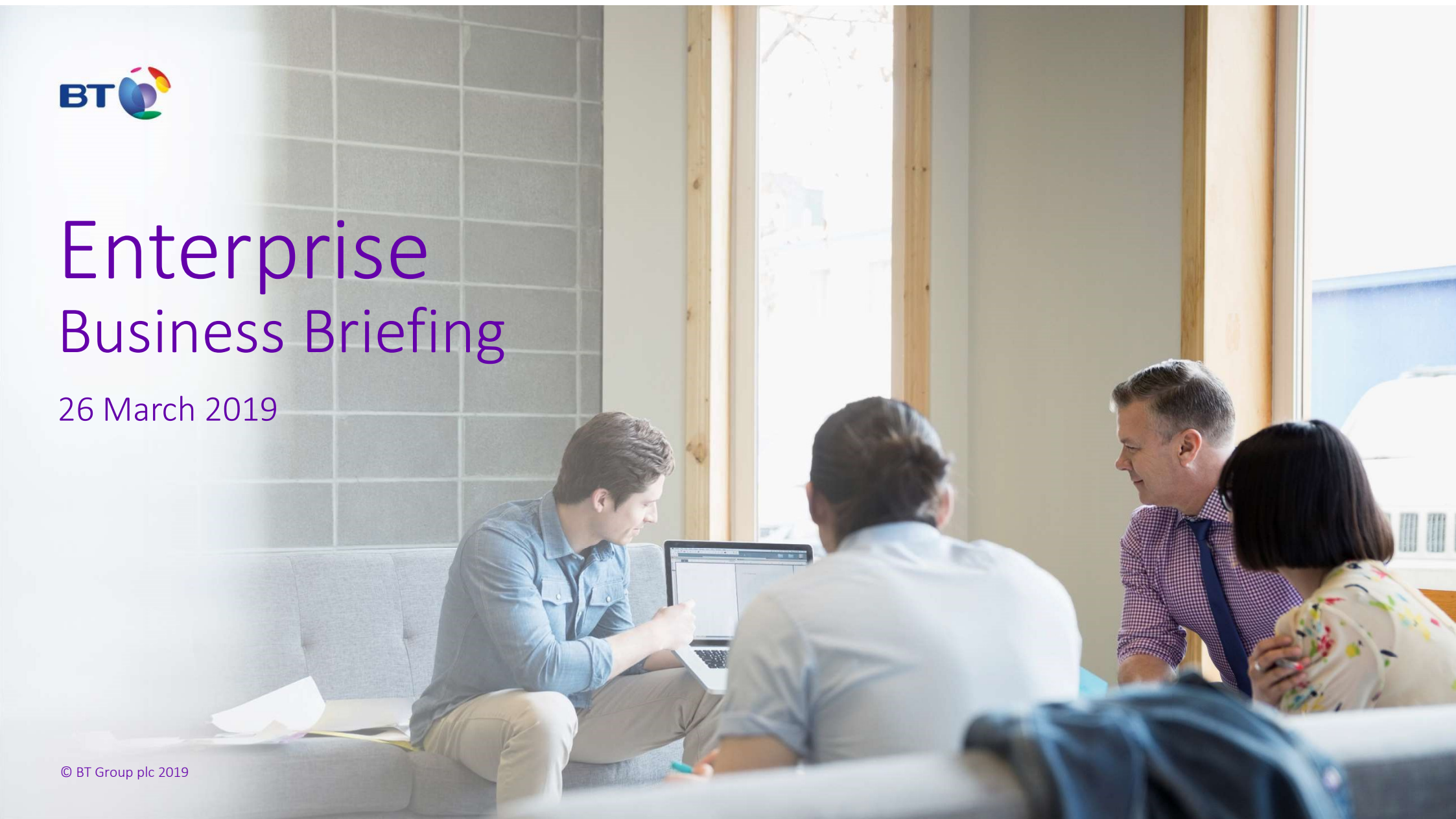




# Enterprise Business Briefing

26 March 2019



## Forward-looking statements caution

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Certain statements in this trading update are forward-looking and are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements include, without limitation, those concerning: our key priorities for Enterprise, growth in BT core markets and connectivity opportunities, the transformation of our operating model and the launch of 5G.

Although BT believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT whether as a result of the uncertainties arising from the UK's exit from the EU or otherwise; future regulatory and legal actions, decisions, consultations licence fees and market reviews, outcomes of appeal and conditions or requirements in BT's operating areas, including the outcome of Ofcom's Business Connectivity Market Review (BCMR), Physical Infrastructure Market Review (PIMR), spectrum auctions, broadband USO and other consultations; as well as competition from others; selection by BT and its customer facing units of the appropriate trading and marketing models for its products and services; fluctuations in foreign currency exchange rates and interest rates; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs, or impact on customer service; developments in the convergence of technologies; external threats to cyber security, data or resilience; political and geo-political risks; the anticipated benefits and advantages of new technologies, products and services not being realised; the timing of entry and profitability of BT in certain markets; significant changes in market shares for BT and its principal products and services; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; disruption to our technology supply chain; the anticipated benefits and synergies of the transformation of our operating model, integration, restructuring and cost transformation not being delivered; the outcome of BT's broader review of financial processes, systems and controls across the Group; and general financial market conditions affecting BT's performance and ability to raise finance. BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.



# Gerry McQuade

CEO Enterprise



## Enterprise – Business Briefing Agenda

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Gerry McQuade  
CEO

Enterprise: Who we are, what we do, challenges and opportunities and market definition

Chris Sims  
MD, Strategy, Marketing & Digital

Enterprise Strategy: Key priorities

Damien Maltarp  
CFO

Transforming Enterprise and financial performance

Gerry McQuade  
CEO

Key messages

Q&A

## Key messages

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BT is the UK's  
leading B2B  
comms  
provider

6 clear priorities  
aligned to market  
opportunities and  
customer needs

Accelerating  
transformation  
to converged  
solutions

Improving  
customer  
experience and  
cost  
transformation



# Introducing Enterprise

## Our organisation

12mths to HY (30 Sep) 2018/19



**£6.5bn**  
Revenue  
(28% of the group)

**£2.0bn**  
EBITDA  
(27% of the group)

**£1.5bn**  
Normalised FCF  
(38% of NCF generated by CFU's in BT Group)



**Major enabler**  
of UK PLC and critical infrastructure for the country

**13,000**  
People



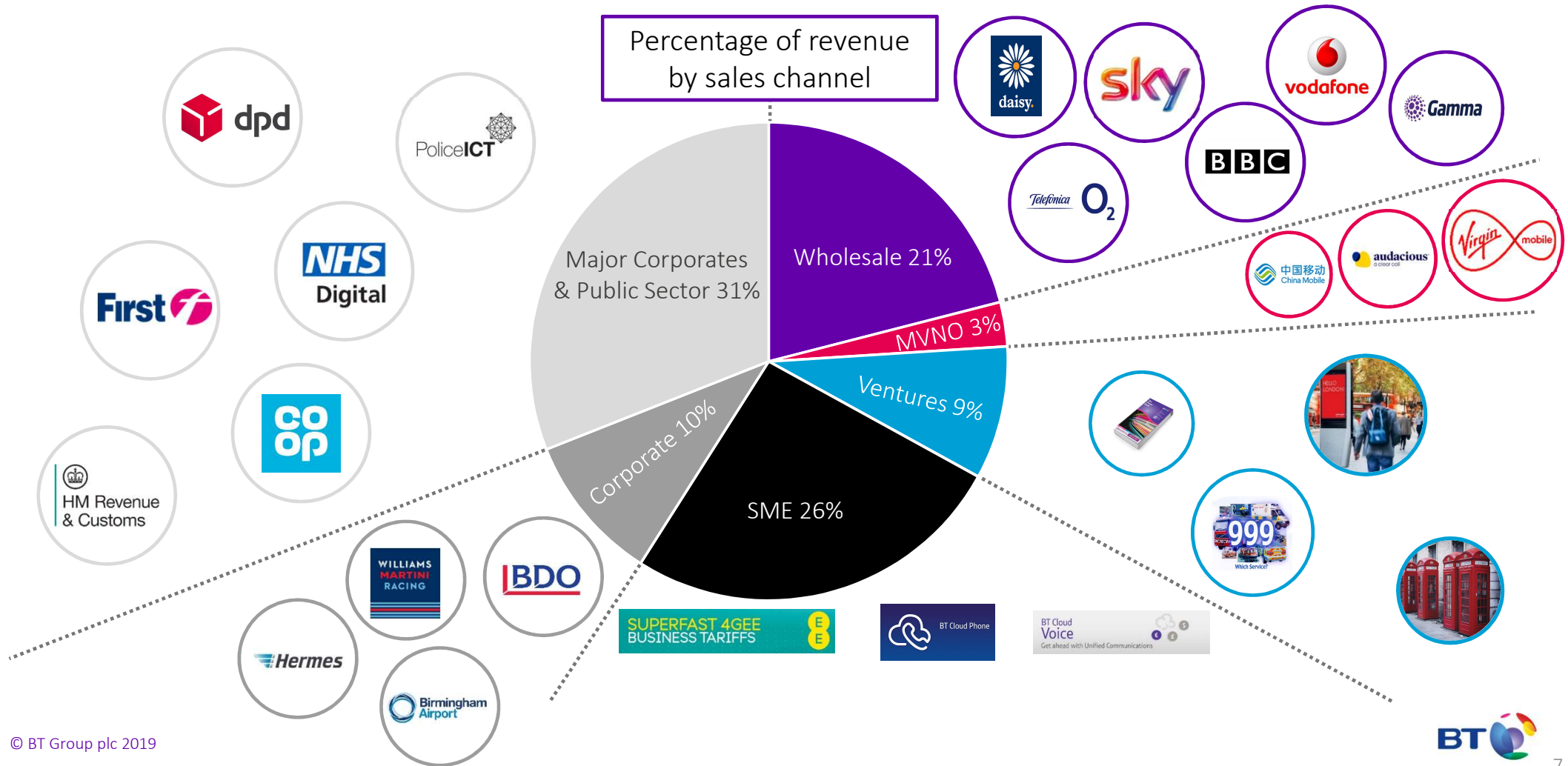
**170 Years**  
leading the way in communications

**1.2m**  
customers including over half of the FTSE 350






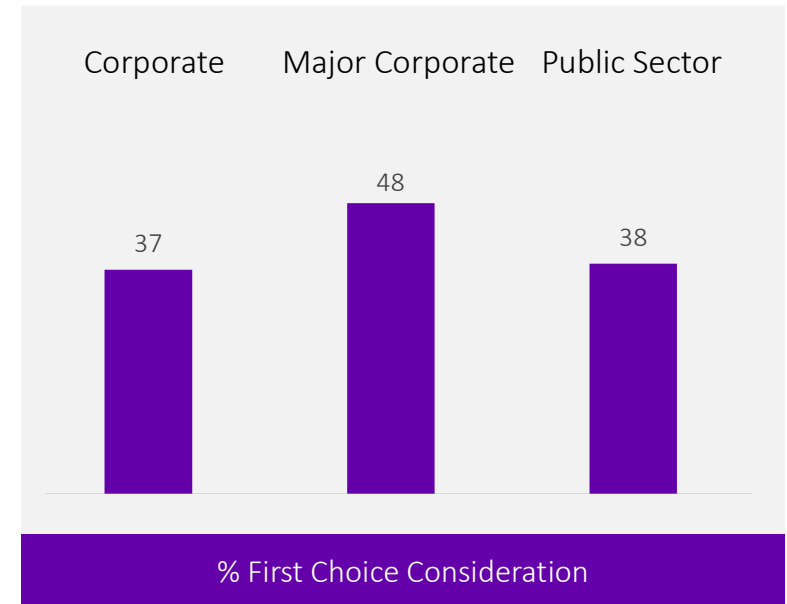
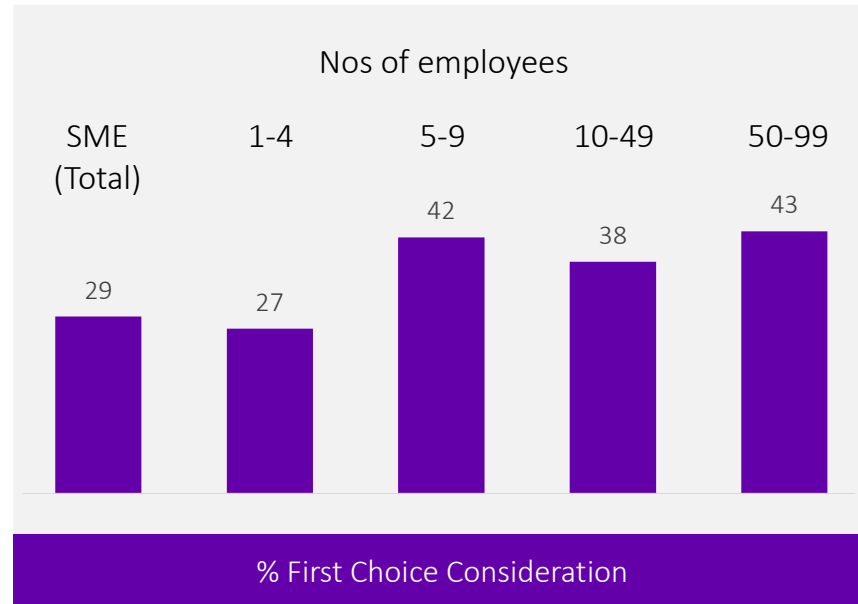
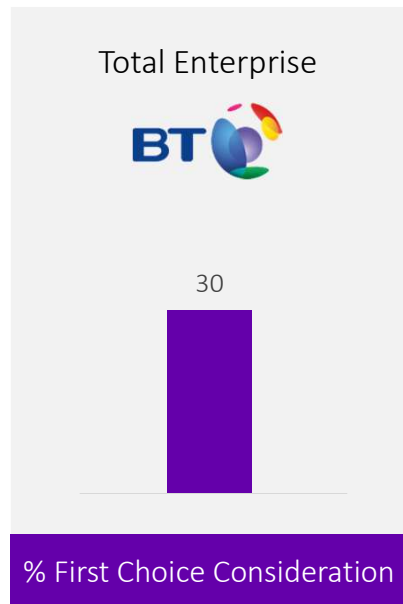
**3 core strengths**  
Our network leadership, our strong brand  
and our extensive market reach

# We support business and public sector organisations as well as leading the wholesale telecommunications market



# Our retail brands

 <p>Primary Brand, used in all channels</p>	 <p>Mobile-centric brand primarily in SME &amp; Corporate</p>	 <p>Value-focus brand for SME (dual play, no convergence)</p>	 <p>Brand for wholesale only</p>
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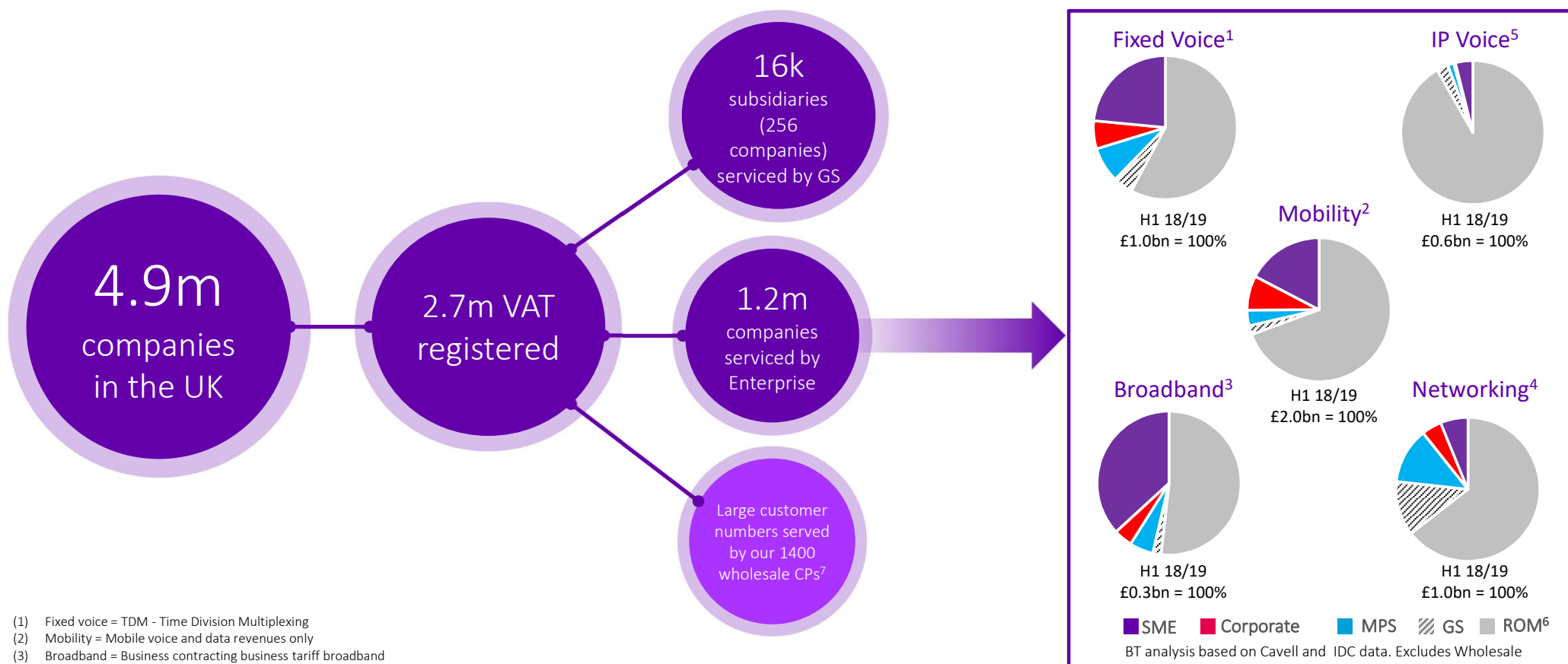
Source: BT Brand tracking provided by Populus

© BT Group plc 2019



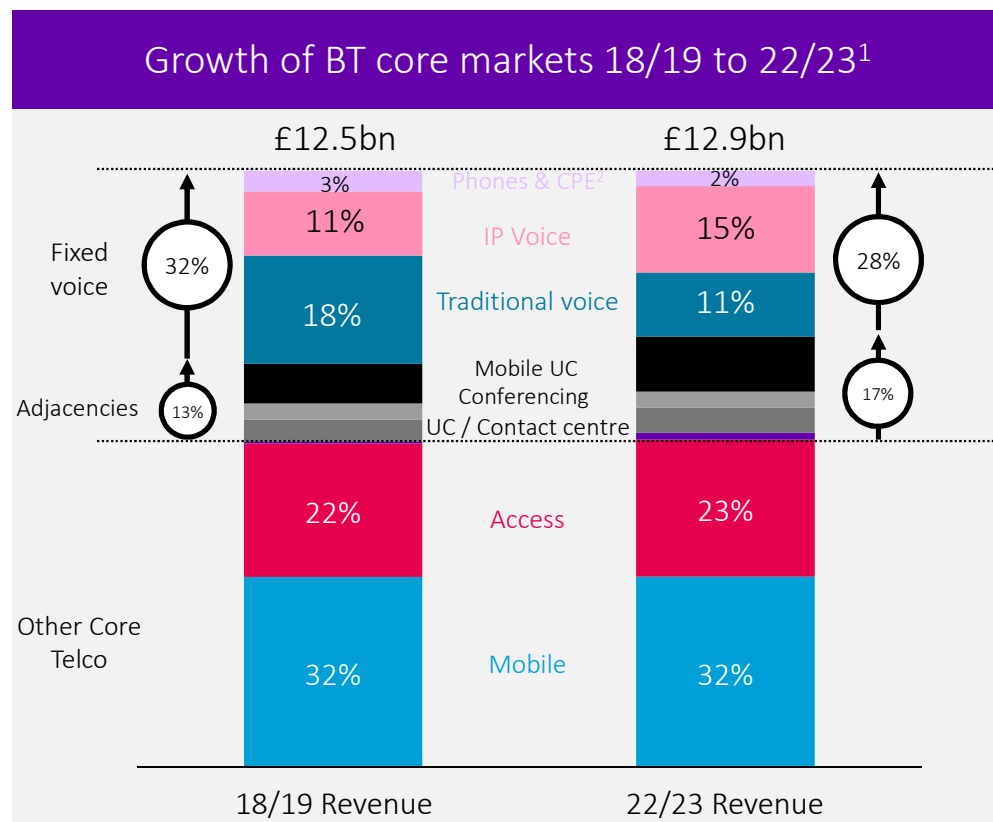


# Leading market share position in core products, room for growth in the larger value pools and through acquisition



- (1) Fixed voice = TDM - Time Division Multiplexing
- (2) Mobility = Mobile voice and data revenues only
- (3) Broadband = Business contracting business tariff broadband
- (4) Networking = DIA, Ethernet, IP VPN, Optical. Excludes Internet VPN & Legacy Networks
- (5) IPV = Hosted VOIP & Sip - Data source; IDC, Cavell & BT Insight, Market share Wholesale Revenue input baseline 11.01.2019.xlsx
- (6) Rest of Market
- (7) Communication Providers

## However, the core market is changing at an unparalleled rate - decline in legacy services being offset by growth in IP services and new revenue streams



**Cross-sell of other services with IP Voice is critical**

IP Voice only partially substitutes traditional voice requiring churn reduction and cross sell focus on migration to adjacent products e.g. Unified Communications (UC), contact centre and mobility services

Access and mobile mix of spend is flat. However, BT has opportunities around acquisition of new customers and increasing share of wallet

(1) BT analysis based on IDC and Cavell  
 (2) Customer premise equipment

## Changing customer expectations driving increased focus on customer experience, Enterprise NPS<sup>1</sup> performance on an improving trend

Reliability, flexibility and innovation delivered securely and accessible 'on the move'

Choice to self-serve or take advantage of a managed service

Value for money with transparency of costs and ability to scale up/down bandwidth as required

Straightforward and easy to do business with

Innovations to solve business problems, not connectivity ones



(1) NPS = Net Promoter Score

## Our assets put us in a strong position to win in this changing market

Because we have...

...the best reach and distribution network

...the best fixed and mobile network capability

...three great retail brands

...a new simplified organisation

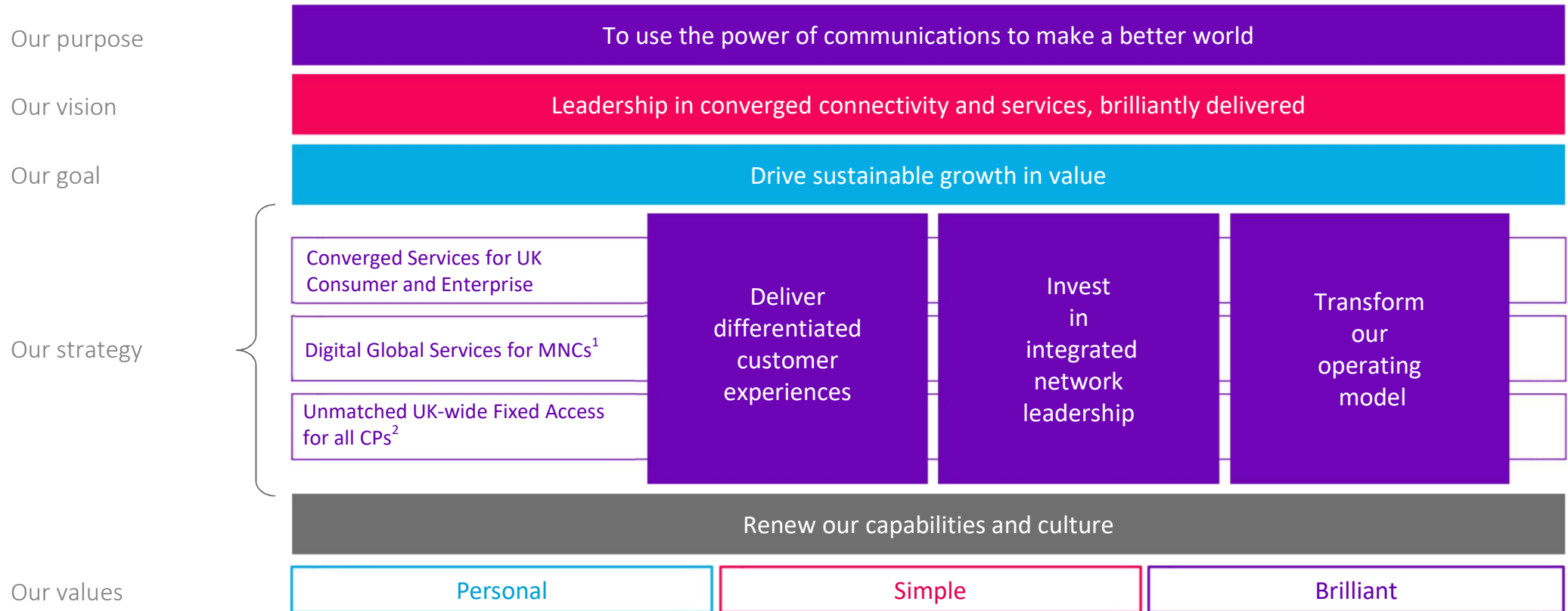
We are best placed to...

...exploit key trends:  
Convergence,  
Security, IoT and  
Managed Services

...exploit core  
connectivity  
opportunities

...deliver cost savings  
through portfolio and  
process simplification

# BT Group strategy



(1) Multi-National Corporations  
 (2) Communications Providers



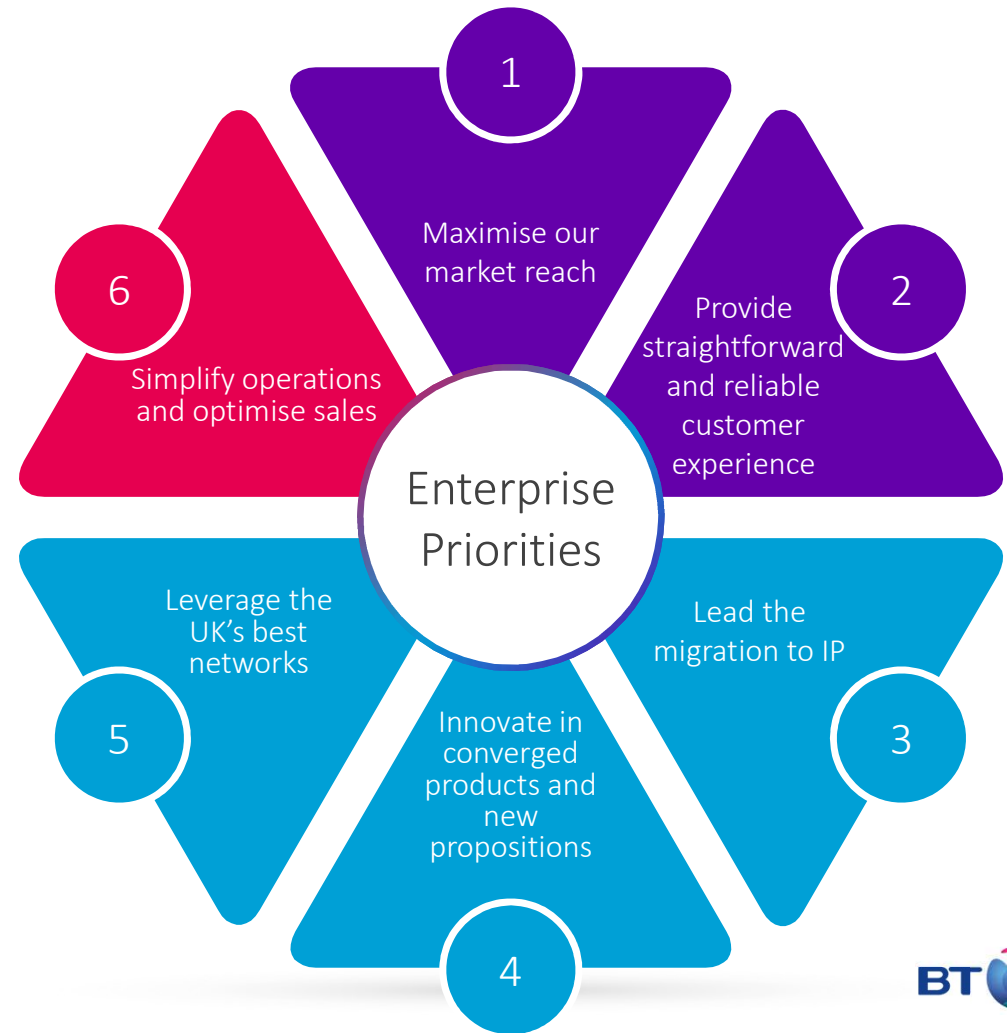
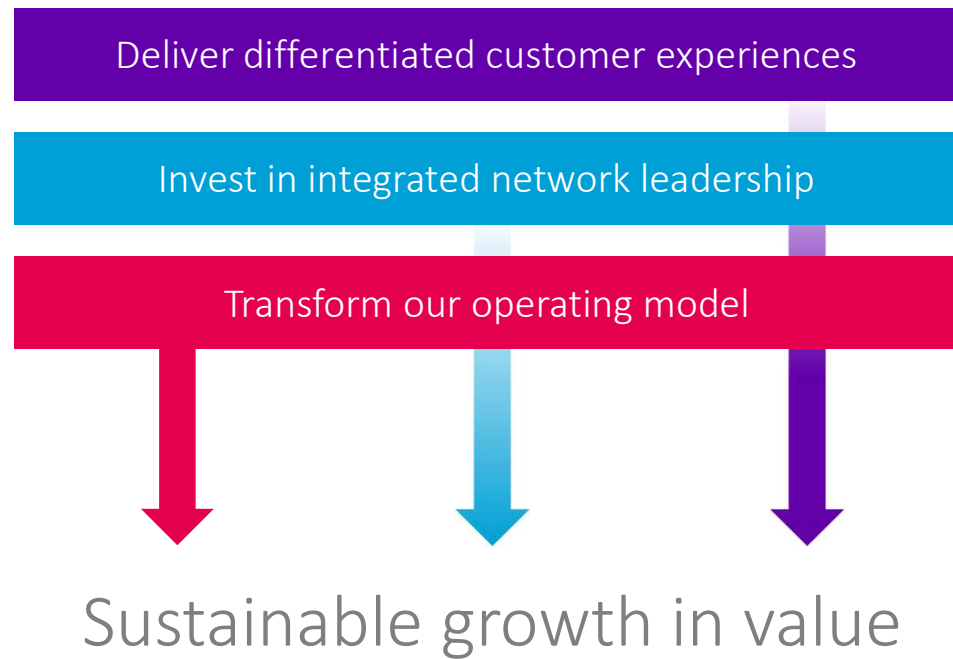
# Section 2

Chris Sims  
Enterprise Strategic Priorities

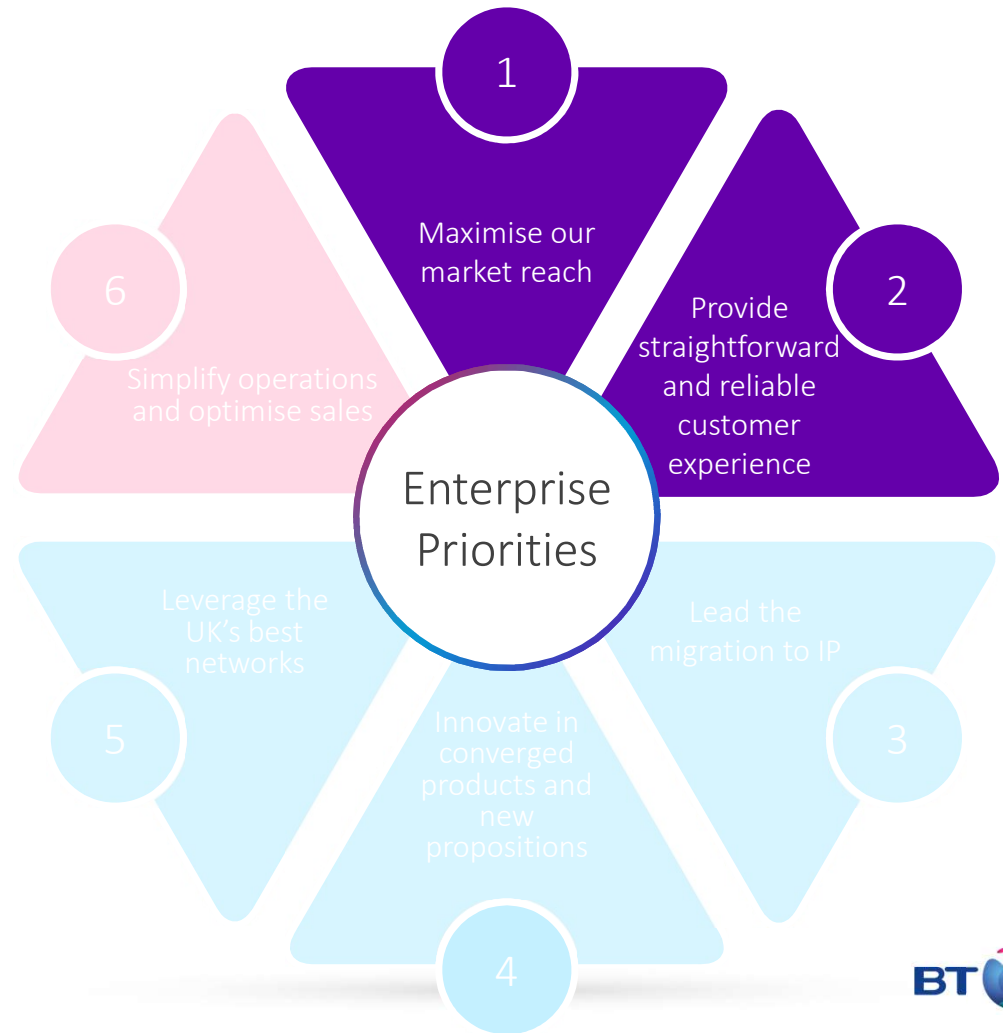
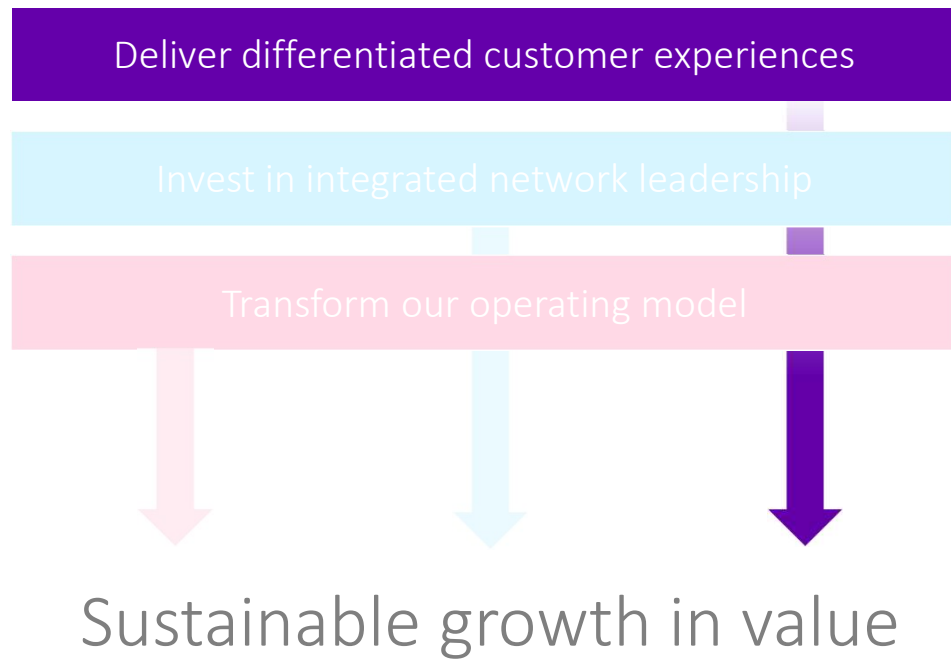




## Given this broader market context, we see 6 key priorities for Enterprise



## Key Priorities – Differentiated customer experiences



# BT has the opportunity to re-configure its brand and channels for an all-IP, converged age



Primary Brand,  
used in all channels



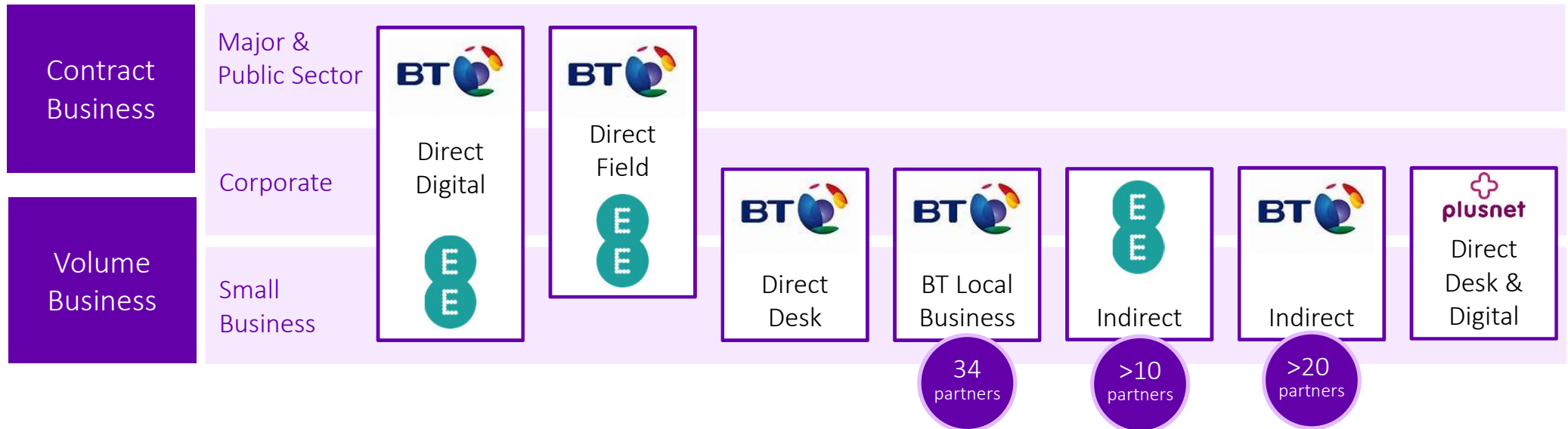
Mobile-centric brand  
primarily in SME & Corporate



Value-focus brand for SME  
(dual play, no convergence)

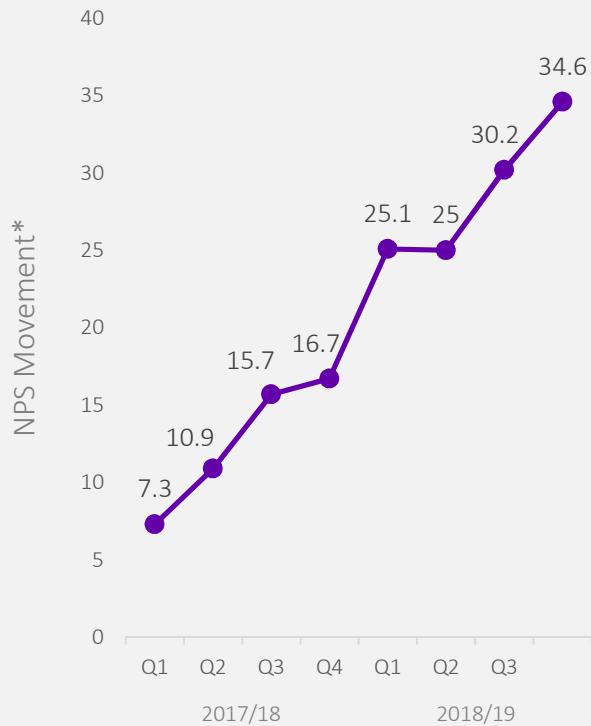
**BT**wholesale

Brand for  
wholesale only



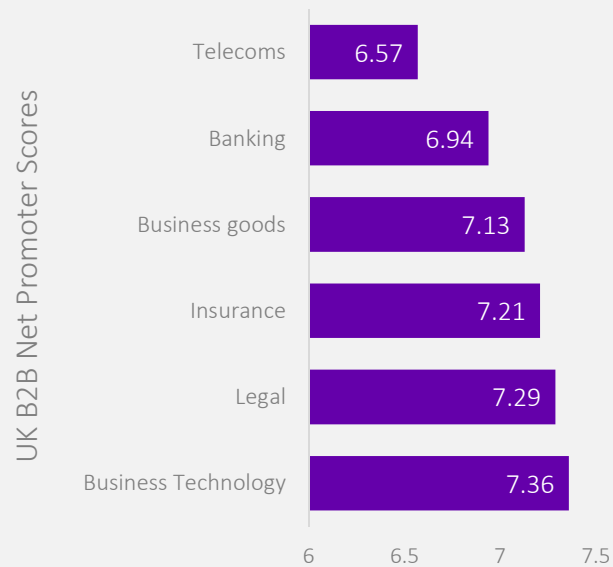
## We also have a great opportunity to drive differentiated customer experience

We are starting from a good base



...but we must shift the dial on customer experience

There is an opportunity to shift the dial on customer experience



Source: KPMG Nunwood B2B tracker, 2017\*

Our future will be further empowered by digital and data

Robust digitised customer experiences

Innovative service propositions

\*BT NPS numbers show progress, KPMG Nunwood numbers measured out of 10

# Digitisation of the Wholesale online ordering and repair management



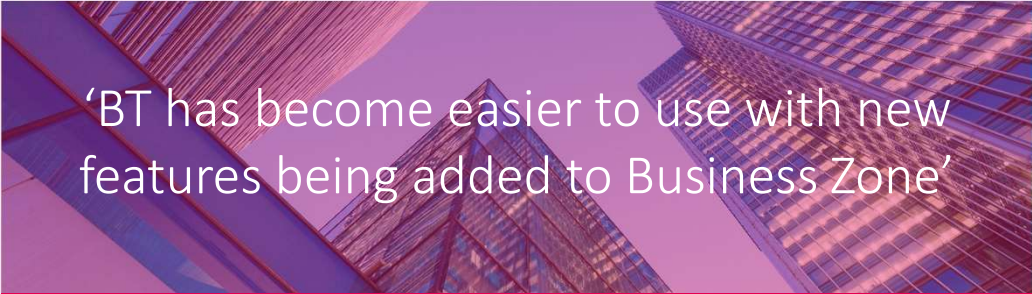
BT Business Zone provides CPs with end-to-end ordering and trouble ticket tracking

## Ethernet orders

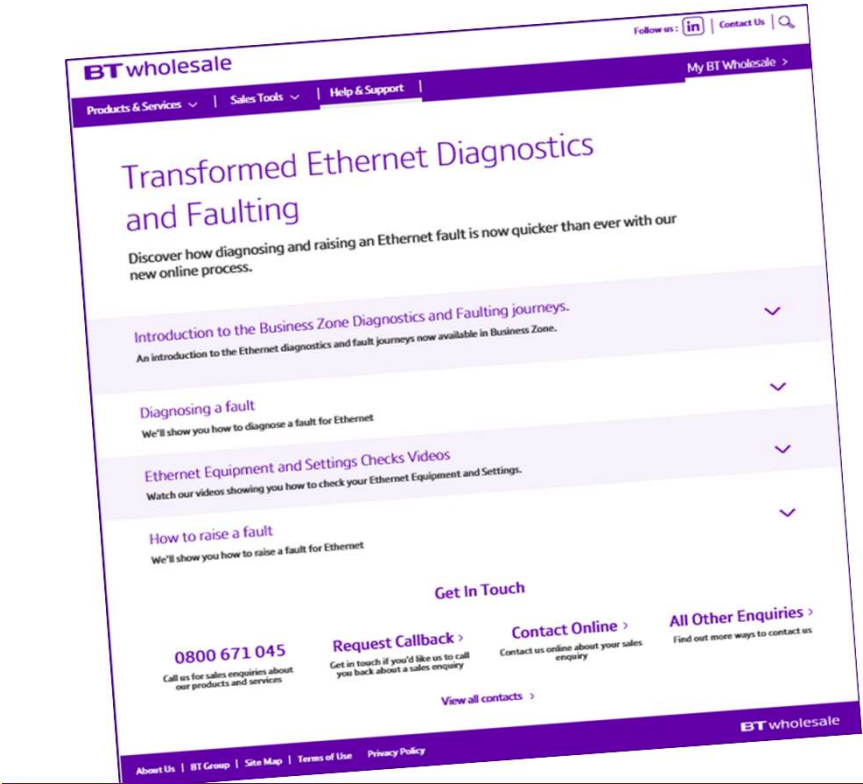
Now c.100% digital

Reduced from 35-40 minutes down to <10 minutes since launch

Improved customer satisfaction



Major CP Customer



BT Business Zone

# We are using data and predictive analytics to better serve our customers



## Proactive Care 'Always on. Always being looked after'

Call volumes down 2.5k per week

c.15% reduction of broadband fault calls



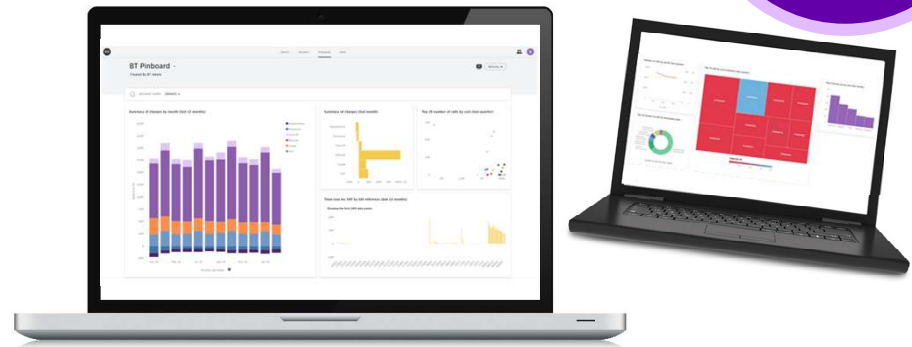
## BT Bill Analytics (ThoughtSpot)



Enterprise Data / Analytics Project of the Year

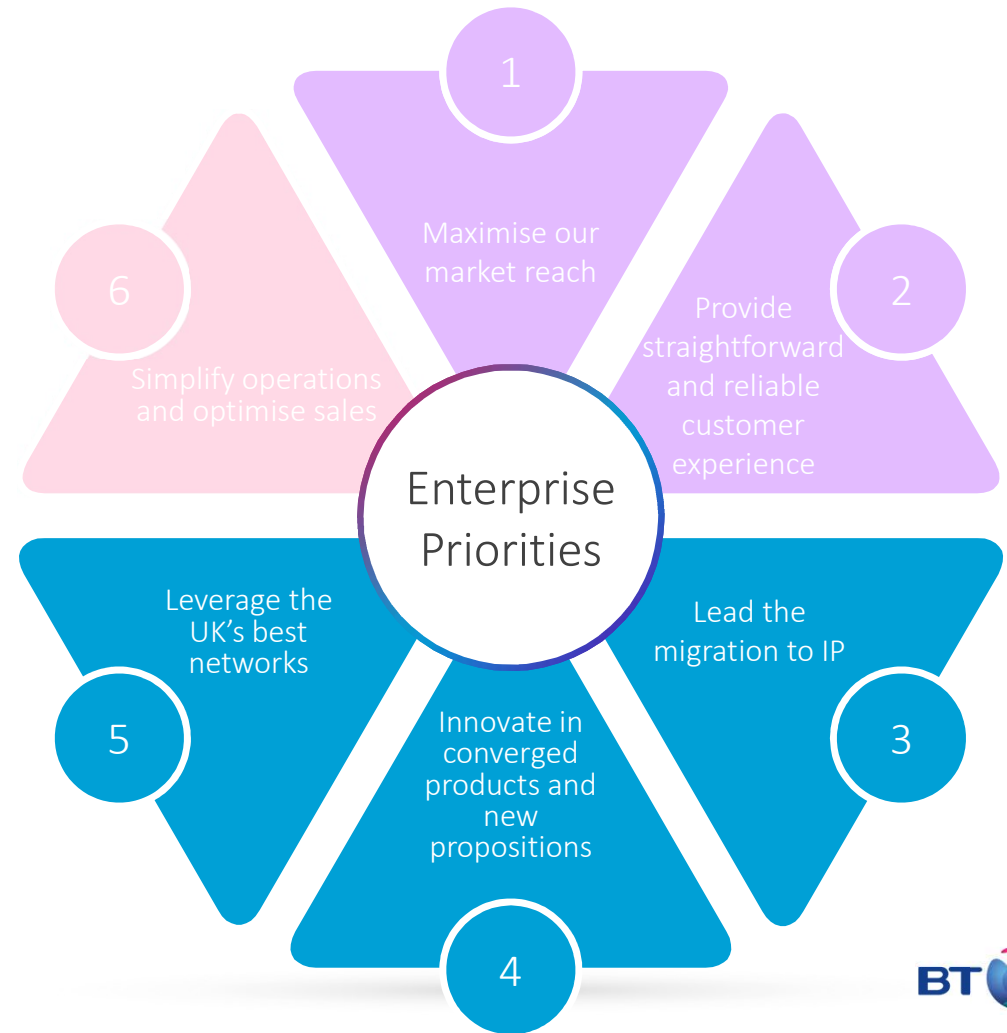
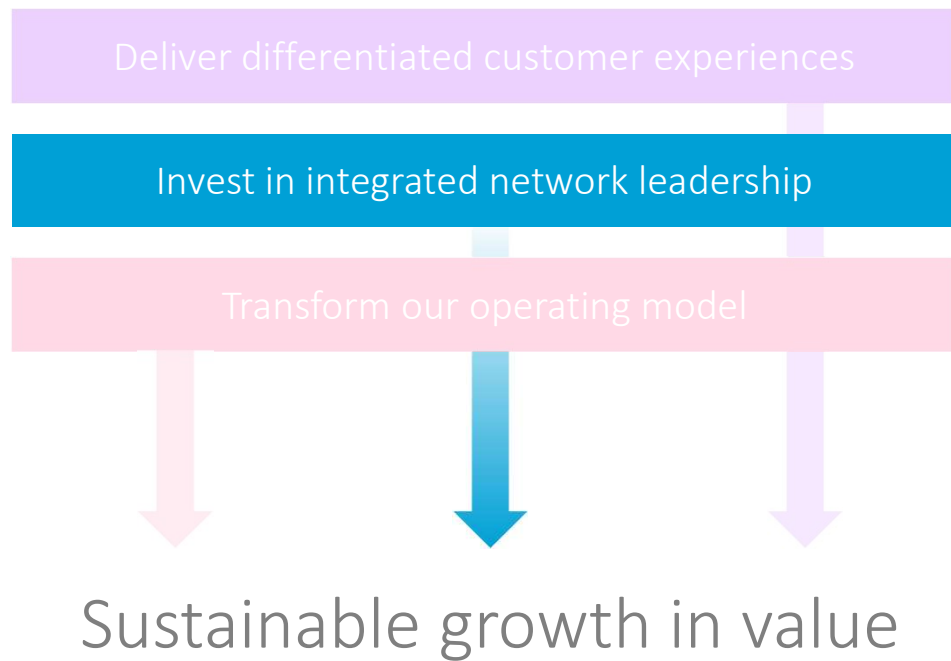
Flexible and visual bill management

Ability to personalise and control

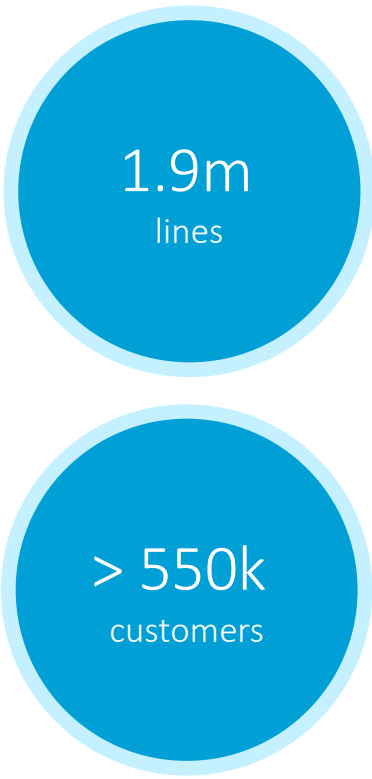




## Key Priorities – Integrated network leadership



# BT can lead the industry to IP due to its first class product set and operational capabilities



Cloud based UC & Contact Centre portfolio	Integrated Cloud based PBX <sup>1</sup>	Full suite of access options
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- Market leader with 480k+ UC seats<sup>2</sup>
- Opportunity to drive ARPU<sup>3</sup> uplift through cross-selling access
- Target product for 1.9m legacy voice lines
- Wholesale white label solution

(1) Private Branch Exchange  
 (2) Includes GS seats  
 (3) Average Revenue Per User

# The performance of our market-leading, 'UK firsts' converged products in 2018 shows we are creating compelling propositions



## 4G Assure



## BT One Phone

Acts like a mobile, thinks like a phone system



Broadband Backup	Rapid Installation	Proactive Support	Guest Wi-fi
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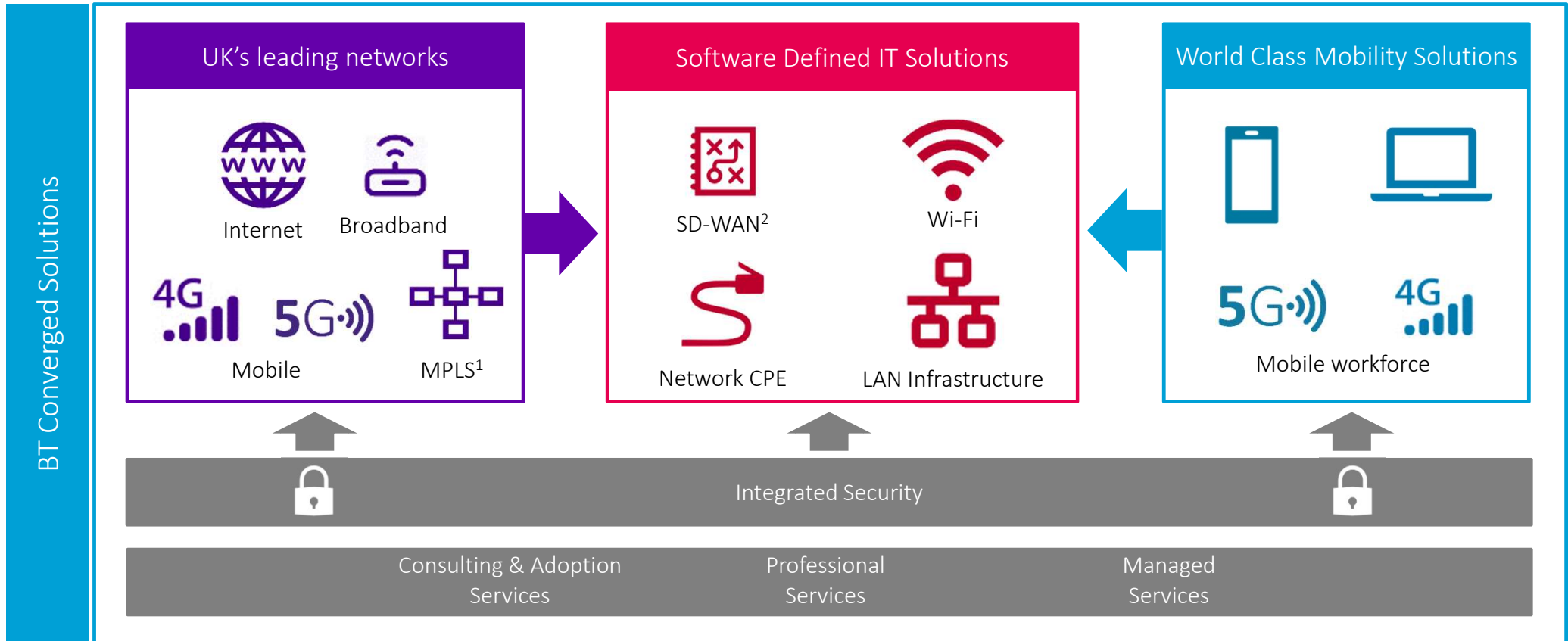
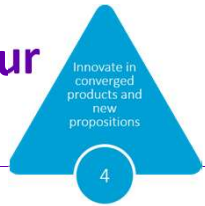
Cloud based PBX features for mobile workforce	Landline and mobile number options	IP Phones for office based staff
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- Launched April 2018
- 57,000 sold 18/19 YTD
- Doubled SME Premium package mix from 27% to 54%
- Premium package is +£8 per month vs standard

- 2-1000+ employees
- High ARPU<sup>1</sup> product
- Contract length 36 months
- Lower cost to serve

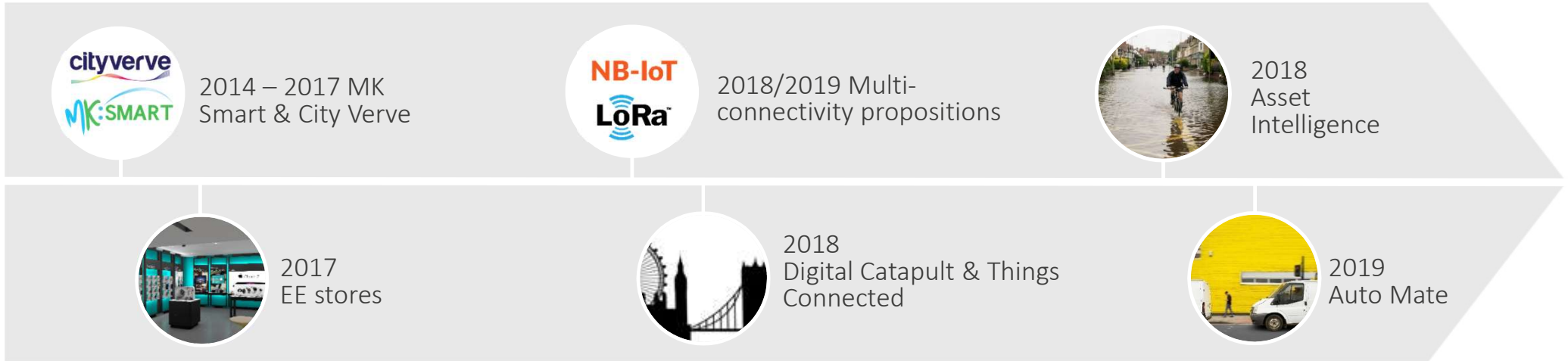
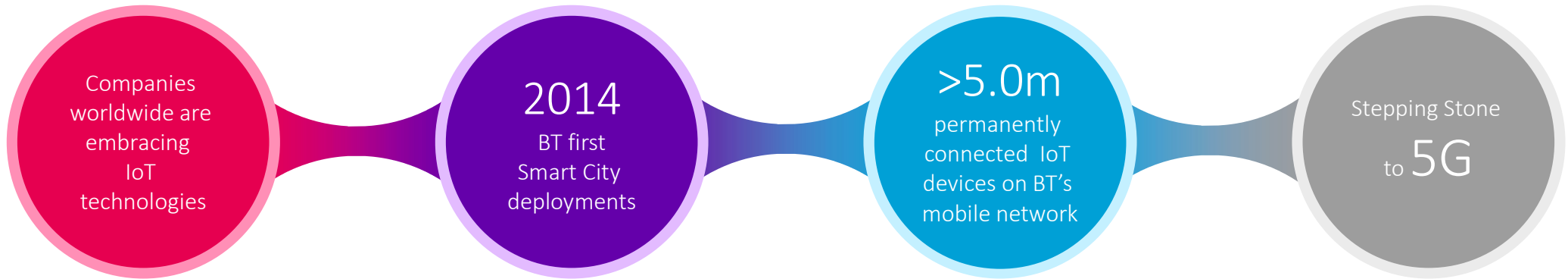
(1) Average Revenue Per User

# Leveraging our network, security and managed service credentials we are extending our converged service expertise to deliver the UK's most comprehensive SD-WAN solution

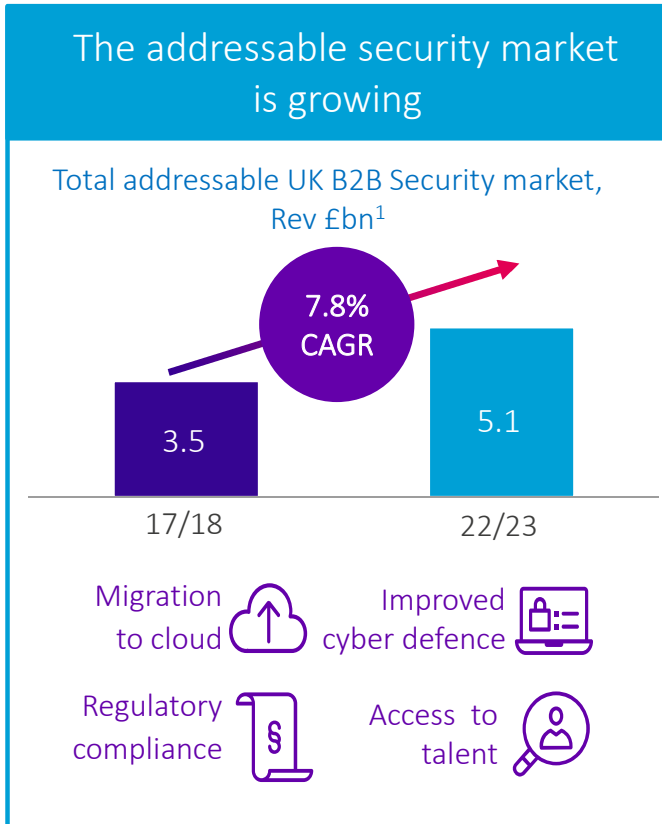
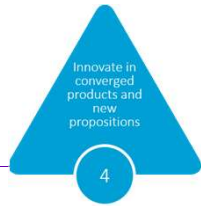


(1) Multiprotocol Label Switching  
 (2) Software Defined Wide Area Network

# Converged network, what's next – Internet of Things (IoT)



# Enterprise is leveraging the unique strengths of BT Security to address a growing market



### The National Management Centre (NMC) for Policing

- Threat Management services
- Supporting 43 Police forces
- Enables IT transformation and transition to Microsoft Office 365 services

### Converged BTnet Security

- Enhanced with new Cisco Meraki equipment
- Integrated security package with firewall, anti-malware protection, URL filtering, intrusion detection & prevention
- Security attachment rate increased from 2% to 25%

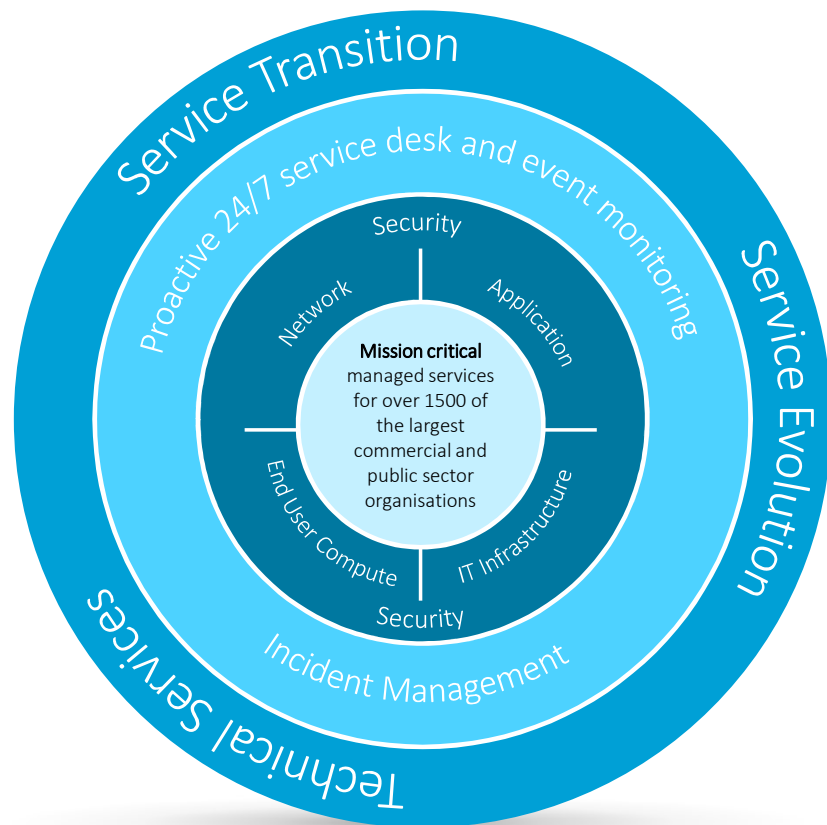
(1) Total Addressable Market calculated as the total Security market less ~£1m relating to Professional Security Services not provided by BT  
 Source: IDC, "BT Enterprise Market Size & Growth Model 2018 – 6th Edition – IT Services", GS Market Sizing Model 2018 (primary Gartner)



# Our Next Generation Managed Services integrates and manages mission critical technology solutions across network and IT

Innovate in converged products and new propositions

4



## Providing service transition, technical services, service evolution

- Includes consultancy, Networking, IT Services, Security, IP Migration, Data Centres, Technical Design, Integration, Installation, Programme Management & Service Management
- 3,000 professionally trained experts over 5 key locations
- Cost effective and future proofed



M&B NOC<sup>1</sup> at BT Tower, London



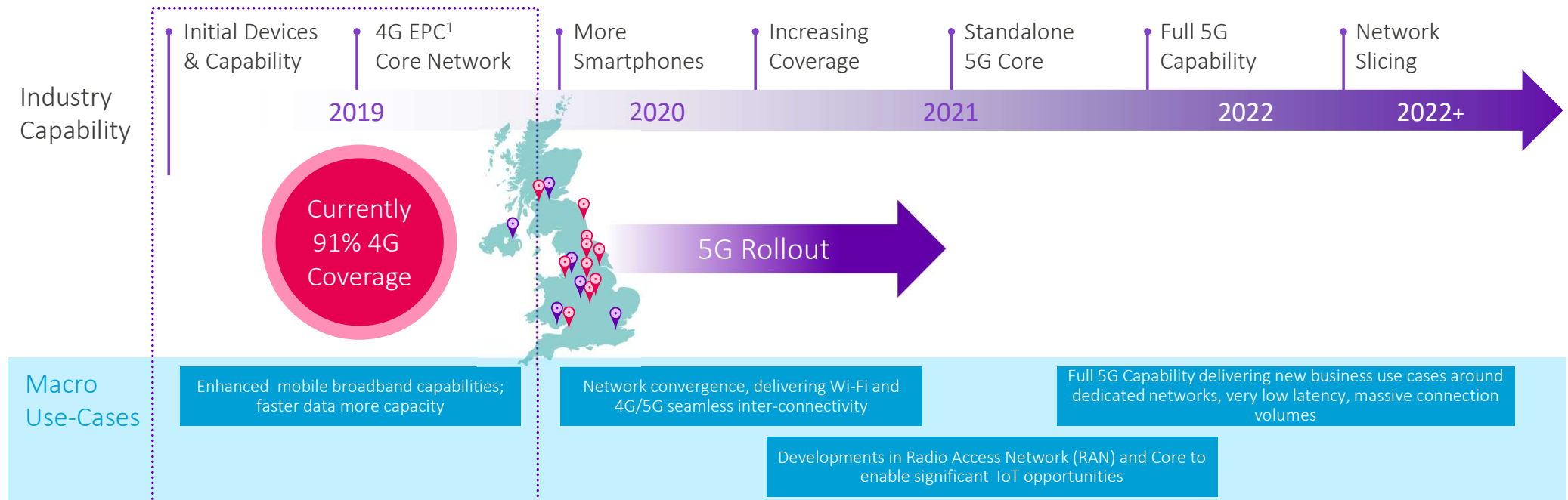
## Supporting the operations of household brand names



(1) Media & Broadcast Network Operations Centre

# Our 5G ambitions build on the UK's best 4G network

5G technology will launch in 2019, but the capability will evolve massively from there....



- Premium service with associated price points
- We are going to work with our customers and partners to develop propositions that add value:
  - Invest in regional innovation centres
  - Consolidate learning from Canary Wharf & East London trials

(1) Evolved Packet Core  
© BT Group plc 2019

## Our assets put us in a strong position to win in this changing market

Because we have...

...the best fixed and mobile network capability

...the best reach and distribution network

...three great retail brands

...a new simplified organisation

We are best placed to...

...exploit key trends:  
Convergence,  
Security, IoT and  
Managed Services

...exploit core  
connectivity  
opportunities

...deliver cost savings  
through portfolio and  
process simplification



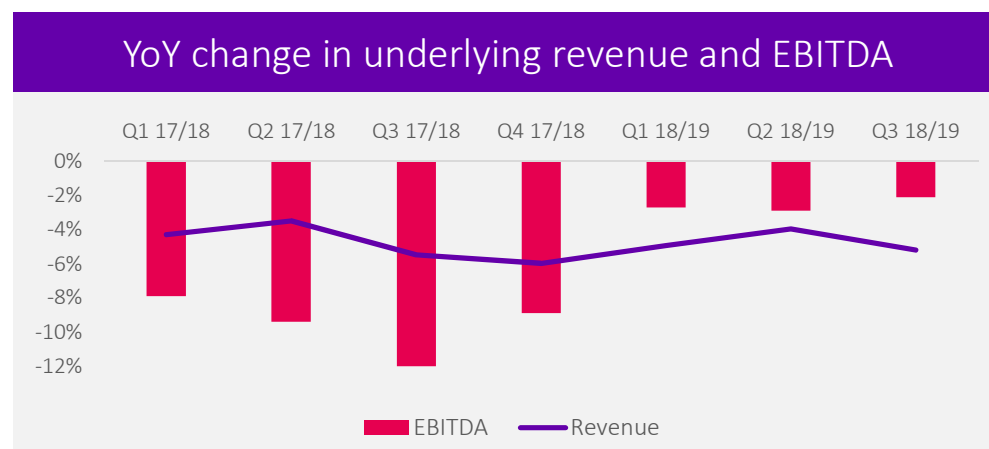
# Section 3

Damien Maltarp  
Financial Performance  
and Drivers of Future Growth

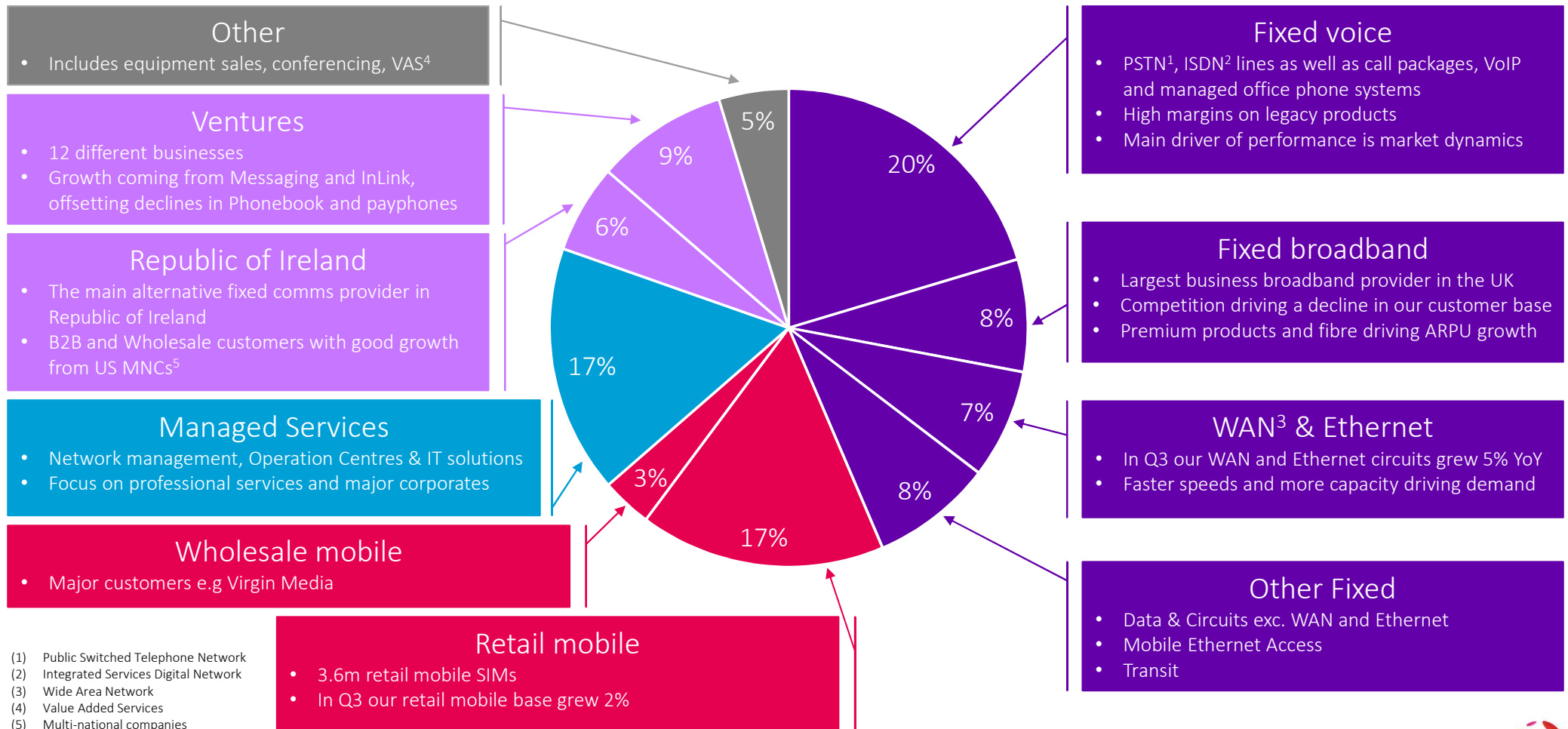
## Financial overview

- Revenue: £6.5bn
  - c5% YoY decline driven by lower public sector revenue, equipment sales and traditional calls and lines
- EBITDA: £2.0bn
  - Rate of decline has improved:
    - 2017/18: impacted by Public Sector headwinds
    - 2018/19: Public Sector has grown; cost reductions also helping
  - 31% EBITDA margin
- Capex: £0.5bn
  - 7% capex/sales ratio
  - Capex-light business model drives high FCF margins at 24%

	12mths to Sep 18	12mths to Sep 17	Change
<b>Revenue</b>	<b>£6,506m</b>	<b>£6,851m</b>	<b>(5)%</b>
Operating costs	£(4,474)m	£(4,669)m	(4)%
<b>EBITDA</b>	<b>£2,032m</b>	<b>£2,182m</b>	<b>(7)%</b>
<i>EBITDA margin (%)</i>	31%	32%	
Capex	£(473)m	£(497)m	(5)%
<i>capex/sales (%)</i>	7%	7%	
Working cap/Other	£(13)m	£(23)m	
<b>Normalised FCF</b>	<b>£1,546m</b>	<b>£1,662m</b>	<b>(7)%</b>
<i>FCF margin (%)</i>	24%	24%	



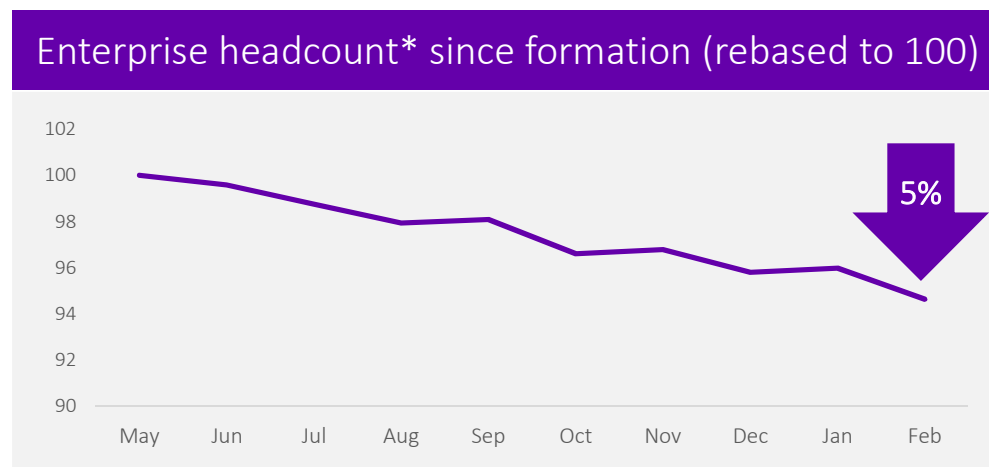
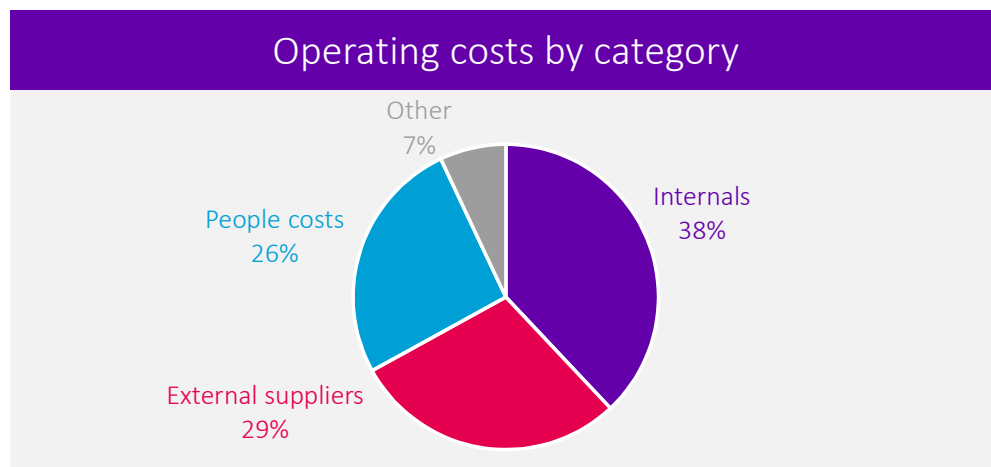
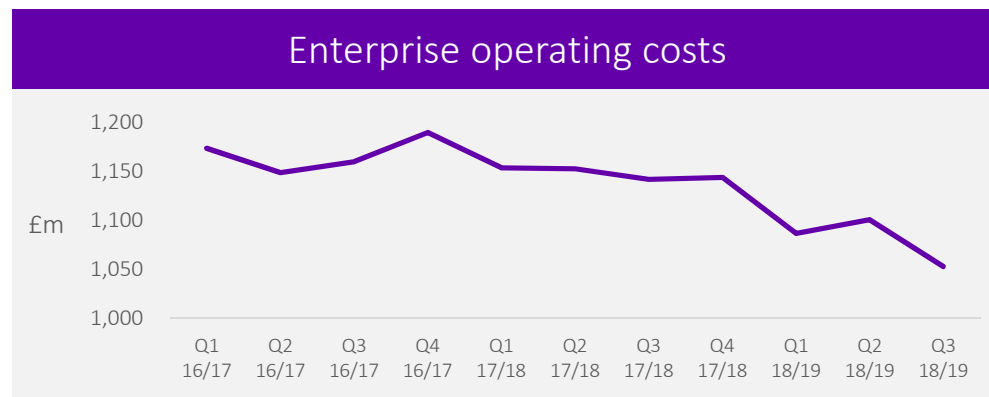
# Our revenue – 43% of our revenue comes from fixed, 20% from mobile, 17% from managed services



(1) Public Switched Telephone Network  
 (2) Integrated Services Digital Network  
 (3) Wide Area Network  
 (4) Value Added Services  
 (5) Multi-national companies

## Our costs – We are reducing our costs through headcount reduction and lower third party expenditure

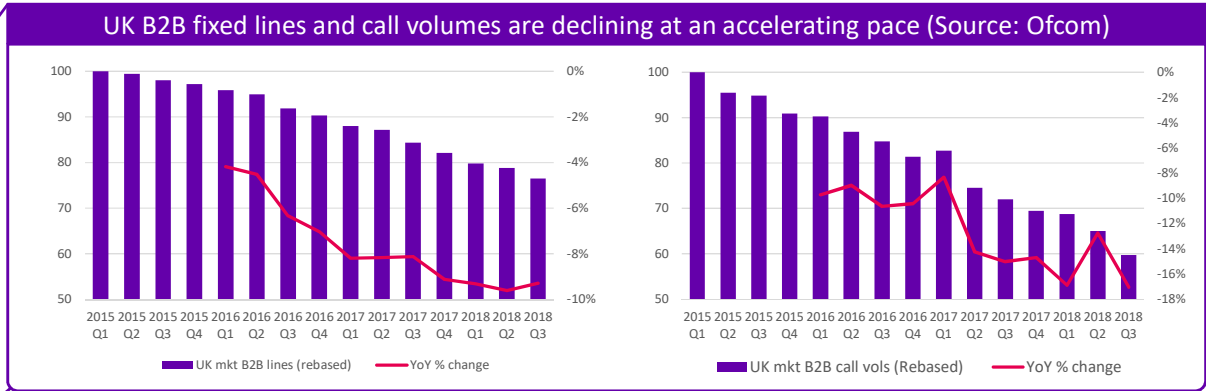
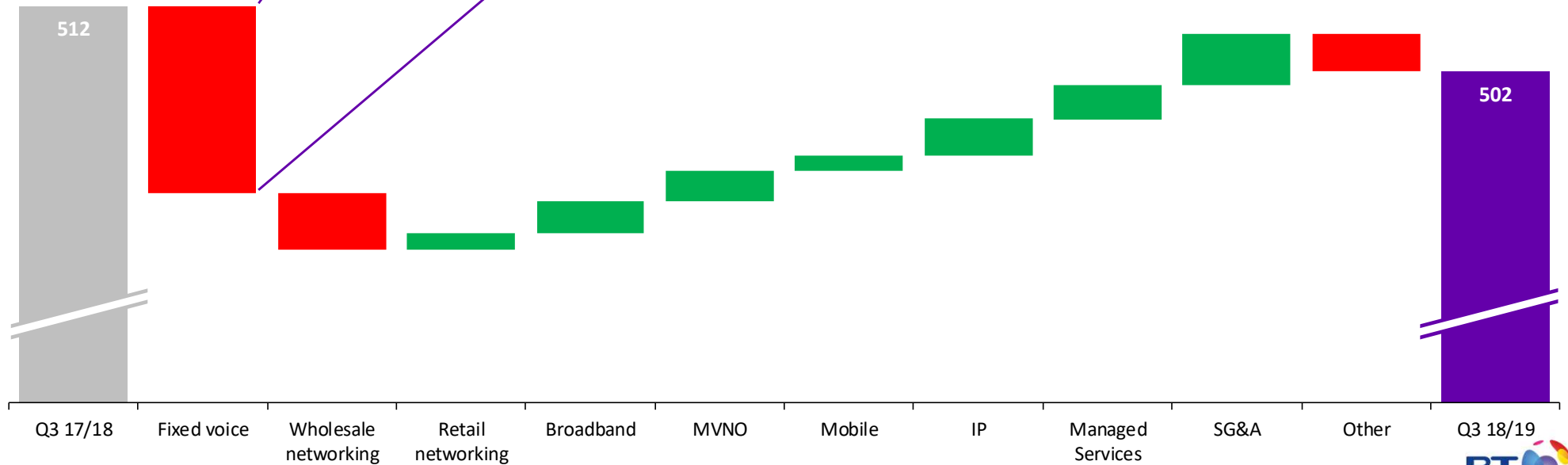
- Operating costs of c.£4.3bn pa
  - Declined 6% YoY in 9M 2018/19, outpacing the decline in revenue
  - Headcount down 5% since formation of Enterprise
- Capex: c.£0.5bn in 2017/18
  - Mainly product development and customer experience eg new converged products, ordering portals






# The decline in fixed voice is our single-biggest challenge. The market is declining with lower voice usage in general, but also substitution to mobile

Q3 18/19 YoY EBITDA walk



## Looking forward – Our financial levers

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Doing a better job of migrating from traditional to VoIP



Driving pull through of networking and broadband (to support VoIP)



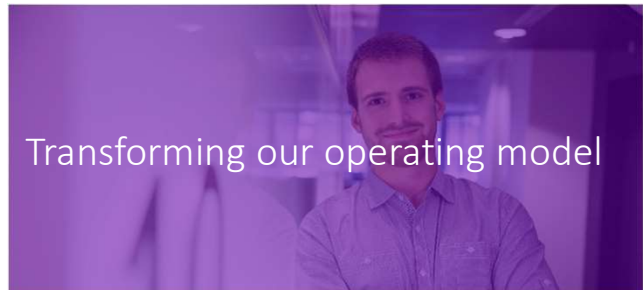
Growing our mobile market share from 30%, supported by converged propositions



Taking managed services back to top-line growth

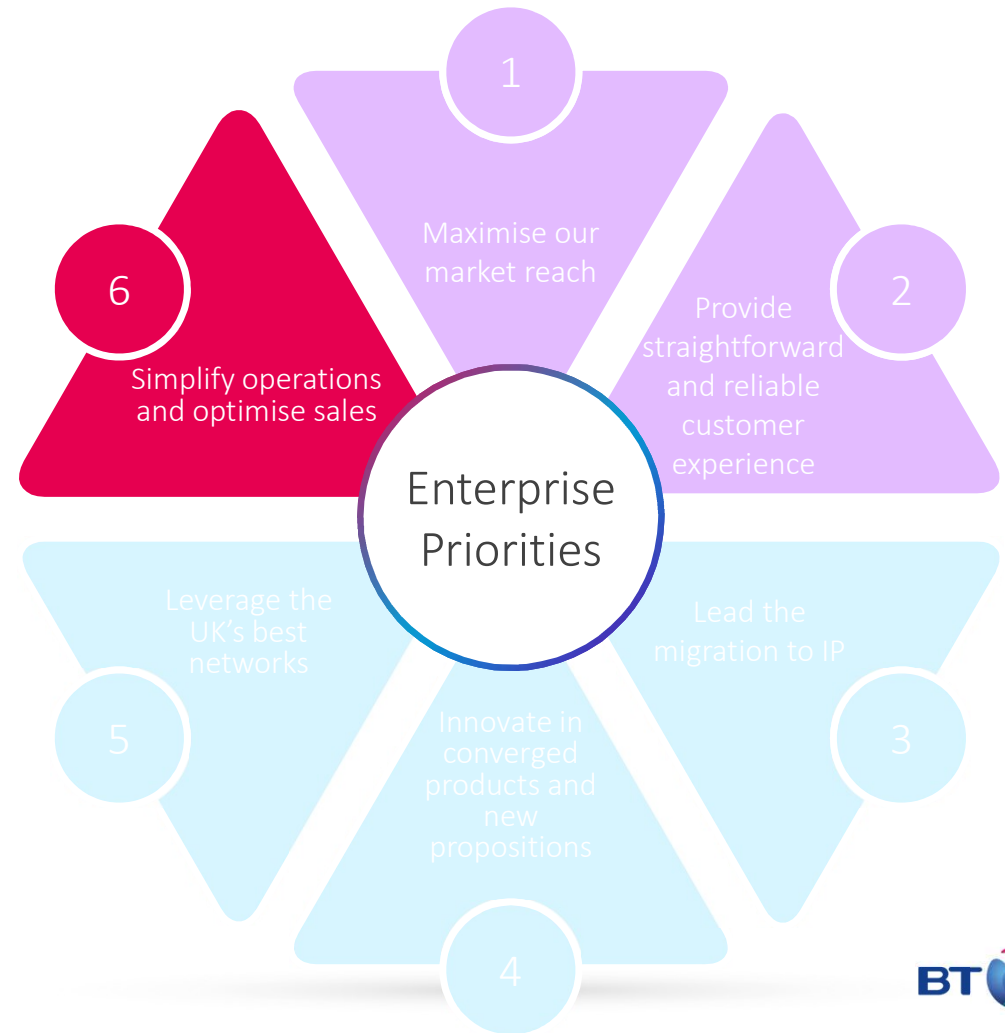
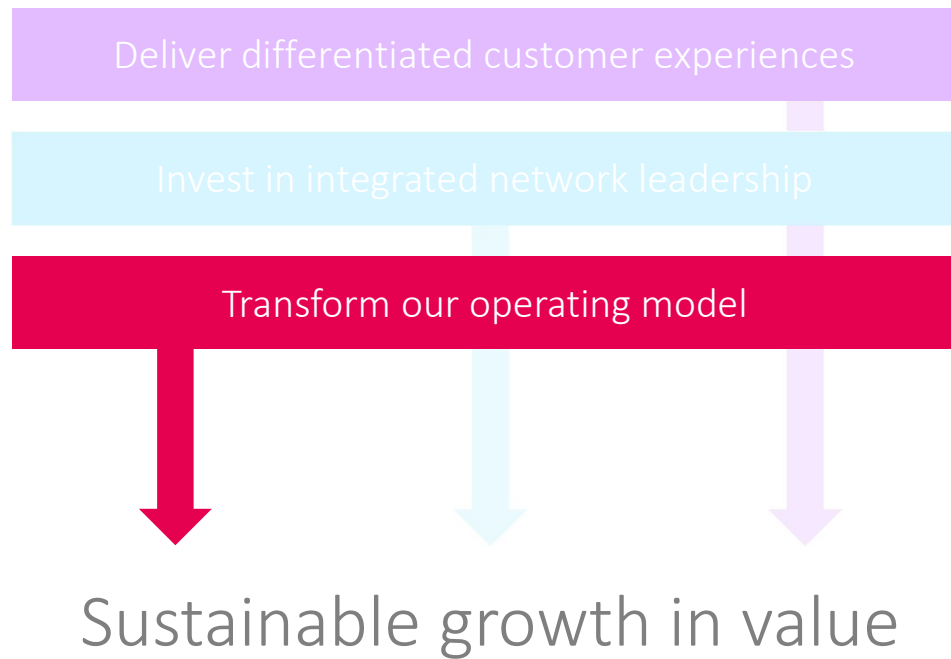


Driving new growth areas (IoT, cloud, SD-WAN, security)



Transforming our operating model

## Key Priorities – Transforming our operating model



## Key Priorities – Transforming our operating model examples



New structure and operating model



Clearer accountabilities, faster decision making



Lead to Cash process improvement



Third-party costs: Strategic partner sourcing and better in-life management



Third-party costs: reducing long-tail (5,500 suppliers today)



Fewer systems



Process improvement to drive productivity

## Key messages

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BT is the UK's  
leading B2B  
comms  
provider

6 clear priorities  
aligned to market  
opportunities and  
customer needs

Accelerating  
transformation  
to converged  
solutions

Improving  
customer  
experience and  
cost  
transformation





# Q&A





# Enterprise Business Briefing

26 March 2019

