



Market Announcements Office
Australian Securities Exchange
Level 4, 20 Bridge Street
Sydney NSW 2000

Sydney, 25 February 2021

TPG Telecom Limited Results for Year Ended 31 December 2020 – Financial Commentary

Please find attached for immediate release to the market Financial Commentary concerning TPG Telecom Limited's results for the year ended 31 December 2020.

Authorised for lodgement with the ASX by:

A handwritten signature in blue ink, appearing to read 'Tony Moffatt'.

Tony Moffatt
Company Secretary
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TPG Telecom Limited (ASX: TPG) ('the Company')
Financial Results Commentary
Year Ended 31 December 2020

Purpose of this document

The TPG Telecom directors recognise that the merger of the Company with TPG Corporation during the year gives rise to some complexity in the Company's accounts for the year ended 31 December 2020 and doesn't allow for meaningful comparison of the 2020 reported results with prior periods.

This document is provided to help explain some of the complexities in the accounts and to provide pro forma financial information for 2020 and 2019 as if the merger had been effective throughout both periods to assist users of the accounts to obtain a better understanding of the underlying performance of the Group.

This document should be read in conjunction with the Group's 2020 annual financial statements and investor presentation.

Introduction

On 29 June 2020, the company formerly known as TPG Telecom Limited (ASX code: TPM) ceased trading on the ASX and changed its name to TPG Corporation Limited. Throughout this document, this company is referred to as TPG Corporation.

On 29 June 2020, the company formerly known as Vodafone Hutchison Australia Limited (VHA) changed its name to TPG Telecom Limited and on 30 June 2020 listed on the ASX (ASX code: TPG). Throughout this document, this company is referred to as TPG Telecom.

Following the merger of TPG Telecom and TPG Corporation, through a Scheme of Arrangement that was completed on 13 July 2020, under which TPG Telecom acquired all of the shares in TPG Corporation, these companies and their subsidiaries now form the TPG Telecom Group or 'Group'.

Overview of the Group's accounts for the year ended 31 December 2020

Although the merger of TPG Telecom and TPG Corporation was not implemented until 13 July 2020, it became effective for accounting purposes on 26 June 2020.

The Group's statutory accounts for 2020 therefore include a full twelve months' results of the company formerly known as VHA plus a contribution of six months and four days from TPG Corporation (the company formerly known as TPG Telecom).

This has led to a material increase in the Group's reported results compared to last year, as reflected in the table below.

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Comparison of 2020 vs 2019 reported results

\$m	2020 Reported Results	2019 Reported Results	% change
Revenue	4,350	3,513	+24%
EBITDA	1,391	1,178	+18%
EBIT	203	157	+29%
Profit/(loss) before tax	(86)	(280)	+69%
Income tax	820	-	nmf
Net profit after tax	734	(280)	+362%

As stated above, the increase in the Group's reported results in 2020 is primarily due to the fact that 2019 included no contribution from TPG Corporation, compared to a contribution of six months and four days in 2020. But, in addition, the Group's reported net profit after tax for 2020 was materially affected by a one-off \$820m accounting credit to income tax expense which has arisen due to the fact that certain historical tax losses previously not recognised in VHA's accounts have been brought to account as a deferred tax asset as at 31 December 2020.

Pro forma financial information

As only six months and four days of TPG Corporation's results are included within the Group's 2020 reported results, the Group has also prepared pro forma financial information for 2020 and 2019 as if the merger had been effective throughout both periods to assist users of the accounts to obtain a better understanding of the underlying performance of the Group.

A reconciliation from Reported to Pro forma 2020 results is set out below.

\$m	2020 Reported Results	1H20 Pro forma adjustments ¹	Add back: 2H20 merger related expenses	Less: 2H20 one-off income tax credit ²	Add back: acquired customer base amortisation ³	2020 Pro forma Results
Revenue	4,350	1,172				5,522
EBITDA	1,391	387	11			1,789
EBIT	203	234	11			530
Profit before tax	(86)	335	11		82	342
Income tax	820	(278)		(602)		(60)
Net profit after tax	734	57	11	(602)	82	282

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Notes to the table above:

1. Adjustments set out in the Group's 1H20 presentation to primarily (a) replace four days contribution from TPG Corporation with a full six months; (b) eliminate merger transaction costs; (c) adjust interest expense to reflect post-merger debt structure; and (d) remove one-off income tax credit.
2. In 2H20, the Group created a deferred tax asset for the carried forward tax losses which it now expects to be able to use in future periods, which has resulted in a one-off accounting credit to income tax expense. This has been excluded for the purpose of the pro forma accounts. The \$60m income tax expense in the pro forma income statement represents the income tax expense incurred by TPG Corporation in 2020 until it joined the TPG Telecom consolidated tax group upon merger completion in July 2020.
3. The purchase price allocation exercise for the merger accounting has given rise to an acquired customer base intangible asset of \$1,689m which will be amortised over future years. As this is a non-cash accounting expense, it is not reflective of underlying performance and is therefore added back for the purpose of this analysis.

Comparison of 2020 vs 2019 pro forma results

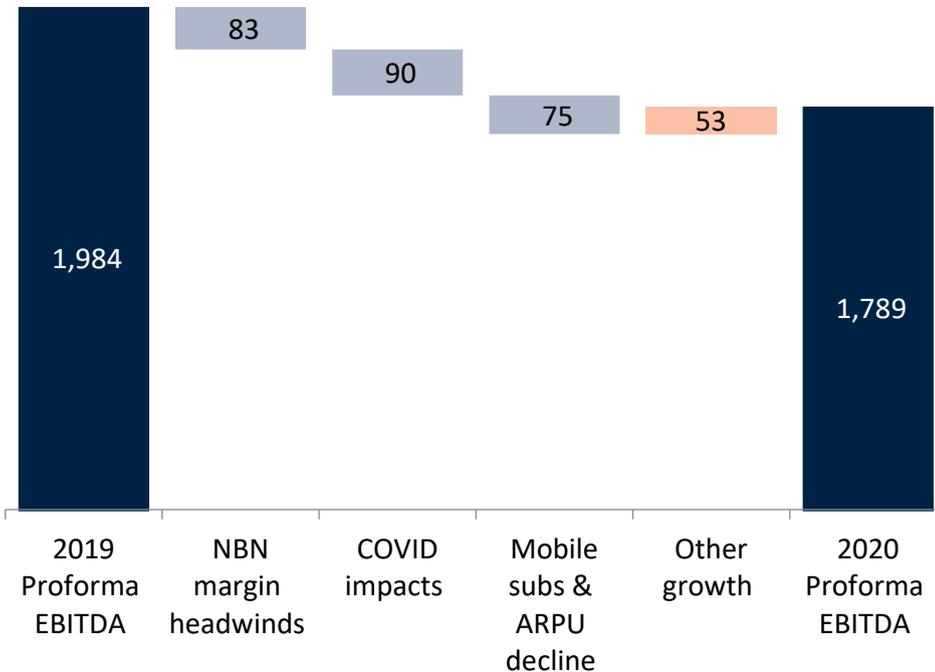
\$m	2020 Pro forma Results	2019 Pro forma Results ¹	% change
Revenue	5,522	5,899	(6%)
EBITDA	1,789	1,984	(10%)
EBIT	530	668	(21%)
Profit before tax	342	459	(25%)
Income tax	(60)	(138)	57%
Net profit after tax	282	321	(12%)

1. Refer to reconciliation of 2019 pro forma results in Appendix A.

On a pro forma basis, the Group's 2020 EBITDA and NPAT declined by \$195m (10%) and \$39m (12%) respectively compared to 2019.

The chart below sets out a bridge between 2019 and 2020 pro forma EBITDA.

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As shown in the chart, the decline in EBITDA was driven primarily by (a) NBN margin headwinds, (b) a decline in mobile subscribers and ARPU, and (c) impacts of the COVID pandemic.

(a) NBN margin headwinds

Over the past six years, the rollout of the Government's National Broadband Network (NBN) accompanied by the shutdown of legacy copper networks has forced the Group to migrate its fixed broadband customer base of almost two million subscribers off DSL technology onto the NBN.

The high wholesale costs charged by the NBN make these services much less profitable for the Group to deliver than the DSL services they are replacing. In 2020, the Group increased its NBN subscribers by 415k, but the average number of DSL subscribers declined by 356k. This caused a \$73m decline in gross profit as the average gross profit contribution from providing an NBN service was \$17 per month lower than for a DSL service.

The other \$10m of NBN headwinds in 2020 was from the Group's fixed voice customers migrating to NBN services.

As at 31 December 2020, the Group only had 115k DSL subscribers remaining and 2021 is therefore expected to be the final year of material headwinds from DSL to NBN migration.

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(b) COVID impacts

Although the telecommunications industry has proven to be more resilient than some other sectors during the COVID pandemic, the Group's 2020 results do reflect a negative impact on the industry's mobile sector, which is estimated to have had a negative \$90m impact on EBITDA in 2020. The main factors that caused this have been:

- (i) Impact on mobile subscriber numbers
Global travel restrictions have had a significant adverse impact on the number of both prepaid and postpaid mobile connections.
- (ii) Impact on international roaming
The international travel restrictions have had a significant negative impact on revenue and margin derived from international roaming, both the Group's customers roaming abroad and international visitors roaming onto the Group's network.
- (iii) Impact of special offers and relief provided to support customers
To support customers, extra data, free national calls and texts, and special hardship plans were made available to customers at the height of the pandemic. Late payment fees and collection activities were also temporarily paused.
- (iv) Impact on retail stores
At the height of the pandemic, approximately one third of the Group's retail stores were required to temporarily close. The impact on the Group's Melbourne stores was extended due to the second lockdown in Victoria.

In contrast to the mobile sector, consumer fixed broadband has not experienced any material impact from COVID. However, as reflected in the segment results below, Corporate segment revenues from fixed data and internet services have been somewhat affected by the economic impact COVID has had on wholesale and enterprise customers in certain sectors.

(c) Decline in mobile subscribers and ARPU

The Group's postpaid and prepaid mobile customers decreased by 158k and 545k respectively in 2020.

A significant proportion of these declines is attributable to the effect that COVID has had on the number of international visitors and temporary visa holders in Australia which have historically been an important customer segment for the Group. The estimated impact of the decline attributable to COVID is included within the COVID impacts above.

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Excluding the estimated impact of COVID, the declines in mobile subscribers and ARPU accounted for a \$75m gross profit decline in 2020. This is reflective of the current competitive intensity of the industry, which has seen industry postpaid mobile average revenue per user (ARPU) decline over the past year. In that regard, our Group's ARPU decline has been relatively modest but that relative ARPU discipline has come at the cost of subscriber losses in 2020.

Our Group has also been at a competitive disadvantage in the mobile market over the past couple of years due to the delay in our 5G network upgrade caused by the Government's ban on Huawei (which had a disproportionate impact on our Group relative to other network operators) and also the delay in network capacity upgrades following the ACCC's delay of the merger.

However, with our 5G network upgrade now accelerating, the substantial spectrum capacity now available to the Group through the merger, and new offerings available across the Group's portfolio of brands (including the new fully digital felix brand), the Group has plans to improve the mobile subscriber performance in 2021 even with the ongoing negative population impacts of COVID.

Segment results

\$m		Consumer Segment	Corporate Segment	Other	Total
Revenue	Pro forma 2020	4,549	973		5,522
	Pro forma 2019	4,864	1,035		5,899
EBITDA	Pro forma 2020	1,304	484	1	1,789
	Pro forma 2019	1,474	500	10	1,984
EBITDA %	Pro forma 2020	29%	50%		32%
	Pro forma 2019	30%	48%		34%

Consumer segment revenues declined by \$315m on a pro forma basis in 2020. The main drivers of this were:

- \$227m decrease in revenues attributable to lower sales of mobile handsets;
- \$171m decrease due to mobile subscriber and ARPU decline;
- \$125m increase from fixed broadband growth; and
- \$42m other decrease.

These revenue declines plus the NBN margin headwinds resulted in a Consumer segment EBITDA decrease of \$170m.

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Corporate segment revenues declined by \$62m on a pro forma basis in 2020. The main drivers of this were:

- \$33m decrease in mobile revenues (handset and service combined);
- \$25m decrease in fixed revenues; and
- \$4m other decrease.

These revenue declines resulted in a Corporate segment EBITDA decrease of \$16m, at an EBITDA margin that increased to 50%.

Cash flow

A comparison of the Group's reported cash flows for 2020 and 2019 is distorted by the fact that 2019 included no contribution from TPG Corporation, compared to a contribution of six months and four days in 2020.

The table below therefore sets out a comparison of both reported and pro forma cash flows. The pro forma cash flows for 2020 and 2019 are intended to simulate what the cash flows would have been if the merger had been effective from the start of the respective reporting periods.

\$m	2020 Reported	2019 Reported	2020 Pro forma ¹	2019 Pro forma ²
Operating cash flow	1,188	1,296	1,563	2,076
Tax paid	-	-	(56)	(165)
Mobile spectrum payments	(204)	(76)	(688)	(412)
Other capital expenditure	(619)	(542)	(706)	(788)
Lease principal payments	(130)	(112)	(114)	(109)
Merger costs	(37)	(17)	-	-
Net financing costs	(239)	(287)	(213)	(200)
Net cash flow	(41)	262	(214)	402
Net cash flow excl spectrum	163	338	474	814
Operating free cash flow	198	549	(1)	602
Operating free cash flow excl spectrum	402	625	687	1,014

1. Refer to reconciliation from reported to pro forma 2020 cash flow in Appendix B.
2. 2019 pro forma cash flow extracted from Section 10 of the merger Scheme Booklet.

The negative net cash flows for 2020 are driven by material spectrum payments made in the year (final instalments for the Group's 700MHz spectrum licences and a one-off payment for 3.6GHz spectrum).



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Excluding the spectrum payments, the Group generated strong positive free cash flow in the year. Notably, out of the \$474m of pro forma net cash flow for the year (excluding spectrum), \$342m was generated in 2H20 (ie in the first six months post-merger).

The decline in 2020 pro forma operating cash flow was driven by the EBITDA decline plus a material negative working capital movement for VHA between 2H19 and 1H20 due to the timing of supplier payments. Operating cashflow for 2H20 was \$870m (in line with 2H20 pro forma EBITDA).



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Appendix A

Reconciliation of reported to pro forma 2019 income statement

Section 10 of the merger Scheme Booklet contained a pro forma 2019 income statement. In order to provide a like-for-like comparison between 2019 and 2020 pro forma results, a couple of adjustments have been made to the pro formas that were in the Scheme Booklet, as set out in the table below.

\$m	2019 Pro forma results per Merger Scheme Booklet	Adjustment 1	Adjustment 2	Revised 2019 pro forma results
Revenue	5,909	-	-	5,909
EBITDA	1,977	7	-	1,984
EBIT	630	-	38	668
Profit before tax	421	-	38	459
Income tax	(127)	-	(11)	(138)
Net profit after tax	294	-	27	321

Adjustment 1

The alignment of accounting policies following the merger has led to certain costs being recategorised from operating costs to intangible amortisation. Although the pro forma workings in the merger Scheme Booklet identified and adjusted most accounting policy alignment matters, this item was not captured. This adjustment is therefore made to re-state the 2019 pro forma numbers on a comparable basis to the 2020 numbers.

Adjustment 2

TPG Corporation's pre-merger accounts contained acquired customer base intangible amortisation relating to its prior acquisitions of iinet and AAPT. This was not removed in the 2019 pro forma income statement in the Scheme Booklet. However, in order to provide a more meaningful comparison of the operating results of 2019 and 2020, it has been determined to be more appropriate to exclude acquired customer base intangible amortisation from both the 2020 and 2019 pro forma income statements. This adjustment therefore adds back the \$38m expense included in the 2019 accounts.

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Appendix B

Reconciliation of reported to pro forma 2020 cash flows

\$m	2020 Reported Cash flow	1H20 pro forma adjustments ¹	Add back: 2H20 merger transaction costs	2020 Pro forma Cash flow
Operating cash flow	1,188	375		1,563
Tax paid	-	(56)		(56)
Mobile spectrum payments	(204)	(484)		(688)
Other capital expenditure	(619)	(87)		(706)
Lease principal payments	(130)	16		(114)
Merger costs	(37)	14	23	-
Net financing costs	(239)	26		(213)
Net cash flow	(41)	(196)	23	(214)

1. Adjustments set out in the Group's 1H20 presentation to primarily (a) replace four days' contribution from TPG Corporation with a full six months; (b) eliminate merger transaction costs; and (c) adjust interest expense to reflect post-merger debt structure.