BT Group

BT Group H1 FY25 Results Presentation

Slide 1: Cover

Slide 2: Forward looking statements

Slide 3: Allison Kirkby title slide

Good morning, everyone…

Slide 4: Our strategic priorities

and welcome to our half year results presentation. Thank you for joining us.

Back in May, I reconfirmed our five strategic priorities. And I am pleased that we are making solid progress against all of them….

Slide 5: Solid delivery against our priorities

…. accelerating the key foundations that will drive value creation: doubling down on the UK, fibre, lower costs and happier customers.

Let me begin with some highlights:

- Openreach delivered record build and connections in the half, and increased its market-leading take-up, outpacing even our own expectations. With lower build costs, we can now go even further and build beyond the original 4m target that was set for this year, keeping our foot to the floor on one of the country's largest ever infrastructure investments.
- In Consumer, we saw excellent growth in both our 5G and fibre customer bases as we accelerated the migration of customers to next generation platforms. Our mobile subscriber base grew for the first time in two years, and our converged customer base is growing again. Customer satisfaction also improved across all three Consumer brands for the first time in nearly three years.
- In Business, we accelerated the carve out of our Global segment and started the transition to a simpler, more focused UK business. And while radically modernising, we improved customer satisfaction.
- Across the Group, structural transformation and improved cost discipline delivered a further £400 million run-rate savings.
- And bringing all of this together, we delivered growth in EBITDA and normalised free cash flow, despite revenue weakness, keeping us firmly on track to meet our EBITDA and cash flow targets for the year.
- Finally, we will increase the interim dividend by 4% to 2.4 pence per share, in line with our progressive dividend policy.

Now let me hand over to Simon to run through the numbers, before I take you through a more detailed update on each of our units, our transformation agenda and the outlook for the rest of this year.

BT Group

Slide 6: Simon Lowth cover

Thank you Allison, and good morning to everyone.

Slide 7: EBITDA and NFCF growth as strong cost control offsets challenging revenue

Looking first at our Group Results on slide 7.

Adjusted revenue for the half was £10.1 billion, that's down 3% as challenging conditions in Business, particularly outside the UK, and an expected H1 decline for Consumer, more than offset growth in Openreach.

Adjusted operating costs before depreciation were down 3%. We have made £433million of gross annualised savings this half with a £187million cost to achieve – in line with our target.

Before moving on from costs, I wanted to quantify the impact of last week's Budget on BT Group. We expect that the additional 1.2% on employers' National Insurance contributions, the £4,100 reduction in the NI threshold and the known increase in the National Living Wage will together cost BT around £100 million per annum from April 2025, of which about 70% will be Opex. We will intensify our productivity and cost transformation programmes to offset this.

Turning now to adjusted EBITDA for H1, which was up 1% to £4.1billion. Cost transformation and operational efficiency have more than offset the lower revenues.

Reported Capex came in at just under £2.3 billion for the half, down 2% compared with the prior year. This was mainly due to lower non-network infrastructure spend and a decline in IT costs following last year's platform deployment to support the New EE launch. It's worth noting that FTTP capex is down 2% in the half, benefitting from lower unit costs as build has accelerated. Lastly, we are still expecting FY25 cash capex to be around £200m higher than reported capex due to the net impact of grant funding and capital creditors.

Normalised free cash inflow of £715million in H1 was up 57% on the prior year. This reflects the benefit of a lower working capital outflow, which was primarily from lower handset stock levels and a net inflow of mid tens of millions of pounds from supply chain finance and handset monetisation. We continue to expect a more neutral out turn for working capital for the full year. Separately, we also received a cash tax refund of around £100million in the second quarter.

And as Allison just announced, we're proposing an interim dividend of 2.4 pence per share, an increase of 3.9%. That's in line with our policy of paying an interim of 30% of last year's total dividend.

Slide 8: H1 FY25 summary of customer facing unit results

Moving to our individual unit results on slide 8.

Openreach grew revenue 2% in H1, driven by price increases and strong momentum in FTTP and Ethernet, partly offset by declines in broadband and voice lines. We expect continued momentum on FTTP and Ethernet beyond FY25, broadly offsetting the impact of line losses and the closure of WLR-related revenue streams as we approach PSTN switch off.

Openreach EBITDA grew by 6% in the half, driven by stronger revenue, improved cost transformation including around five thousand fewer FTE over the past 12 months, partially offset by pay inflation.

Consumer revenue was down 1% for the half, impacted by the expected challenging pricing comparator with the prior year, combined with a lower broadband base.

Consumer EBITDA declined by 1% in the half year due to due to the revenue flow through and higher input costs, partially offset by continued strong cost control and higher equipment margin.

In our Business division, H1 revenue was down 6%, principally driven by non-UK trading in our Global and Portfolio channels. UK revenues saw a small decline, around half of which was due to the change in recognition of £38 million of wholesale managed broadband revenue in Q3 last year which impacted H1 comparative figures.

Business EBITDA declined by 7% for the half reflecting the revenue declines, offset by cost control.

We expect H2 year on year revenue and EBITDA trends to improve versus H1 in part due to a favourable comparator as we lap the impact of last year's £38 million Wholesale Managed Broadband recognition change and £41million billing accuracy adjustment. We also expect the usual B2B pick up in H2, albeit in a tougher CPS trading environment.

And on that note, I'll hand back to Allison.

Slide 9: Allison Kirkby title slide

Slide 10: Openreach | Record FTTP build and take-up

Thanks Simon. So going back to the units in a bit more detail.

Openreach delivered another stellar performance, with growth in revenue, EBITDA, fibre build and fibre take-up.

We built full fibre to a record 2.1 million premises in the half, a 30% year-on-year growth, taking our footprint to 16 million, or around half the country, while also driving down our build costs. This strong operational delivery gives us the confidence to now increase our build target this year to 4.2 million, which we will achieve within our existing capex envelope.

Customer demand for full fibre continues, with 5.5 million premises now connected – a record for connections in the half. And our take up rate is now a market-leading 35%, showing that we are not only building but also connecting at pace.

In our operations, our repair volumes decreased around 10% over the last year. This was driven by the shift to full fibre, where the fault rate is 60% lower than copper. Fault volumes will continue to fall as fibre expands, benefiting our customers and our opex going forward.

Our service remains best in class - achieving all of Ofcom's Quality of Service measures for both Copper and Ethernet and contributing to NPS growth of 4.3 points year-on-year.

Broadband line losses in Q2 were similar to Q1 and are at 377k for the half, driven by the same factors - moderately higher competitor losses and a weaker broadband and new homes market. More than 80% of our losses occur in areas where we don't have full fibre, so I am confident that our best defence is to keep building at pace and stimulating take-up, which is why we invest every £ we save on our build, back into growing our network. The ever-expanding Openreach footprint, combined with an expected recovery in new homes, and the market, will enable us to reduce these losses over the medium-term.

Overall, solid take-up of fibre and strong operational momentum, together with ARPU growth from indexation and product mix, underpins the targeted return on our fibre investment, which remains on track.

Moving to the next slide…

Slide 11: Consumer | Foundations laid for a H2 return to growth

Our Consumer business is performing well in what is a competitive environment. Revenue and EBITDA were both down 1% as expected, driven by a tougher pricing comparable in the first half and a slightly lower broadband base.

Nevertheless, ARPUs for both fixed and mobile grew.

On broadband, market share was broadly stable with our full fibre base growing 33% to 2.8m nationally, and market share growth in urban areas. We see higher churn where we don't have fibre, but as Openreach continues to build fibre nationwide, we expect churn to improve. In the quarter we also launched the UK's first Wi-Fi 7 service, strengthening our premium broadband proposition and ability to drive positive ARPU development in the future.

Moving to mobile, the postpaid mobile base grew for the first time in two years and churn improved to an industry leading 0.9%. 5G connections were up 17%, with the base now at 10.5m connections, all underpinned by what RootMetrics have named the Best Mobile Network for the 11^{th} year in a row. In the quarter, we further strengthened our leadership position with the launch of 5G Stand Alone in 15 cities across the UK, which will increase to 30 major towns and cities within the next two months.

Moving to convergence and New EE, we have two priorities to drive household penetration and customer lifetime value: fixed/mobile convergence and family, or household, tariffs. Early signs indicate that New EE is doing better than our previous 'Best of Both' dual brand approach, with more than half of New EE broadband customers now taking a postpaid mobile contract.

Consumer NPS remained strong and improved 4.2 points year-on-year and, as I said earlier, that was across all three brands.

As the market leader, it's important to me that we have taken a stance on the dangers of social media for young children and were the first operator to advise parents against giving smartphones to under 11s. This is a great example of us living our purpose – we connect for good - and is much appreciated by both parents and regulators.

Back to the results, with the progress made in the first half, and the run rate we are now seeing, we remain confident that Consumer will return to growth in the second half.

Moving to Business on slide 12…

Slide 12: Business | Tough trading conditions, especially non-UK

Revenue and EBITDA were down 6% and 7% respectively in the half, principally driven by non-UK trading in our Global and Portfolio channels.

Our UK channels make up two thirds of our overall Business revenue. Within these, managed services grew by 3% while fixed and mobile connectivity declined by 6%, with around half that decline due to a prior period revenue re-classification in Wholesale broadband. So, underlying, the UK Business declined by just under 2%, similar to what we saw in Consumer.

As you know, we are in the midst of a radical modernisation and turnaround of BT Business, touching all our products, platforms, and geographies in order to drive long-term customer and shareholder value.

As in the consumer market, we are seeing strong demand for our next generation products and solutions; with full fibre customer numbers up 57% year-on-year, and our 5G base up 86%. In areas where we have fibre, over 50% of customers take it, and as Openreach expands its footprint, we expect to see further growth momentum. Customers on voice over IP also grew 8% year-on-year and now make up around two thirds of our voice base.

Customer satisfaction improved as we successfully managed migrations to new platforms, and increasingly put security and trust at the heart of the refreshed "Better on BT" Business brand.

Looking forward, and as Simon outlined earlier, EBITDA trends should improve in the second half.

Moving to transformation on slide 13…

Slide 13: Transformation | Solid progress, ahead of plan

We are making solid progress against a massive transformation agenda. This includes over £400m run-rate savings delivered in the past six months, keeping us firmly on plan to deliver our £3.0 billion ambition by the end of FY29. To recap, we are driving most of the cost savings from four key programmes:

- shutting down legacy networks and applications
- simplifying our products
- scaling the use of fewer, shared platforms
- and deepening our data and AI capabilities

With respect to our H1 cost savings let me bring to life how they are being realised.

- We migrated over one million customers away from legacy, energy hungry fixed and mobile networks.
- Network decommissioning enabled tens of millions in cost savings, reducing our energy consumption by 10GwH. This is around a quarter of our total energy reduction over the past six months.
- Digital transformation also delivered tens of millions in savings. We've cut the number of applications we use by more than 20%. And our AI-enabled chatbot, AIMEE, is transforming service, reducing inbound calls and improving customer experience.
- Openreach also used AI to reduce its cost to build, improving planning processes, helping avoid multiple truck rolls and street works as well as reducing downtime between jobs.
- And partly as a result of all of these initiatives, our total labour resource dropped by 2k in the half, and 5k over the past 12 months. Most of the reduction was in Openreach and Business, thanks to fewer faults on fibre and continued transformation, and also due to increased efficiency across the company through the smart use of technology.

So, I'm pleased we've made solid progress year to date, and I see lots more to go after. And as Simon just mentioned, we will now intensify our cost transformation so that, along with workforce productivity, we will offset the increased national insurance burden now on us.

Moving to our outlook on slide 14…

Slide 14: Outlook | FY25 revenue revised, all other metrics unchanged

Back in May, when we announced our Group revenue outlook for FY25 of zero to 1% growth, I set out our expectation that H1 would be much tougher year-on-year than H2.

H1 revenue, down 3% on last year, has been hit harder than we anticipated – and we therefore now expect Group revenue for FY25 to be down between 1% and 2%, primarily reflecting weaker trading outside the UK, reduced low-margin equipment sales, along with a softer macro environment impacting our UK Corporate and Public Sector channel in particular. Of course, this still implies a better relative performance in H2, especially in Consumer where we expect both service and equipment revenues to grow.

Beyond revenue, we are confident in reconfirming our FY25 EBITDA guidance of around £8.2 billion, supported by strong progress and ongoing focus on costs. Our capex outlook for the year remains at below £4.8 billion and we continue to expect FY25 normalised free cash flow to be around £1.5 billion.

Our outlook beyond FY25 remains unchanged for all metrics, in all years and we are confidently progressing towards our BBB+ credit rating target.

Slide 15: Fully focussed on creating value for all stakeholders

To conclude ….

- Openreach is breaking records on fibre build and fibre connections; Consumer has laid the foundations for a return to growth; and we are powering ahead on transforming Business.
- We are therefore delivering against our strategy; with accelerated progress on the most important aspects: doubling down on the UK, fibre, lower costs, and happier customers.
- Together, these underpin our EBITDA and normalised free cash flow growth, and are offsetting short-term revenue pressures. We are therefore firmly on track to achieve our short-term and long-term cost-savings, EBITDA and cash flow targets.
- With these results, I'm even more convinced of BT's potential to become a true national champion, the UK's digital backbone. Without doubt there is still more to do to fully modernise BT. But we are working at pace and our sharpened focus positions us well to generate significant value for all our stakeholders – our colleagues, our customers, the country and our investors.

Thank you for listening. We will now move to Q&A. Given the time available and the number of people online, please keep it to one question per person.

First question please.