN.

[Slide 19 – RCF aims]

On top of the approximate $200 million we invested in our Fixed Wireless and Satellite networks to improve capacity and service in fiscal 21, in September last year, we also established our $300 million Regional Co-investment Fund. This fund has been designed to enhance broadband services for rural and regional households, businesses, and communities, primarily in areas that are currently served by our Fixed Wireless and Satellite services.

We have already made some great progress in this area and are looking forward to announcing some of the projects to come out of this fund later in the year.

Our Business Fibre initiative is also progressing very well. This is the program to enable businesses with access to symmetrical download and upload speeds at prices traditionally reserved for the nation's major, central business districts.

We have already created 240 Business Fibre Zones, and just yesterday we announced the addition of 44 new zones.

These will deliver high-speed fibre to a further 60,000 eligible businesses premises across Australia, taking the total number of premises served by our Business Fibre Zones to 850,000.

Importantly, 112 of these zones are in regional areas providing premium business-grade fibre access to more than 300,000 eligible business premises.

These Zones offer great value to businesses wanting to improve their connectivity options, particularly as businesses increasingly use services over Enterprise Ethernet to support applications such as remote file storage, content hosting, unified communications, large file distribution, cloud-based business operations and to connect branch office locations.

INDUSTRY COLLABORATION

[Slide 20 – FY21 Results]

These investments aren’t only positive for the nation. They are helping establish an industry landscape where equity of access, reach and wholesale pricing is helping all Australians connect.

Over the past year we have followed through on our promise to enhance industry collaboration with three key commitments.

The first was the launch of our fourth Wholesale Broadband Agreement – what we call WBA4 - in December.

The second was the outcome of our pricing consultation with industry in April, resulting in a price path commitment out to 2023.

And the third was the commencement of the ACCC and industry stakeholder consultation process to revise our Special Access Undertaking with the ACCC.

I won't labour on the history of these various initiatives, but the important thing to understand here is that all three of these are aimed at ensuring we can work in the most seamless way with industry to support a sustainable sector that can reinvest in service and infrastructure and enable homes and businesses with the benefits of broadband.

For us at NBN Co, this means being an efficient wholesaler that works closely with our retail partners to drive unnecessary cost out of the industry.

We are making significant investments to simplify our IT systems, to reduce hardware and software complexity, and to move towards software defined networks. This will help improve our back-end interlock with internet providers, enable better service outcomes for customers, and support our company-wide business simplification.

We also remain focused on working with industry and regulators, to develop products and pricing that are more modular, flexible and simple, so together we can meet the diverse needs of customers, whether they be small or large businesses, individuals or large families.

At its simplest, becoming an ever more efficient wholesaler is about being able to pinpoint the drivers of customer pain and cost in our industry, and working together to eliminate these drivers.

OUTLOOK

In conclusion, fiscal 21 has been another incredibly busy, and challenging period for NBN and the industry.

We are proud of our financial and operating achievements over the past year which have underpinned the governance of a secure and sustainable network.

But for me, to have been able to help support the nation's broadband needs – to help homes, businesses, schools and individuals stay connected to each other and the world – this has been our greatest achievement.

Of course we are not out of the woods yet. And it will be just as critical that we all continue to work together to support the nation through the ongoing impacts of COVID.

Thankfully, the ubiquitous and reliable nature of the network – this digital backbone that is NBN - means we have a means to bridge many of the rifts caused by this pandemic.

Before I close I want to acknowledge how incredibly proud I am of all NBN employees and our delivery partners. Yes, we have had our challenges as every company does, but the commitment shown to customers and the overall purpose of the company as part of the national landscape makes me proud to be the CEO of NBN. To our frontline field workers performing critical services in difficult conditions, I would like to express my deep gratitude.

Whether it is providing access to new markets for businesses, allowing school children in rural areas to connect to online learning, or ensuring the vital lines of communication in times of disaster are open and accessible – NBN is here to support the nation and lift the digital capability of Australia.

Thank you, we will now take questions.

[Slide 21 – Q&A]