



BT Group Q4 & FY results 2019/20

Media call: Philip Jansen script (7.5.2020)

Morning everyone and thank you for joining me and Simon.

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As you may have seen already, we've got lots to talk about this morning so I'm going to spend less time than normal on last year's results, which were overall in line with expectations. Instead, I will spend most of the time on how we are managing the Covid-19 situation, our FTTP build plans, the tough but necessary decision we have taken on the dividend and the next phase of our transformation programme to modernise BT.

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So, briefly on the results. Performance for the year was in-line with expectations.

- Adjusted revenue and adjusted EBITDA were both down 3% at £22.8 billion and £7.9bn, respectively. Reported capex excluding BDUK clawback at £3.9bn was up 5% reflecting our ongoing network investments in 5G and FTTP; and normalised free cash flow of £2.0 billion was down 18% on last year.
- We made positive progress on our modernisation agenda, with phase 1 of our programme largely complete and a year ahead of schedule, delivering £1.6 billion in annualised savings.
- We also continued to make good progress on network deployment. We built FTTP to 1.3 million premises last year bringing the total to 2.6 million premises to date; and we built our 5G mobile network out to 80 cities and towns, more than anyone else in the UK.
- Finally, and given the uncertainty created by the crisis, we will not be providing an outlook statement at this time for the current financial year.



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You've all heard me speak about BT's systemic importance to the UK's society and economy.

We are here to connect for the good of our customers, our colleagues and our country. **The coronavirus crisis has brought our national leadership role in telecommunications into the sharpest focus in our company's history.**

Since the crisis began, we have provided support for all our customers whether it be free unlimited data for broadband customers; unlimited mobile data for all NHS staff on EE; connecting the NHS Nightingale hospitals; financial support for SMEs so they can remain connected; or providing hundreds of free digital skills and educational resources for anyone to access across the country, whether they're home schooling, small businesses or people going online to do their food shopping for the first-time.

None of this would have been possible without our frontline staff who have been true heroes. So I'd like to thank many of you on this call who have helped to emphasise the importance of the work they are doing.

There's one thing that binds all of this activity together and which the crisis has served to highlight: A profound sense of purpose – a shared belief – that we at BT are here to deliver not connectivity per se, but the benefit it brings to people: our customers and the communities we serve. I am determined that we harness that same energy as we move beyond this terrible period to build a positive future.

Our networks - and the teams who underpin them - have responded and performed brilliantly to the new normal of the last two months.

But while we already knew that a concerted national mission to upgrade our digital infrastructure was required; now we know that it's a matter of extreme urgency – time to cut through the bureaucracy and delay; time to deliver.



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That is why today, despite the uncertainty, we are increasing our FTTP target from 15 million to 20 million premises – almost two thirds of the UK – by the mid- to late-2020s; with a commitment to build significantly in rural locations. We estimate returns at between 10 to 12% - a fair return for a long-term infrastructure project of this kind and scale. We expect to invest around £12 billion to reach our target by the mid- to late-20s, making this the **biggest investment in the UK's digital infrastructure for a generation.**

Once we are through the current Covid-19 crisis we are going to accelerate our build as fast as humanly possible; we are expecting Openreach to agree long-term offers with CPs that will underpin this investment by driving rapid migration from copper to FTTP; and we are confident of getting a package of enablers which will support a rapid build and ensure that BT can earn a fair return on its investment.

This is about critical national infrastructure. The combination of full fibre broadband and 5G mobile will underpin the permanent changes to the way society communicates and interacts that will undoubtedly follow this crisis. **This powerful infrastructure will drive the UK's future economic growth and although we hope it's never put to the test, it will improve our resilience to future pandemics.**

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To ensure we have the necessary capital to accelerate our FTTP build, maintain our 5G leadership position and fund the next phase of our modernisation programme, we needed to look at whether the current dividend policy was appropriate.



The board has decided to suspend last year's final dividend and all dividends for this financial year ending March 2021. This was **a tough decision but, although hard on shareholders, a necessary one so that we can allocate capital for value-enhancing investments**. It will also allow us to manage confidently through the coronavirus crisis.

We expect to resume the dividend in 2021/22 at a rebased level of 7.7 pence per share, or 50% of our most recent full year dividend. We will then continue with our progressive policy from this re-based level.

The steps we're announcing on the dividend today will **free up around £2.5 billion of capacity to invest in value-enhancing opportunities**; and once reinstated, in the first year we would create an additional £750 million of investment capacity.

Of course, this is not a decision that the Board has taken lightly but it is one that we feel will serve the best interests of our shareholders over the long term as well as the interests of our wider stakeholders, our customers and the country at large.

To make the UK's single largest communications infrastructure investment in a generation, we need to take a long-term view that will reward everybody.

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Finally, supporting all of this will be the next phase of our modernisation programme for BT. We need to create an efficient organisation to support the investments we'll be making over the coming years and to drive sustainable value from them in the future. There are four key areas we'll be looking at:

- we will simplify our portfolio from thousands of product variations that are often outdated and expensive to support;
- we'll transform our customer journeys to reduce manual intervention;



- we'll accelerate our move to digital journeys and the time it takes to get products to market; and
- we will migrate customers from our decades-old legacy networks to our modern FTTP and 5G networks.

These actions will have a huge impact on the business, significantly improving our sales effectiveness and reducing our operating labour and procurement costs. Crucially, **they will also support the value-enhancing investments we need to make.**

We are setting a target of annualised gross cost savings from this programme of £1 billion by the end of March 2023 and £2billion by the end of March 2025, with an estimated £1.3billion one-off cost to achieve over that period.

This is an ambitious programme, but one that BT must complete to allow all of our customer facing units to make the necessary changes that will keep them competitively placed for many decades to come.

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The future economic prosperity of this country, the renewal of its digital infrastructure and the future of BT are intimately linked. **The changes we have announced today will allow us to build a better BT for the future, for our customers, our shareholders, and ultimately for the country.**

I'll now ask the operator to open the call for questions.