



BT Group plc FY 2019/20 results

7 May 2020

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Philip Jansen
Chief Executive

Driving long-term shareholder value through increased investment and modernisation

Increased network investment – FTTP¹ and 5G

Next phase of transformation – to modernise BT

Dividend decision – creating capacity for investment

¹ Fibre-to-the-premises

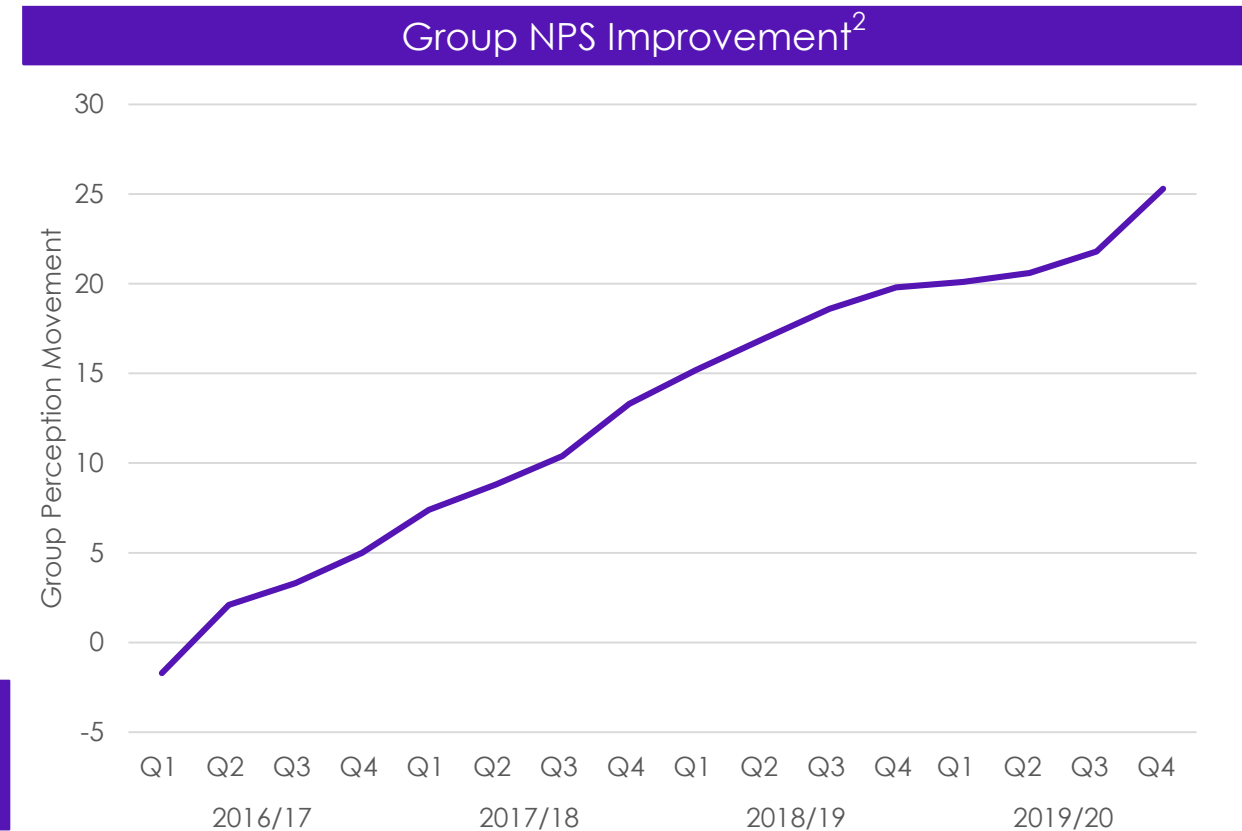
FY 2019/20 Highlights – Building a better BT for the future

- Results in line with expectations
- Growing converged and new product offerings
- Improving customer experience and NPS¹
- Step change on fairness agenda
- Phase one transformation largely complete
- Streamlining the business through asset sales
- Leadership maintained on FTTP² and 5G - deploying at pace

Short-term focus to maintain critical connectivity for the nation

¹ Net promoter score

² Group net promoter score (NPS) shows the cumulative movement in our customers' perception of BT since April 2016. It's a combined measure of 'promoters' minus 'detractors' across our business units



Q4 and FY 2019/20 results – financial overview

	Q4 2019/20	Change YoY	FY 2019/20	Change YoY
Adjusted Revenue¹	£5,632m	(4)%	£22,824m	(3)%
Adjusted EBITDA²	£2,007m	(1)%	£7,907m	(3)%
Capital Expenditure (excluding BDUK clawback)			£3,943m	5%
Normalised Free Cash Flow			£2,011m	(18)%

Dividend

- FY 2019/20 – final dividend suspended
- FY 2020/21 – all dividends suspended
- FY 2021/22 – expected dividend 7.7 pence per share
progressive policy for future dividends

Prior year comparatives on IFRS 16 pro forma basis

¹Before specific items

²EBITDA before specific items, share of post tax profits/losses of associates and joint ventures and net non -interest related finance expense

Customer facing units results summary

Full Year to 31 March	Adjusted Revenue ¹		Adjusted EBITDA ²	
	2019/20 (IFRS 16)	Change YoY	2019/20 (IFRS 16)	Change YoY
Consumer	£10,388m	(2)%	£2,426m	(5)%
Enterprise	£6,093m	(5)% ³	£1,965m	(3)% ³
Global	£4,361m	(8)%	£634m	5%
Openreach	£5,112m	1%	£2,858m	(3)%
Other	£1m	n/m	£24m	n/m
Intra-group	£(3,131)m	6%		
Total	£22,824m	(3)%	£7,907m	(3)%

¹ Before specific items.

² EBITDA before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense.

³ Year-on-year percentage change figures include the impact of divestments. Excluding the impact of divestments FY2019/20 revenue decreased 2% and EBITDA decreased 1%.

FTTP – future proof network technology

Building across UK, at high quality and competitive cost

- Almost 2.6m premises passed
- Min 2m premises build in 2020/21, 4.5m by March 2021
- Target increasing to pass 20m by mid- to late-2020s
- Average build cost of £300-£400 per premises passed¹ across 20m
- Currently passing c.32,000 premises per week

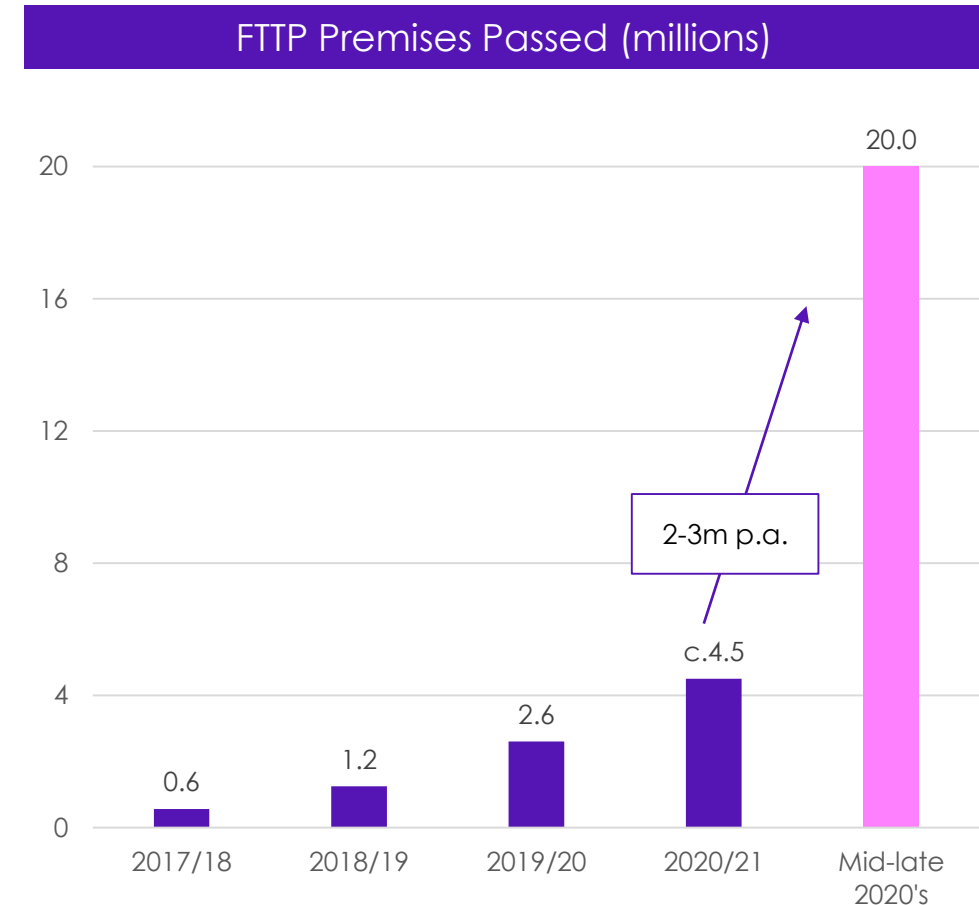
Driving customers onto the FTTP network

- Constructive discussions with major CPs²

Enablers to support a fair return on investment

- WFTMR³ a significant step forward
- Constructive discussions with Ofcom and Government
- Critical that regulation implemented as expected

Estimated mid-case project returns⁴ estimated 10%-12%



¹ The gross build costs in schemes supported by public subsidy which we also expect to contribute to the 20m plan are significantly higher than this range; the build cost of FTTP deployed at new housing sites which also contributes to the 20m is also higher since the build and provision stages are typically collapsed into one phase and there is less existing passive infrastructure available to use

² Communications Providers

³ Wholesale Fixed Telecoms Market Review

⁴ Pre-tax nominal rate of return

Embarking on the next phase of modernisation

New outcomes ...

Customer Experience

Industry leading

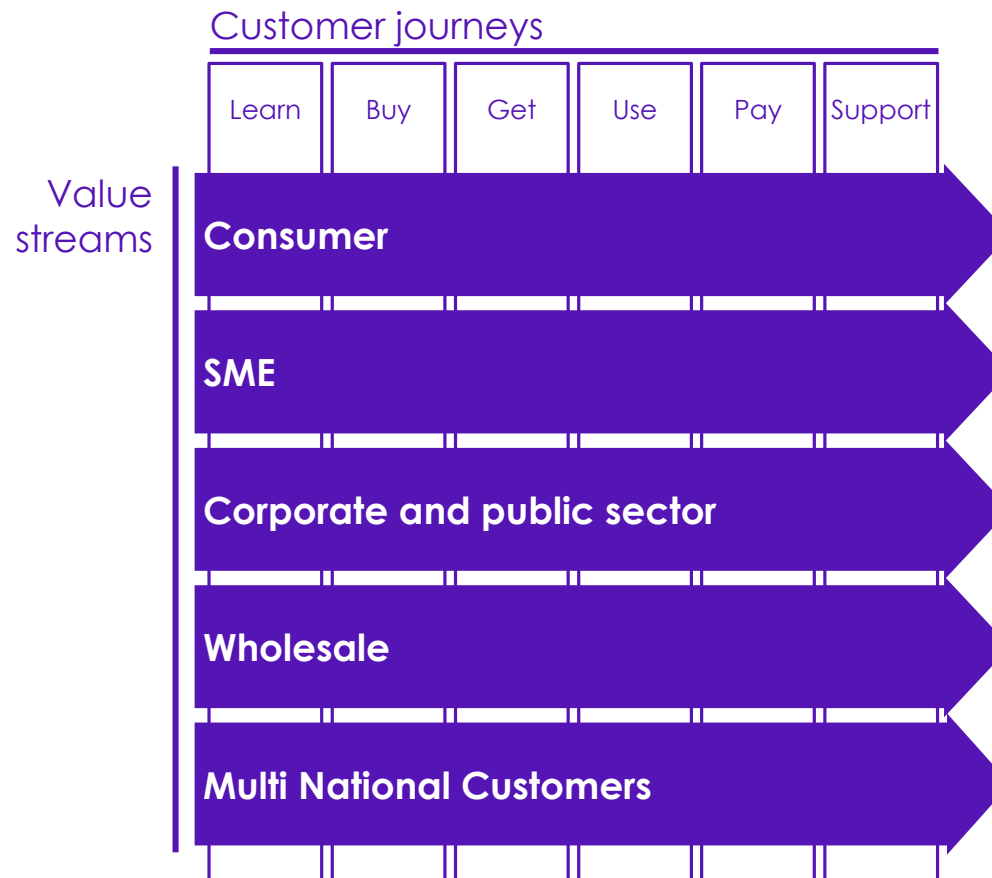
Colleague Experience

Best place to work

Productivity

Industry top quartile

... realised by end-to-end value streams ...



... focused on four missions



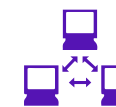
Simplify product portfolio



Transform end-to-end customer journeys



Accelerate modernisation of digital and IT architecture



Migrate customers from and decommission legacy networks

Simplifying portfolio and migrating customers onto modern strategic products

Focused product-related programmes ...

Rationalise our portfolio

- Migrate customers and remove legacy products

Reduce product variants

- Simplifying our connectivity offerings

Modularise the product portfolio

- Focusing on our Enterprise and Global customers

Move from legacy to strategic networks

- Closing 8 legacy networks

Migrating customers onto the strategic portfolio



Next-generation services and capabilities



Simpler, easy to understand products



Easier for customers to package solutions



Increased resilience and fewer faults



Faster time to market with new products

... will deliver both customer and business benefits

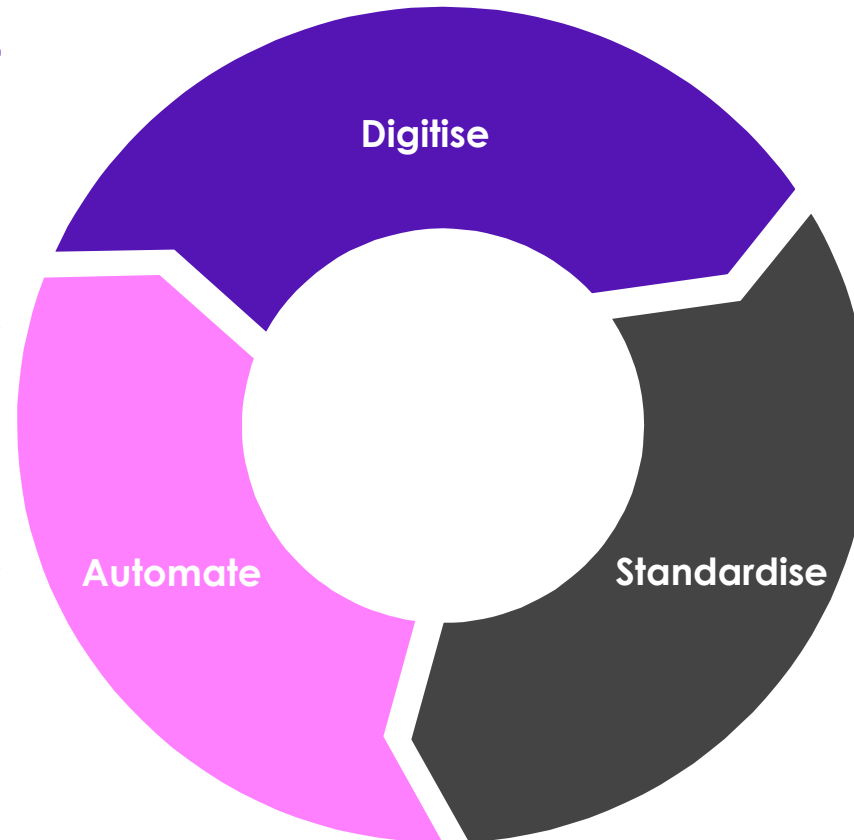
Radically automating end-to-end customer journeys

From ...

Cycle times of weeks on key customer journeys

Difficult to navigate online experiences, sometimes requiring a call or store assistance

High levels of manual intervention required to complete internal processes



To ...

Journeys fulfilled in hours, many completed instantly

Seamless digital customer journeys

Zero-touch internal processes

Transforming IT is a critical enabler of modernisation

Current State

58 stacks

Future State

14 stacks

Benefits

- | | | |
|--|---|--------------------------------------|
| 1 Contact Centres assumed as primary customer interface | ➤ | Digital first-interface |
| 2 Built on Copper-based services | ➤ | Fibre-based services |
| 3 Offline data architecture | ➤ | Real-time data |
| 4 Many processes hard-coded | ➤ | Configurable business logic |
| 5 Outdated architecture | ➤ | Cloud-native, API-rich data services |

Major project launch cycle time reduced from 15 to 3 months (daily for simple change)

Automation capable: 90% processes zero-touch

Functionality highly configurable by the business

Significant IT efficiency enabled

Modernisation delivers gross annualised savings of £2bn in 5 years

Covid-19 – BT response

- Central planning team to co-ordinate all actions:
 - keeping **Colleagues** safe and protected
 - keeping **Customers** connected and supporting home working
 - keeping the **Country's** critical national infrastructure running

Supporting the nation at this critical time

Openreach engineers social distancing



Consumer – standing by our customers

- Covid-19 response:
 - removing all data usage caps on home broadband
 - unlimited mobile data for all NHS workers
 - BT Sport customers offered two months of bill credit
 - landline-only customers charge cap of £5
 - tech skills partnership with ITV
 - UK-based call centres maintaining customer support
- Covid-19 impact:
 - lower BT Sport revenue
 - lower roaming volumes
 - lower transaction volumes
 - £9m Covid-19 specific item charge

	Q4 2019/20	Change YoY	FY 2019/20	Change YoY
Revenue	£2,493m	(4)%	£10,388m	(2)%
EBITDA	£626m	(7)%	£2,426m	(5)%
Capex			£948m	0%

BT & ITV Tech Tips



Helping NHS workers

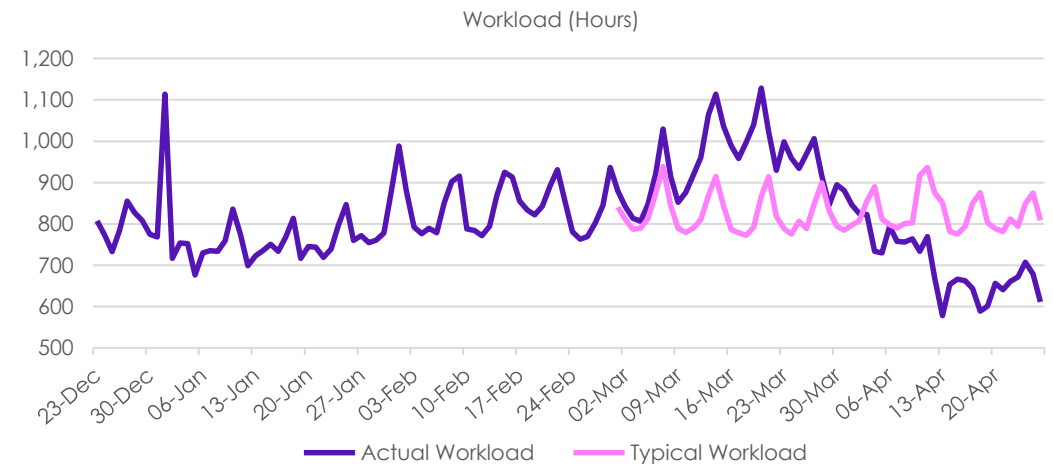


Enterprise – supporting customers more than ever before

- Covid-19 response:
 - ensured businesses can access the best remote working tools
 - enhanced monitoring capability for all critical services, prioritising faults as they may arise
 - maximised 999 capacity
 - providing the justice system with more conference solutions and facilities
 - enabled hospitals across the country to provide electronic tablets to patients in intensive care
- Covid-19 impact:
 - £51m charge taken in Q4 2019/20, mainly for expected credit losses against trade receivables
 - expect further impact on roaming revenue and from company insolvencies
 - anticipate lower volumes compared with previous forecasts

	Q4 2019/20	Change YoY	FY 2019/20	Change YoY
Revenue	£1,543m	(3)% ¹	£6,093m	(5)% ¹
EBITDA	£507m	(2)% ¹	£1,965m	(3)% ¹
Capex			£501m	(9)%

999 workload²



¹ Year-on-year percentage change figures include the impact of divestments. Excluding the impact of divestments FY 2019/20 revenue decreased 2% and EBITDA decreased 1%.

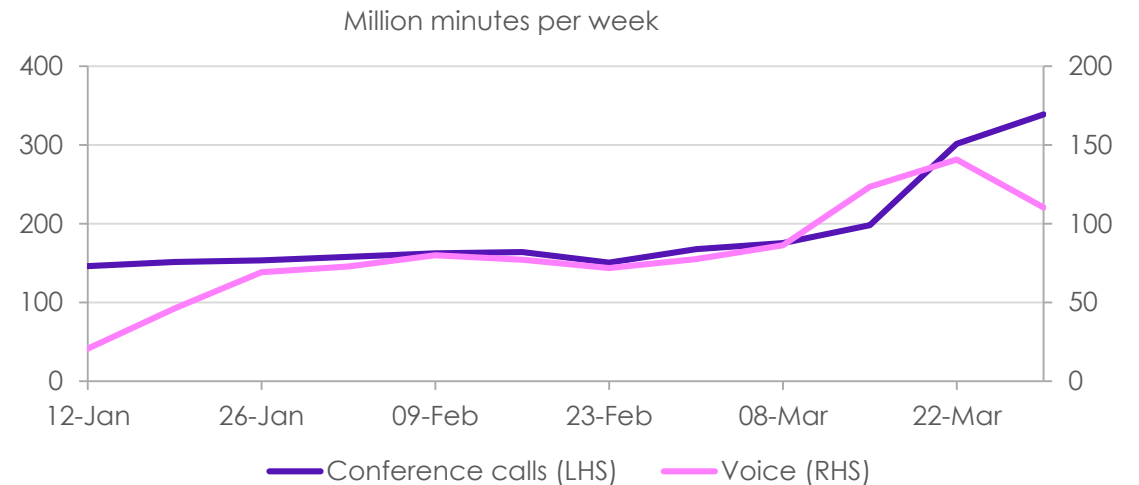
² Workload is derived from volume of calls x average length of call

Global – delivering secure, remote working for global businesses

- Covid-19 response:
 - enabled 130,000 employees to work remotely across 170 countries for one MNC¹
 - sold 40,000 VPN connections in one week in Spain to facilitate homeworking
 - provided security solutions for trading floors now operating remotely
 - providing IT support for multiple public hospitals in Northern Italy
 - provided remote access for 45,000 Lloyds Banking Group employees
- Covid-19 impact:
 - Q4 trading results not materially impacted
 - additional loss provision of £35m taken against trade receivables and contracts at 31 March 2020

	Q4 2019/20	Change YoY	FY 2019/20	Change YoY
Revenue	£1,081m	(10)%	£4,361m	(8)%
EBITDA	£175m	(1)%	£634m	5%
Capex			£223m	(9)%

Conference call and voice volumes (selected products)



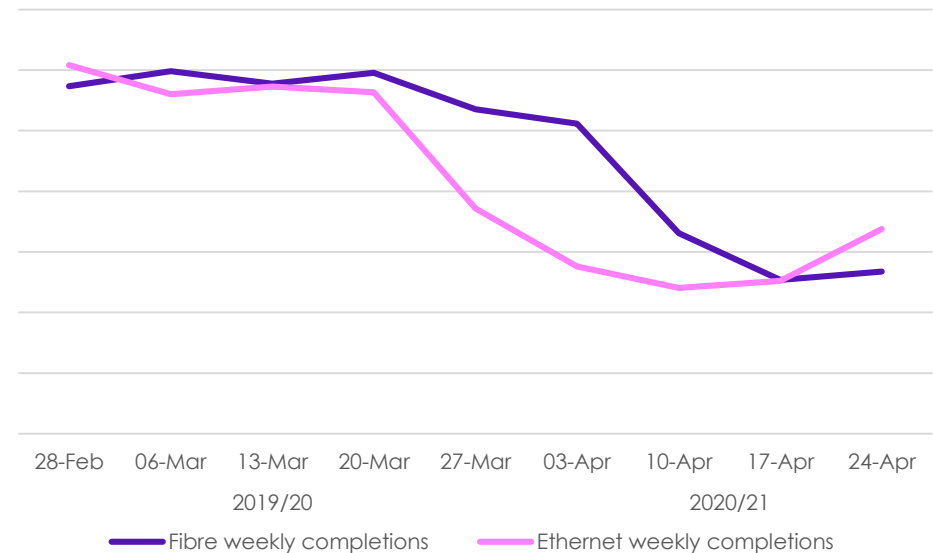
¹ Multi-national customer

Openreach – keeping the fixed access network running

- Covid-19 response:
 - focus on service and maintenance to keep customers connected
 - national champion ensuring connectivity for all NHS Nightingale Hospitals and selected food depots and PPE manufacturers
 - network performing well so far with no major outages or technical issues despite huge increase in demand
- Covid-19 impact:
 - restrictions on the range of products we can supply
 - fewer new orders
 - some SMEs temporarily ceasing some of their lines
 - reduction in chargeable repair
 - declared MBORC¹, giving relief on normal service guarantees, reflecting inability to deliver normal high standards

	Q4 2019/20	Change YoY	FY 2019/20	Change YoY
Revenue	£1,295m	2%	£5,112m	1%
EBITDA	£719m	(1)%	£2,858m	(3)%
Capex			£2,108m	1%

Completions have fallen during stay at home order²



¹ Matters Beyond Openreach's Reasonable Control
² Number of premises completed on a normalised scale

Simon Lowth
Chief Financial Officer

FY 2019/20 results in line with expectations

	2019/20 (IFRS 16)	2018/19 (IFRS 16 pro forma)	Change YoY
Adjusted revenue¹	£22,824m	£23,459m	(3)%
Operating costs²	£(14,917)m	£(15,333)m	(3)%
Adjusted EBITDA¹	£7,907m	£8,126m	(3)%

¹ Before specific items

² Before specific items and depreciation and amortisation

FY 2019/20 results in line with expectations

	2019/20 (IFRS 16)
Adjusted EBITDA¹	£7,907m
Depreciation and amortisation ¹	£(4,296)m
Net finance expense ¹	£(757)m
Tax ¹	£(536)m
Adjusted profit after tax¹	£2,324m
Specific items	£(590)m
Reported profit for the period	£1,734m
Adjusted earnings per share	23.5p

¹ before specific items

FY 2019/20 normalised cash flow in line with expectations

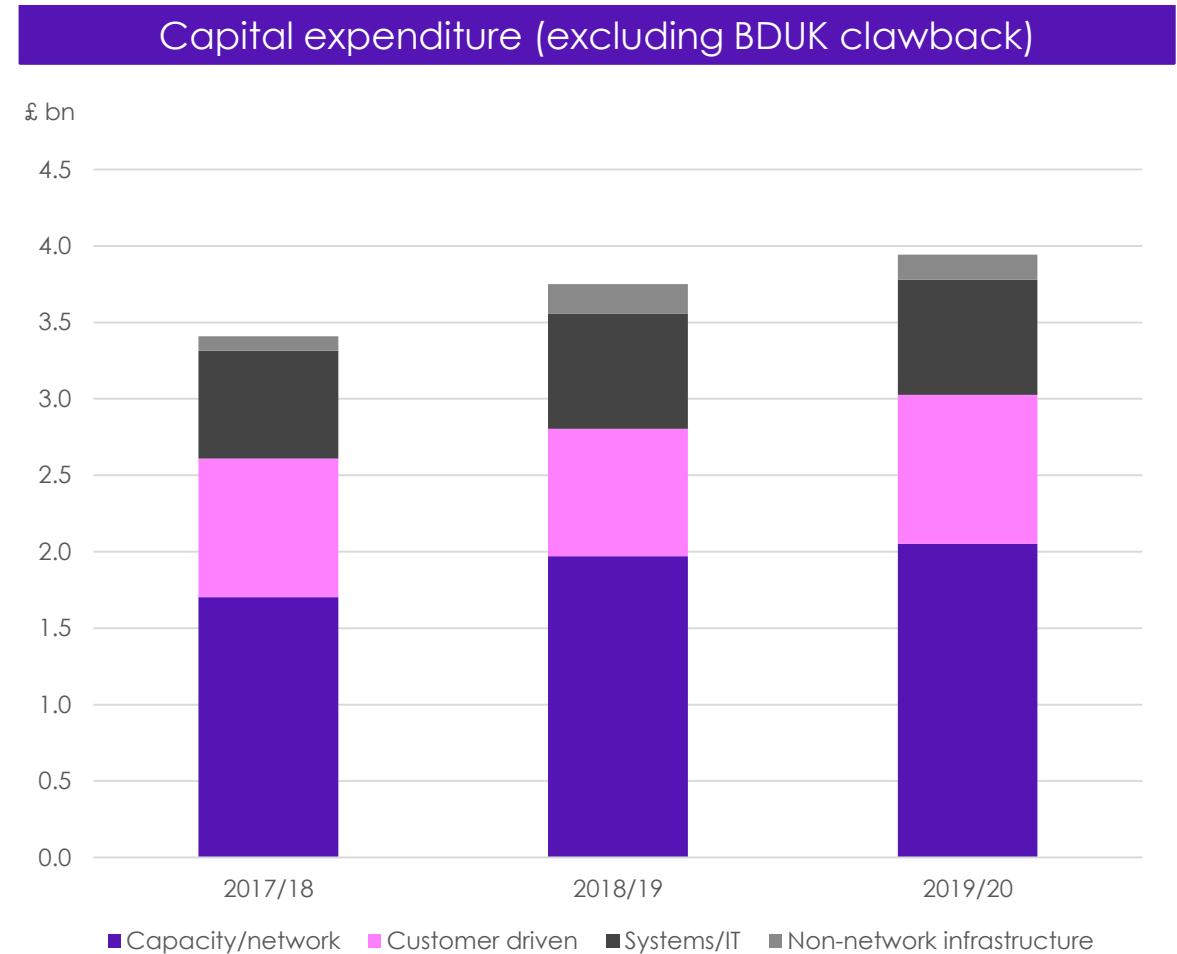
	2019/20 (IFRS 16)	2018/19 (IFRS 16 pro forma)	Change YoY
Adjusted EBITDA¹	£7,907m	£8,126m	(3)%
Interest	£(706)m	£(508)m	39%
Tax (ex cash tax benefit of pension deficit payments)	£(644)m	£(704)m	(9)%
Payment of lease liabilities	£(651)m	£(734)m	(11)%
Change in working capital and other	£204m	£103m	98%
Cash available for investment and distribution	£6,110m	£6,077m	1%
Cash capital expenditure	£(4,099)m	£(3,637)m	13%
Normalised free cash flow²	£2,011m	£2,440m	(18)%
Refund on acquisition of spectrum	-	£21m	(100)%
Net cash flow from specific items	£(112)m	£(598)m	(81)%
Reported free cash flow	£1,899m	£1,863m	2%

¹ Before specific items

² After net interest paid, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items

Capex increase from investments in Fibre Cities and 5G

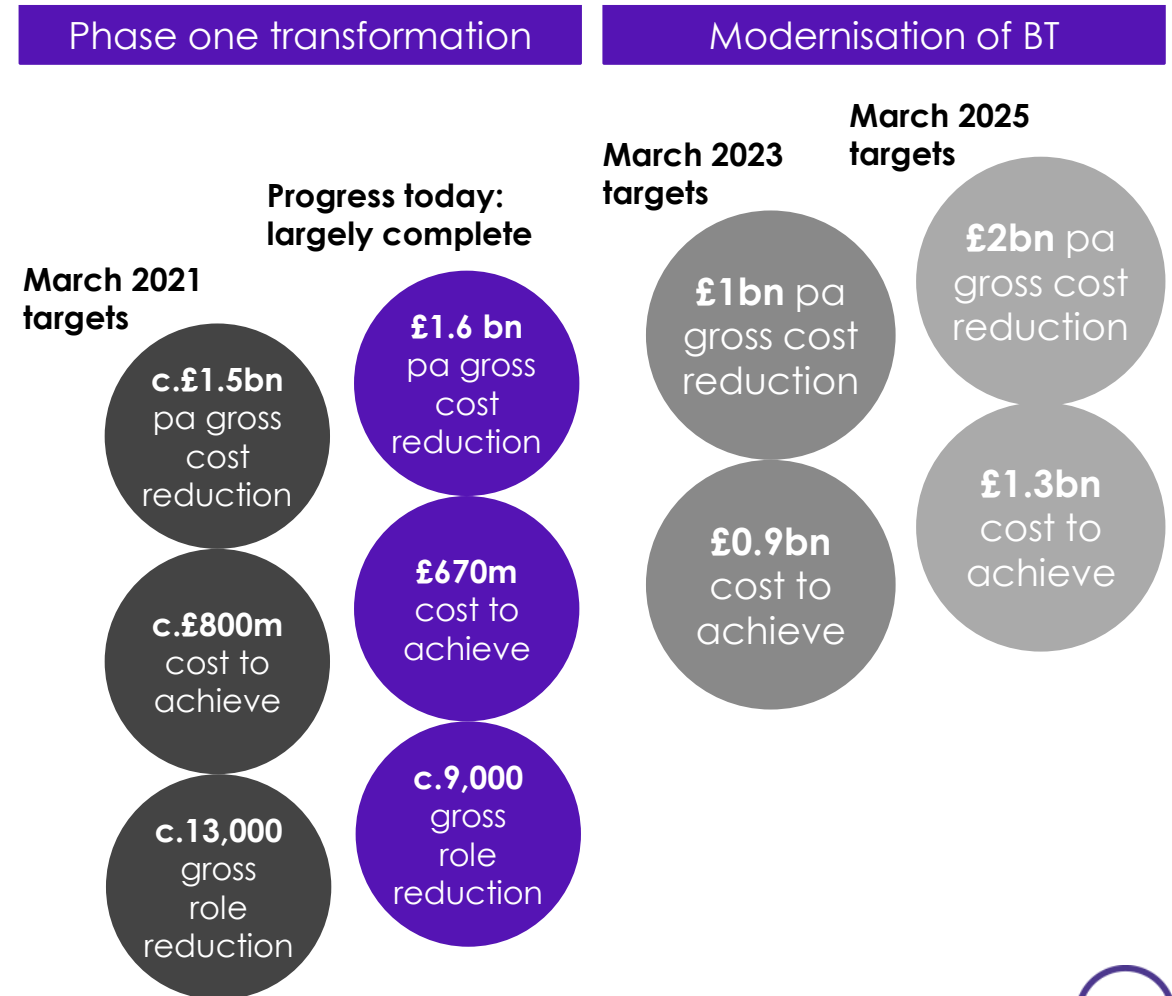
- 2019/20 reported capex excluding BDUK clawback of £3.9bn, increase driven primarily by:
 - Fibre Cities network build
 - 5G rollout
 - Ethernet provisioning
- Capex investment in 2020/21 will be impacted by:
 - length of the lockdown period
 - largely offset by acceleration in FTTP build



Capex profile excludes BDUK clawback (within capacity/network capex)

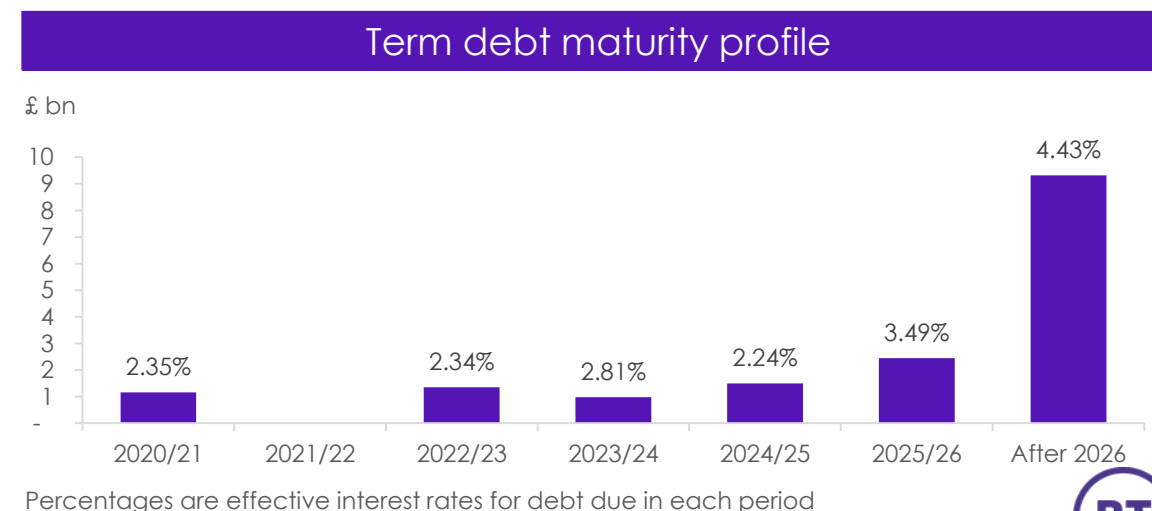
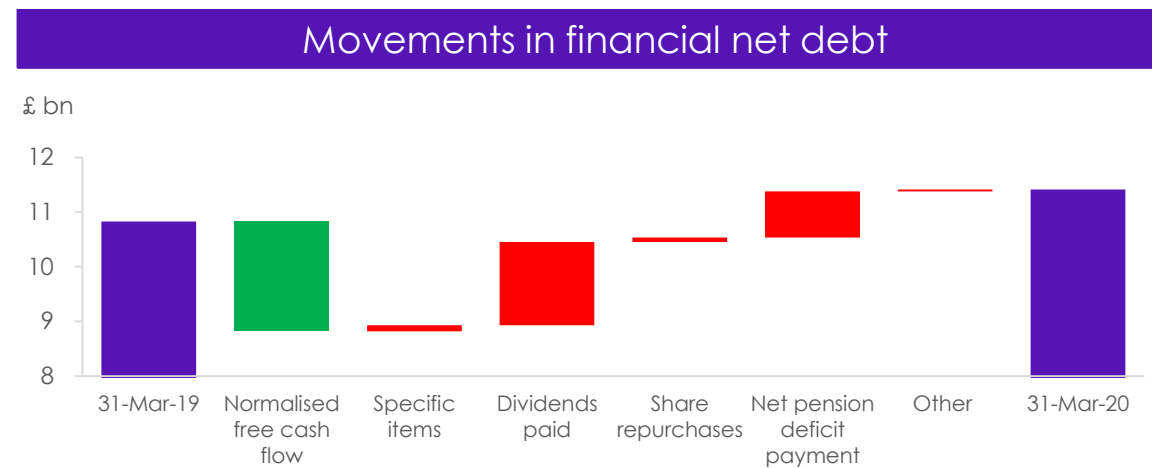
Existing transformation ahead of schedule, and the modernisation of BT

- Phase one transformation programme delivered a year ahead of schedule
- Next phase of transformation: the modernisation of BT
 - annualised gross cost savings of £1 billion pa by March 2023, £2 billion pa by March 2025
 - to be realised through reductions in total labour costs and spend with external suppliers
- Taking actions to mitigate impact of Covid-19
- Disposals made to better focus on core business
 - sale agreed of selected domestic operations and infrastructure in Latin America
 - sale agreed of Spanish managed ICT services business
 - entered exclusive negotiations on the sale of domestic operations in France
 - sale of BT Fleet Solutions completed, and sale of Tikit announced in fourth quarter



Strong cash position and long-dated debt maturity profile

- Prudent financial approach positions us well for period of capital markets uncertainty
- Cash and current investments of £6.6bn and undrawn credit of £2.1bn
- Smooth, long-dated term debt maturity profile
 - term debt of £1.3bn and pension deficit repair payments of £900m due in 2020/21, already pre-funded
 - no short-term need to access capital markets
- Issued inaugural hybrid bond of £0.4bn, encouraged by demand for the bond
- Remain committed to medium-term credit rating target of BBB+, with a minimum rating of BBB



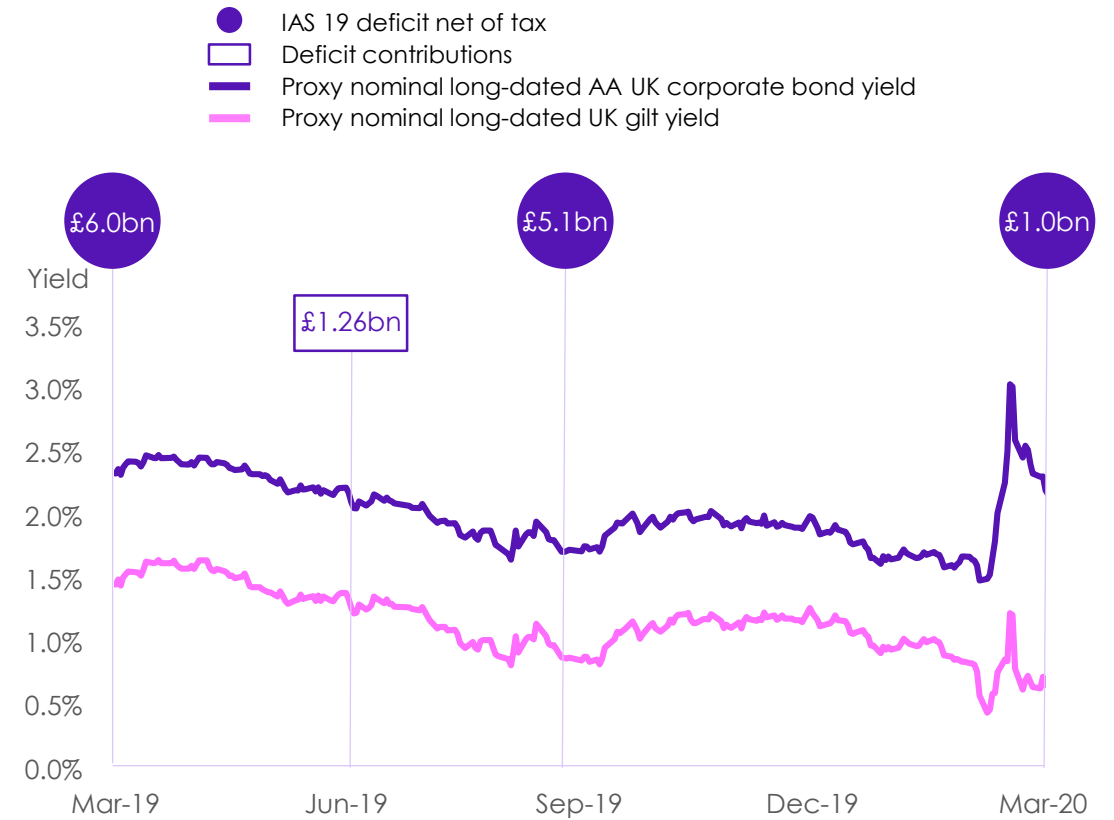
Reduction in IAS 19 pension deficit driven by increase in corporate bond yields

- IAS 19 deficit down from £6.0bn at 31 March 2019 to £1.0bn (net of tax) at 31 March 2020, driven by:
 - increase in the real discount rate
 - £1.3bn deficit contributions paid over the period
 - positive asset returns
- Expansion in credit spreads during Q4 reduced IAS 19 without corresponding reduction in actuarial valuation
- Triennial actuarial valuation to take place at 30 June 2020; aiming to conclude in first half of 2021
- Other developments:
 - consultation aiming to align RPI¹ with CPIH²; without any mitigating steps, will increase the deficit
 - consultation on a new statutory funding regime; expectations for the new regime likely to feature in upcoming discussions with the trustee

¹ Retail Prices Index

² Consumer Prices Index including owner occupiers' housing costs

Movements in bond yields and the pension deficit



Yields shown are indicative only and not representative of actual discount rates used

Expectations for Covid-19 financial impacts across the business

- FY 2019/20: recognised £95 million of Covid-19-related impacts as specific charges
- Impacts in FY 2020/21 and beyond:
 - lower revenue from our BT Sport while there's no sport (bill credits, lower advertising) and pubs and clubs remain closed
 - reduced business activity and rising insolvencies, specifically among the SME segment, will impact our enterprise units
 - reduction in broadband and ethernet sales and upgrades in Openreach
 - lower retail trading, including fewer sales and upgrades and lower roaming volumes, only partly offset by lower churn
 - reduction in spending and a more cautious approach from our multinational customers



Philip Jansen
Chief Executive

Continuing to build a better BT for the future

- Results in-line with expectations
- Delivered positive progress in all strategic focus areas
- Critical decision areas:
 - revising dividend policy to:
 - create capacity for value enhancing investments
 - manage confidently through the Covid-19 crisis
 - accelerating FTTP with 20m premises passed target by mid- to late-2020s
 - modernisation delivers gross annualised savings of £2bn over five years

Short term focus to maintain critical connectivity for the nation



