Event: NBN Co Half-Year Results Announcement

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Speakers: Bill Morrow and Stephen Rue

Bill Morrow: Thank you for your time, and for your interest in nbn's progress and performance.

Now, if you haven't done so already, I encourage you to download the supporting materials from the nbn website.

Now, with me in the room is nbn CFO Stephen Rue, and our Chief Customer Officer Brad Whitcomb, and together, we'll take you through the company's progress and performance to the end of December of 2017.

Now, I'll speak first to some of the company highlights, followed by Stephen taking you through the financial results. I'll then discuss our operational progress, and focus, of course, on customer experience, before we open to your questions.

We are now halfway through the biggest deployment year in nbn's history. In the six months to 31st December, we added 1.4 million more premises to the network footprint, bringing us to 7.1 million ready for service. And 6.1 million of those were ready to connect, representing more than one in two homes and businesses across the country. Now, we also made 940,000 new activations, doubling year on year to bring us nearly 3.4 million total active premises. And with more homes and businesses using the network, our revenue increased to nearly $900 million by the end of December 2017, and this was supported by a lift in average revenue per user, from $43 to $44.

Now, these achievements bring us closer to our goals. By 2020, we aim to complete the build to ensure that no-one is without access to high-speed broadband. We expect to have eight million premises active and using nbn's services, and that will in turn generate annual revenues of up to $5 billion. We remain on track for that commitment.

The roll-out of the nbn network remains one of the most complex infrastructure builds in Australia, and one of the more ambitious seen in any telecommunications market around the world. The speed and scale at which we are connecting and migrating people is without precedent. It has required a complete transformation of the local telecommunications industry. Our retail providers have had to reinvent their processes. Our industry partners have had to adapt to new technologies and procedures. And most of all, end users have had to understand their options and make the transition to new products for their homes and businesses.

The speed of change has exceeded the rate at which we can all adapt. That has created complexity for all parties. And ultimately, that has impacted the customer experience that we know the nbn network can deliver. Now, addressing this is our priority.

In the past six months, we implemented new initiatives to improve elements of broadband experience that we can control, and most significantly, we evolved our pricing model to improve the experience on the network during peak hours. And already, we have seen this translate into improvements.

We have also paused all activations on the HFC network to conduct necessary upgrades, and this was a hard decision, but necessary to ensure end users get the high-quality experience that we know that they expect.

Now, I'll speak in more detail about this and our programme of activity later in the morning, but for now, I'd like to hand over to Stephen to talk about the company's progress and financial performance.

Stephen, please.

Stephen Rue: Thank you, Bill. Good morning, all. It's great to be with you again.

In addition to today's briefing, as is usual at 31st December, we've prepared a half-year report. Included in the half-year report is the director's report, analysing our operational and financial performance for the period, and a set of interim financial statements, which are subject to a review opinion from the Australian National Audit Office. A copy of the half-year report will be published on our website.

Now, turning to our performance for the first half of fiscal '18, I would like to begin by talking to the headline results. These show our total revenue more than doubling compared to the first half of last year, to $891 million, which is almost equal to the total amount of revenue earned for the entire 2017 financial year. The growth in revenue is primarily driven by the 105% increase in active premises over the past 12 months, with almost 3.4 million premises connected to nbn services at the end of December. Revenue is supported by average revenue per user of $44, which is up approximately 2% year on year.

Our network roll-out continues to increase exponentially, with more than 7.1 million premises ready for service at the end of December, of which 6.1 million were ready to connect. Both of these metrics have increased by more than 60% over the past 12 months: a significant growth story.

During the half-year, nbn received equity of $2 billion, being the final equity funding from the government's commitment of $29.5 billion. The company also drew down $1.6 billion onto the $19.5 billion loan agreement with the government, bringing total cash funding to date to $31.1 billion.

Now, turning to revenue in more detail on the following slide.

This – the chart on this slide depicts the sustained growth in revenue quarter on quarter over the past 12 months. Our revenue trajectory has continued, with second-quarter revenue of $486 million, an increase of $81 million over the first quarter of fiscal '18.

As I previously mentioned, the primary driver of this achievement was the significant growth in premises activated. On the right-hand side of the chart, you can see that growth in revenue has continued across all technologies, and as a reminder, other revenue includes revenue from developers, commercial work activities, and the Technology Choice program, as well as licensing fees. These revenue streams continue to grow in line with the expansion of the nbn network.

On the following slide, we can see the quarter-on-quarter growth in active end users.

As at 31st December, almost 3.4 million premises are being connected to services over the nbn network, which is more than double the number of premises activated compared to the same time a year ago. During this half-year, we activated more than 940,000 end users.

On the right-hand side of the slide, we can see the break-down of active end users by technology. And with respect to ARPU, this has increased by 2% to $44 as a result of the uplift in CVC capacity purchased over the past month.

Now, turning to the speed tier mix on the next slide, you can see that speed tiers over the past 12 months have remained consistent, with 30% of fixed-line users on the 12/1 speed tier, 52% on the 25/5 tier, and 13% on the 100/40 tier.

In fixed wireless, 76% of customers are now on the 25/5 tier, with 7% selecting the 50/20 tier product, and a consistent 17% selecting the 12/1 tier.

On our Sky Muster satellite service, 66% of end users are selecting the 25/5 tier.

As Bill will talk to later, we will see a significant shift in speed tier take-up, following our retail partners' positive move towards the 50/20 tier in response to the pricing initiative announced in December. And this will result in a different mix of speed tiers when we report in the future.

Now, turning to construction on the next slide, you can see the continued growth of premises ready for services over the past 12 months, with an increase of over 3.3 million premises in comparison to the same time a year ago.

On the right-hand side, we can see the break-down of premises ready for service by technology. I would like to highlight the areas of significant growth.

In relation to the FTTN network, nearly 3.2 million premises were ready for service at the end of December, reflecting an increase of 1.9 million from last year.

In the HFC network, premises ready for service has nearly reached 1.4 million, an increase of 1.2 million premises from last year.

When nbn declares an area ready for service, retail service providers are able to start selling services in that area. However, some premises within that area may require further work to enable them to meet the criteria for connection. And so on the following slide, you can see the number of premises that are able to connect after placing an order with the end user's preferred retail service provider.

At the end of December, over 6.1 million premises were ready to connect, representing more than one in two Australian homes and businesses.

The lower ready-to-connect premises trajectory in the second quarter of this year reflects the HFC announcement in November, with further fieldwork being undertaken to uplift service quality before declaring the HFC network ready to connect. And in light of this decision, approximately 700,000 premises were rolled back from their ready-to-connect status during the quarter.

If you exclude this decision, however, an additional 730,000 premises were declared ready to connect during the quarter.

During the six months to 31st December, nbn incurred $2.8 billion in capital expenditure, as illustrated on the following slide.

The largest area of CAPEX during the period was in relation to the FTTN network, with a total CAPEX spend of $870 million. In HFC, $794 million was incurred for further design and construction activities. Capital expenditure also continues on the FTTP network, with a half-yearly spend of $173 million, about the greenfield FTTP and brown field FTTP build and connections. FTTC capital expenditure of $266 million was incurred, primarily for design work, and we remain on course to launch the FTTC product in the second half of this fiscal year.

In fixed wireless we acquired 98 wireless sites and integrated 130 base stations, and we continue to incur capital expenditure on the transit network as we introduce further access network technologies and expand the nbn footprint. Ongoing spend here is also required as we cater for the demand for increased capacity and growth in end user numbers. As a result, in the first six months of fiscal 2018, $207 million was spent on this part of our network. And finally, expenditure on common CAPEX items was $333 million during the period, as we continue to invest in IT and engineering capability.

The next slide shows the cost per premises of the various access technologies, which reflects the initial costs incurred in building the network from the transit network to the end user activation. At 31st December FTTP brown field CPP is consistent with recent reporting periods at $4,392. Greenfield CPP has decreased during the period to $2,264, which is as expected, with additional premises connecting to temporary transit infrastructure. The growth in FTTN CPP to $2,222 is primarily driven by higher construction costs due to longer local network build distances. HFC CPP have increased to $2,403, reflecting the inclusion of pre-ready-to-connect network optimisation and accelerated node works to be performed to facilitate a better experience for end users connected to the nbn network.

It will further improve the quality of the network usage and connection experience of future end users. These costs were already anticipated in our long-range plan, but due to the revised nature and timing of spend, it is now appropriate to include in CPP metrics. And lastly, fixed wireless CPP has increased, as expected, during the period to $3,645, as the fixed wireless network extends to less densely populated areas.

Now, regarding operating expenses on the next slide, again the trends are consistent with what we have seen in recent periods.

Operating expenses grew to just over $1 billion for the six months to 31st December from $858 million last year. We have continued to increase our labour force and direct network costs have grown. As expected, due to the increase in operational maintenance and assurance costs and in line with the expanded network.

The increase in other expenses is driven by further spend in marketing and advertising, employee-related costs and IT and back office costs to support business and operating growth.

Subscriber costs reflect the increase in number of end users connected to the nbn network, as more and more subscribers continue to disconnect and migrate from the Telstra and Optus networks.

On the following slide we have provided a summary of our financial statement for the half year ended 31st December 2017.

Again, I would like to highlight the adjusted EBITDA metric, which excludes subscriber costs. These losses continue to reduce, with the loss for the half year of $131 million more than $320 million or 71% better than the first half of fiscal 2017.

On my last slide you can see the past calendar year outcomes.

This is useful to help understand the extent to which the company has rapidly grown over recent years.

For the 2017 calendar year alone, almost 3.4 million premises were made ready for service, a growth of over 50% from 2016, and almost four times that of 2015. Capital expenditure naturally followed this trend. Regarding premises activated, more than 1.7 million end users were activated in 2017, or nearly double the 2016 activations, and more than four times that from 2015. And on revenue for the 2017 calendar year, revenue of $1.5 billion was more than double revenue in the 2016 calendar year, and five times 2015 revenue.

And with that I will now hand you back over to Bill.

Bill Morrow: Great, thank you Stephen.

So it has been a strong six months on build and activation, but that is not without its challenges. And while we can be proud of our success, we demonstrated last year that we won’t pursue those objectives at the expense of customer experience.

We have listened to our industry, our retail providers and end users, and we are acting quickly to address their concerns.

We know that nearly 80% of customer satisfaction is dependent on people’s experience when they are actually connected and using the network, so that is a big focus area for us.

We know that some homes were on two lowest speeds here for their needs and we know that some end users face congestion due to the amount of CVC capacity purchased by retail providers.

And there are some reasons for this.

The migration of the entire country to nbn network in a once-in-a-generation opportunity for RSPs to increase market share. We are seeing the land grab phenomenon, which I have spoken about before, with some retailers competing for new customers on price rather than quality of experience. This has an obvious impact on end user experience, particularly on speeds during peak hours.

Wholesale pricing last year – we overhauled our previous model with new discounts on the higher access plans.

This is a move to encourage retailers to provide speeds to meet the needs and expectations of their end users. The new bundles will help ensure ample capacity is available, particularly at busy times of the day.

Now, these plans will become available this year and, in the meantime, we are offering the 50 Mbps plan at the same price as the 25 Mbps service, and offering retail providers a 50% boost in CVC capacity. This is a promotional offer comparable to the economics of our new plans, as we wanted retail providers to be able to offer the benefits to end users quickly.

And this has already had a profound impact. We have seen retail providers buy more capacity with CVC increasing by more than 57% compared to the previous quarter. We are seeing retailers move large numbers of end users onto higher-speed plans.

Before we launch the promotion in December there were 140,000 end users on the 50 Mbps plans. That has now increased to 207,000 and we expect that to be more than a million by the end of this fiscal year. Before our announcement, only 3% of new orders were for the 50 Mbps plans, and they now make up 30% of all new orders.

Now, all signs show that the new wholesale pricing is working well, and the more services we get on the higher speed products the better.

We also know that dropouts and fluctuations in service are a big end user frustration when using the network and we know that HFC was a big contributor to that.

We made a tough call to fix this. In November we paused activations on the HFC network and I know that came as a surprise to many of you. We could see an increasing number of problems arising, and that meant that the network wasn't going to deliver the experience that we were expecting.

We are now conducting upgrade work to improve the service quality on HFC, but it is still too early to be specific on timelines for releasing this footprint, but we are progressing quickly and I look forward to updating you shortly.

Now, I want to highlight that this is a pause on sales only.

We have not stopped the HFC build. That is continuing at pace, and we are tracking well at declaring premises ready for service. Now, although ready to connect is what we care most about, ready for service is an important indicator of progress of construction.

RFS readies the network to about 90% of the work that is needed, and for the parts of the footprint we are building now and moving forward, this same upgrade work will be conducted before the premises are declared ready to connect.

HFC remains an important part of our technology mix and we're confident it will deliver the experience we all expect.

I want to reiterate that this was a tough call for us to make but we will not prioritise the speed of the build ahead of customer experience.

The nbn network is a big shift for many Australians and we know there's confusion about what they need to do to optimise their experience which causes some frustrations and we know we have a role to play in helping to educate along with our RSPs.

To help address confusion, we're working hard to help people better understand what they need to do when choosing a retail provider. We're also helping them to understand what factors in their home can impact their broadband experience and we're working with retail providers to help them do the same.

And when people are making the switch, 16% of customer satisfaction is dependent on the experience of getting connected to the network. Now understandably, they want it done right the first time and we're working closely with the retail providers to ensure that that happens.

On our end, we're improving installations.

Last year, we enhanced training for workers in the field as well as our own employers to make sure that we get it right the first time around. And when things do go wrong, we need to fix it quickly and we're getting better at doing this, too.

Now, we've developed more advance technology to detect faults when people are connected to the network and this allows us to determine whether faults can be dealt with remotely or if a field technician needs to go out to the home or if it's something that falls within the remit of the RSPs. Now, knowing this means that we can act quicker to resolve.

We've also enhanced our case management with retailers so that responses and resolutions happen quicker.

Overlaying all of this is our new wholesale broadband agreement and what we call WPA3. In this nbn is committed to higher service standards. It includes a new two hour service level for hand offs from nbn to RSPs. And we're also committed to a rebate where we don't meet all restoration timeframes. And we're also trialling a new appointment system where end-users can reschedule appointments directly with nbn without needing to contact their provider. Now this simplifies and reduces the time between an appointment being made and service received.

Together, all of these initiatives form a significant programme of activity and already we're seeing positive changes in customer satisfaction ratings. We're seeing less complaints and we're continuing to strengthen our processes and handovers with retail providers. The success of our customer experience programme will not be kept behind closed doors. Next week, we'll speak more about how we will share our progress and keep track of these initiatives.

There are so many elements of this industry transformation that we cannot control directly but we remain committed to improving the ones that we can and together with industry and retail providers, we are confident that we will get this right.

Now, while customer experience is our priority, network construction is not slowing down.

At 31st December 2017, more than 95% of households and businesses were in design, construction are able to order a service and we are now adding more than 50,000 new premises every week.

That is significant progress and I want to emphasise that we are on track for the completion in the year 2020.

30,000 people are working on the nbn network with 24,000 of those employed by our delivery partners out in the field, completing the build and maintaining the network. Those people are working to ensure we deliver the network as quickly as possible at the least cost to the tax payer with a high quality service.

Now key to this speed of construction is the multi-technology mix which has allowed us to rapidly scale the network.

Last year, we conducted successful trials of our fibre to the curb technology. This achieved very positive results. FTTC will become an important part of our technology mix and we remain on track to launch later this year.

Our network capability at least 83% of the nation will be able to access speeds of more than 50 megabit per second by the year 2020. I want to remind you of the upgrade potential that is built into the network design if consumer demand arises or exceeds it network capability. And along with fibre, we expect our HFC and FTTC network to evolve to deliver gigabit per second capability in the future. And this represents nearly half of the nation that will be gigabit capable.

Now none of what the company has achieved in the previous half and the work that is happening now could be done without the incredible team of employees and partners that we have at nbn.

Our employee engagement, there – our employees are committed to nbn's goals. We remain in the top quartiles for employers and our turnover is well below industry average. We are well progressed on our diversity initiatives to help ensure we have the right mix of different skills and perspectives. We, therefore, retrack and retain the best people for this job and these employees are working hard to help us improve customer experience and bring us to network completion.

In the six months, we again demonstrated our ability to deliver on the build side and we will apply that same focus to ensuring we work with industry to deliver a better internet experience for all Australians.

This will not be without its challenges and we will continue to update you on our progress.