



## BT Group provides historical pro forma to reflect formation of Sports Joint Venture between BT Sport and Eurosport UK

- Historical unaudited pro forma financial and operational key performance indicators (KPIs) provided for FY21, FY22 and Q1 FY23
- Pro forma information estimates the effect of the reorganisation of BT Sport following the formation of the Sports Joint Venture between BT Sport and Eurosport UK
- Forming the JV reduces reported BT Group revenue for FY23 by c.£300m-350m. On a pro forma basis, we continue to expect sustainable revenue growth for FY23 and beyond. All other outlook items unchanged
- BT's historical reported Group financials are unchanged

18 October 2022

On 1 September 2022 BT Group and Warner Bros. Discovery announced completion of their transaction to form a 50:50 joint venture (JV) that combines the assets of BT Sport and Eurosport UK.

By bringing together the sports content offering of both BT Sport and Eurosport UK, the JV will have one of the most extensive portfolios of premium sports. This is an attractive agreement for BT, realising cost efficiencies between BT Sport and Warner Bros. Discovery, and introducing further broadcast rights and expertise from Warner Bros. Discovery, while creating more choice and an even stronger sport and entertainment proposition for our customers. Through the transaction, and with the support and strong partnership of Warner Bros. Discovery, BT Group's risk exposure to sport has also been significantly reduced while ensuring that BT Group will benefit from the synergies created by the JV. BT plc will receive £93m from Warner Bros. Discovery and up to approximately £540m by way of an earn-out from the JV, subject to certain conditions being met.

BT plc's interest in the JV will be classified as a JV under IFRS 11, and equity accounted for under IAS 28.

BT Group has today published unaudited historical pro forma financial and operational KPIs to estimate the impact on the group had the JV been in place historically.

### Overview of key changes

From 1 September 2022:

- Revenue from wholesale contracts, advertising and commercial premises, previously reported in 'Other' Consumer revenue, has been transferred to the JV. In addition, BT now acts as an agent of the JV for non-bundled Sport products, for example monthly pass, BT's app only proposition,



and will only recognise its net margin as revenue within Consumer fixed revenue. FY21 and FY22 Group revenue reduced by £0.4bn and £0.5bn respectively on a pro forma basis to reflect both of these revenue allocation changes. Similarly, we continue to expect revenue from this point on to be £0.5bn - £0.6bn per annum lower on a pro forma basis.

- Bundled revenue from customers who access BT Sport through BT directly, for example purchased as part of package with broadband or BT TV, will continue to be reported gross within BT Group consolidated financials, with no pro forma adjustments needed.
- Production and operational assets of BT Sport have been transferred to Warner Bros. Discovery. As a consequence of the operational assets moving to Warner Bros. Discovery there is a master service agreement whereby the JV is buying all production services from Warner Bros. Discovery. Separately, BT Sport's sports rights transferred to the JV. As a result, costs associated with sports rights, production and SG&A are no longer reported within BT consolidated financials.
- BT Group (through its wholly owned subsidiary British Telecommunications plc ("BT plc")) and Warner Bros. Discovery have entered into distribution agreements with the JV under which they now distribute the combined sports content to new and existing customers on their respective platforms and apps. BT plc's distribution agreement with the JV extends beyond 2030, and for the first four years, includes a minimum revenue guarantee of c. £500m per annum, after which payments to the JV will vary depending on customer base. BT plc will receive £93m from Warner Bros. Discovery and up to approximately £540m by way of an earn-out from the JV, subject to certain conditions being met.

BT's obligation under the minimum revenue guarantee of £2bn over the next four years is higher than the fair value of the related revenue streams, and therefore the delta between our committed expenditure and the value that we currently expect to generate represents a financial liability that will be recorded as a provision on the balance sheet. This liability will unwind over the next 4 years as the £2bn minimum revenue guarantee reduces. The liability will be remeasured at each reporting period in accordance with IFRS 9, with any changes in estimates accounted for prospectively. The liability is included within the profit and loss on disposal calculation which will be booked as a specific item in the Q2 FY23 results.

In constructing the unaudited historical pro forma information, to present this information on a like-for-like basis with the future contractual arrangements under the JV, we have estimated a historical distribution agreement and minimum revenue guarantee as though our arrangements with the JV have always been in place. This charge from the JV is included within 'TV programme rights charges' in our costs breakdown. This is an estimate only and may have materially differed from actual contractual arrangements had they been negotiated at that time.

These outlined changes to revenue and cost would have translated to an estimated uplift to BT Group adjusted EBITDA of c.£200m in each of FY21 and FY22 on a pro forma basis. For FY23, BT Sport on a standalone basis was expected to benefit from increased revenue from commercial premises and lower sports rights costs. As a result, although creation of the JV would have increased BT Group EBITDA by £42m in Q1 FY23, this benefit reduces materially after Q1 FY23. Our share of post-tax earnings from associates and JVs is recognised below net finance expense in the group income statement and will increase commensurate with the 50:50 JV structure. We have not been able to meaningfully estimate our share of post-tax earnings from associates and JVs over the pro forma period and therefore this is not included in the pro forma information.

On a Group basis, pro forma normalised free cash flow is estimated as being unchanged from reported normalised free cash flow in FY21 and FY22.

## Outlook

The completion of the Sports JV with Warner Bros. Discovery on 1 September 2022 will reduce reported BT Group revenue for FY23 by £300m to £350m as a result of the seven months of FY23 revenue transferring to the JV. However, we continue to expect underlying year on year Group revenue growth in FY23 on a pro forma basis.

We do not expect a material impact on our adjusted EBITDA<sup>2</sup> outlook in FY23 of at least £7.9bn. On a pro forma basis, we continue to expect sustainable revenue and EBITDA growth beyond FY23.

We continue to expect group normalised free cash flow to be in the range of £1.3bn - £1.5bn.

The table below outlines the outlook items most impacted by the JV.

	FY 23 outlook post JV on a reported basis	FY23 outlook pre JV on a reported basis
<b>Change in adjusted<sup>1</sup> revenue</b>	<b>JV reduces reported revenue by c.£300-350m; revenue growth on a pro forma basis</b>	<b>Growth</b>
<b>Adjusted EBITDA<sup>2</sup></b>	<b>At least £7.9bn</b>	<b>At least £7.9bn</b>
<b>Normalised free cash flow<sup>3</sup></b>	<b>£1.3bn-£1.5bn</b>	<b>£1.3bn-£1.5bn</b>

<sup>1</sup> Before specific items.

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

<sup>3</sup> Free cash flow (net cash inflow from operating activities after net capital expenditure) after net interest paid and payment of lease liabilities, before pension deficit payments (including cash tax benefit), payments relating to spectrum, and specific items. For non-tax related items the adjustments are made on a pre-tax basis. It excludes cash flows that are determined at a corporate level independently of ongoing trading operations such as dividends, share buybacks, acquisitions and disposals, and repayment and raising of debt.

## Accompanying documents

To make it easier to understand these changes, BT has also published two additional documents:

- Document A: Pro forma KPIs for BT Group reflecting the impact of the changes made from the formation of the JV
  - Changes from the previously reported KPIs which are explained in the accompanying 'Document B: Pro forma KPIs supporting information' have been highlighted in purple.
  - Changes from the previously reported KPIs which are not explained in the accompanying 'Document B: Pro forma KPIs supporting information' have been highlighted in pink.
- Document B: Pro forma KPIs supporting information - a document that provides a bridge for the financial KPIs from BT's previously reported KPIs to Document A

Pro forma KPIs are unaudited and provide an estimated indicative history of the company's performance. As noted above in constructing the historical proforma information, to present this information on a like-for-like basis with the future contractual arrangements under the JV, we have estimated a historical distribution agreement and minimum revenue guarantee as though our arrangements with the JV had

always been in place. This is an estimate only and may have materially differed from actual contractual arrangements had they been negotiated at that time.

The information is presented as an indication of trend only. The financial statements do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 and have not been audited by BT's independent auditors. BT does not warrant the accuracy, completeness or validity of the information, figures or calculations in this document and shall not be liable in any way for any loss or damage arising out of the use of this information, or any errors or omissions in its content.

The full disclosures are provided on BT's [website](#).

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### **About BT Group**

BT Group is the UK's leading provider of fixed and mobile telecommunications and related secure digital products, solutions and services. We also provide managed telecommunications, security and network and IT infrastructure services to customers across 180 countries.

BT Group consists of four customer-facing units: Consumer serves individuals and families in the UK; Enterprise and Global are our UK and international business-focused units respectively; Openreach is an independently governed, wholly owned subsidiary, which wholesales fixed access infrastructure services to its customers - over 650 communication providers across the UK.

British Telecommunications plc is a wholly-owned subsidiary of BT Group plc and encompasses virtually all businesses and assets of the BT Group. BT Group plc is listed on the London Stock Exchange.

For more information, visit [www.bt.com/about](http://www.bt.com/about)

