NBN Co H1 FY24 Financial Results

Philip Knox – Chief Financial Officer

Thanks Stephen – and good morning to everyone on the call today.

As Stephen has indicated, I am pleased to say that our financial results for the first half of fiscal 24 reflect **nbn**'s continued solid financial performance and growth.

Headline results Half Year 24

Starting with my first slide, you can see the headline results for the first half of fiscal 24. These results show both the performance over the last six months and demonstrate the ongoing progress we have made as a business when we compare ourselves to the prior corresponding period.

I'll provide greater detail on each of these metrics on the following slides, but you can see that total revenue has grown by 5 per cent on the prior corresponding period to $2.75 billion dollars for the half and EBITDA has improved to almost $2.0 billion dollars. These results mean that the company remains on track to meet the guidance targets as laid out in our Corporate Plan 2024, which includes revenue guidance of between $5.3 and $5.5 billion dollars and EBITDA guidance of between $3.7 and $3.9 billion dollars for the 2024 financial year.

The significant improvement in our EBITDA result, which has grown by 10 per cent against the prior corresponding period - is a result of the combined effect of both revenue growth and lower operating costs.

Capital expenditure rose to $1.9 billion dollars for the half - an increase of 32 per cent from the prior corresponding period – this represents our continuing investment into the network and the execution of our fibre upgrade and Fixed Wireless and Satellite upgrade programs.

The last metric to highlight is our operating cash flows, which you'll note exclude government grants and infrastructure lease payments. Operating cash flows have increased by 15 per cent compared with the previous corresponding period, to over $1.8 billion dollars. As you would expect, this increase is in line with our EBITDA growth………however, operating cashflows are slightly lower than EBITDA in the period due to the ongoing impact of the exclusion of government grants from operating cashflows and timing differences in relation to co-investment projects, with cash payments often received in advance of revenue recognition.

Revenue and customer base

Looking at revenue and activations in more detail on the next slide…

nbn has achieved growth across Telecommunications and Other Revenues.

Telecommunications revenue has increased by 2 per cent and continues to reflect growth in our customer base, with 8.58 million premises now activated on the network at the end of December 2023. This represents an additional 50 thousand active premises, an increase of 1 per cent, when compared to a year ago.

As expected, Residential ARPU has remained stable at $47 but we have seen business revenue increase by 4% against the prior corresponding period, reflecting strong demand for premium business grade services.

The increase in other revenue to $125 million dollars is primarily due to the completion of fibre deployment co-investment projects and greater construction volumes for new developments.

In combination, this has resulted in an overall increase to Total Revenue of 5% when compared to the first half of fiscal 23.

Operating expenditure continues to decline

Now moving to operating expenses on the next slide…

I am pleased to say that operating expenses decreased by 6 per cent compared to the prior corresponding period, down to $834 million dollars. This was achieved despite inflationary pressures across almost all areas.

As a percentage of revenue, operating expenses now stand at 30 per cent, falling from 34 per cent as of 12 months ago.

At a category level, direct network costs decreased by 8 per cent which was primarily driven by lower assurance costs, as a result of strong network performance and ongoing initiatives to improve efficiency.

Employee benefits expenses also decreased in the period by 10%. This was largely due to reduced headcount as **nbn** continues to focus on achieving cost efficiencies through simplification and digitisation of its internal operations.

Other operating expenses increased by 3 per cent from last year. This category covers a wide range of expenditure, including IT software and maintenance, marketing, insurance and facilities costs. These expenses have remained relatively steady despite the current inflationary environment.

Continuing EBITDA momentum

Turning to EBITDA on the following slide…

This graph illustrates the continued improvement in our EBITDA result and the trajectory of our EBITDA margin over a five-year period. As **nbn** completed the initial build there was substantial growth in our revenue but also significant expenditure on subscriber costs. The operating results of the Company improved as we moved beyond the initial build and achieved full operating scale.

EBITDA reached nearly $2.0 billion dollars for the half, with the EBITDA margin increasing to 72 per cent, up from 69 per cent a year ago. As discussed earlier, this improvement is due to a combination of growth in revenue as well as declining operating costs.

Capital expenditure

Now moving to capital expenditure on the next slide….

During the period, we continued to make significant investment into the ongoing evolution of the **nbn®** network and connecting our customers. Our capital expenditure increased to almost $1.9 billion dollars for the half, up from $1.4 billion dollars in the prior corresponding period.

Our capital expenditure can be summarised across the following main areas:

- Firstly - We continue to significantly invest in our fibre upgrade programs to make more premises eligible to order an upgrade to FTTP. **nbn** has invested $807 million in the six-month period. This expenditure includes the design and construction of distribution fibre infrastructure as well as costs to connect upgraded premises via a fibre lead in. This has increased by over $300 million dollars against the comparative half year due to the delivery of the upgrade programs at scale and growing uptake of customer connections onto the newly available fibre infrastructure.
- We also incurred $360 million to provide fibre infrastructure to new developments and business customers, as well as invest in incremental network capacity to cater for the ever-increasing traffic and data demands on our network

- We spent $255 million dollars to connect customers and proactively maintain the network. This level of expenditure has increased from $228 million in the prior corresponding period mainly due to inflation-induced labour and equipment cost rises, as well as greater volumes of certain assurance work conducted over the network
- **nbn** has also continued to increase our capital investment in upgrading the Fixed Wireless and Satellite networks, spending a total of $238 million dollars over the last six months. This has grown in correlation with the scaled delivery of the Fixed Wireless and Satellite Upgrade Program - which is due to be completed by December 2024.
- We continue to invest in our software and system development with expenditure in the period of $141 million.
- Finally, other capex consists of capital expenditure on network management and operational support activities.

Capital summary

On the next slide we can see a summary of our debt and equity funding……

Our capital strategy remains focused on refinancing the Commonwealth loan by 30 June 2024, funding network investments and maintaining a healthy liquidity position.

In the 6 months to December 2023, we received over $546 million of equity funding from the Commonwealth Government, as part of its commitment to provide up to $2.4 billion in additional equity by June 2026. This funding supports the delivery of an additional 1.5 million homes and businesses previously served by FTTN to be eligible for an upgrade to FTTP technology by December 2025.

Our drawn debt balance has increased to $26.4 billion to help fund our capital investments. During the first half of fiscal 24, we continued to execute our refinancing plan and raised a further $3.4 billion dollars in bank and capital markets debt. This included:

- **nbn**'s second Green Bond issued under our AMTN programme of $850 million for 5 years; and
- US144A bond issuances of 1.25 billion US dollars

Our liquidity increased to $7.3 billion as at 31 December, up from $4.5 billion at 30 June. This means that **nbn** currently has adequate available funds to fully repay the Commonwealth Loan when due on 30 June 2024.

The weighted average cost of drawn debt has marginally increased during the previous six months to 3.3% due to the impact of higher market interest rates on new debt issued in the period. However, we continue to be shielded from the full effect of these higher rates, as a result of our policy to hedge a significant portion of our floating debt portfolio.

We continue to monitor and closely manage the interest and foreign exchange risks of our debt portfolio in accordance with our Treasury Risk Policy.

Improving operating cash flow performance

Turning to the next slide…

Operating cash flows continue to improve in line with the EBITDA performance of the company.

However, the Company’s free cash flow position declined from a loss of $623 million in the prior corresponding period to a loss of $1.1 billion for the first half of fiscal 24. This is in line with our expectations and is predominantly due to the increased capital expenditure incurred to deliver our fibre, fixed wireless and satellite upgrades and other ongoing network investments. This excludes the receipt of equity funding of $546 million from the Commonwealth Government which is intended to support **nbn** to make an additional 1.5 million FTTN premises available to upgrade to full fibre.

Free cash flow was also impacted by higher lease payments due to inflationary price increases and higher interest payments due to increased debt levels and average interest rates.

HY24 Statutory Results

On my final slide…you can see the Statutory Profit or Loss statement for the 6 month period to 31 December 2023, which is presented in accordance with statutory accounting principles.

The preceding slides have already covered revenue, expenses and EBITDA in detail. But I would like to highlight some other results….

Our EBIT result of $370 million has increased by 10% despite higher depreciation and amortisation expense as a result of our increasing asset base due to continued network investment and the re-estimation of useful lives of certain network assets.

We recorded a Net Loss After Tax result of $696 million dollars for the half, which is a decline compared to the prior corresponding period loss of $444 million dollars. This decline was driven by increased net finance costs due to both higher average debt held and a higher average cost of debt in the period.
There was also an income tax expense of $147 million recognised in the period. This is a non-cash movement in deferred tax and is driven by accounting treatment requirements to recognise deferred tax assets to offset the tax effect of fair value movements in derivatives designated in cash flow hedges. This is the partial unwinding of an income tax gain recognised in previous periods.

We are pleased with these results, which are in line with our key financial targets.

We continue to seek revenue growth and optimisation of our cost base as we move towards a sustainable positive cash flow position. This remains our core purpose as it will enable re-investment into our network to meet future customer demand, deliver great customer service and meet our ongoing contractual and funding obligations.

With that, I will hand back to Stephen.