TPG Telecom Limited (ASX: TPG) ('the Company')
Financial Results Commentary
Half Year Ended 30 June 2020 ('1H20')

Purpose of this document

The TPG Telecom directors recognise that, due to the timing of the completion of the recent merger of the Company with TPG Corporation, there is significant complexity in the Company's accounts for the half-year ended 30 June 2020.

This document is provided to help explain some of the complexities and should be read in conjunction with the half-year financial report 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 half-year ended 30 June 2020 ('1H20')

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 income statement for 1H20 therefore includes a full six months results of the company formerly known as VHA but only four days from TPG Corporation (the company formerly known as TPG Telecom).

TPG Corporation's assets and liabilities are consolidated within the Group's balance sheet as at 30 June 2020. However, significant pre-merger implementation restructuring steps occurred between 2 July 2020 and 13 July 2020, as a consequence of which the Group's 30 June 2020 consolidated balance sheet is not fully reflective of its balance sheet after the merger was implemented.

The principal restructuring steps not reflected in the Group's 30 June 2020 consolidated balance sheet are as follows:

1) TPG Corporation demerged its Singapore business through an in-specie distribution to TPG Corporation's pre-merger shareholders of shares in its subsidiary, Tuas

Limited, on 13 July 2020. In the Group's 30 June 2020 consolidated balance sheet, the net assets of Tuas Limited are therefore disclosed as held for distribution with an equal and opposite amount disclosed as a liability for the in-specie dividend.

2) TPG Corporation paid a fully-franked special cash dividend of $479m to its pre-merger shareholders on 13 July 2020, which had the effect of increasing the Group's net debt by $479m by the merger implementation date. The special dividend is therefore disclosed as a liability in the Group's 30 June 2020 consolidated balance sheet.

3) TPG Telecom undertook a debt restructuring between 30 June 2020 and 13 July 2020 which had the overall effect of removing $4,475m of debt from the Group that it owed as at 30 June 2020.

Group 1H20 results overview

The Group's reported EBITDA for 1H20 was $531m. As reflected in the table below, this included an EBITDA contribution of $9m from TPG Corporation for the four days post the merger effective date and $24m of merger transaction costs, excluding which, underlying EBITDA for the period was $546m, $46m (8%) lower than 1H19.

The Group reported net profit after tax for 1H20 of $83m. This included a $226m one-off, non-cash credit to tax expense. Excluding this and the effect of the merger transaction costs and TPG Corporation contribution, the underlying net loss after tax was $117m, a $27m (19%) improvement relative to 1H19.

	1H20			1H19		
$m	**Revenue**	**EBITDA**	**NPAT**	**Revenue**	**EBITDA**	**NPAT**
Reported	**1,540**	**531**	**83**	**1,723**	**583**	**(153)**
Add: merger related costs	-	24	30	-	9	9
Less: one-off income tax credit	-	-	(226)	-	-	-
Underlying	**1,540**	**555**	**(113)**	**1,723**	**592**	**(144)**
Less: 4 days' TPG Corporation	(27)	(9)	(4)	-	-	-
Underlying TPG Telecom (former VHA) standalone	**1,513**	**546**	**(117)**	**1,723**	**592**	**(144)**

TPG Telecom (former VHA) standalone 1H20 results

The underlying results for 1H20 after excluding the four days' contribution from TPG Corporation, are therefore the underlying results of TPG Telecom (the former VHA).

The decrease in the TPG Telecom 1H20 underlying EBITDA was driven by revenue, which declined by $210m (12%) from $1,723m in 1H19 to $1,513m in 1H20.

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COVID impacts on TPG Telecom (former VHA)

While the telecommunications industry is proving to be more resilient than some other sectors during the COVID-19 pandemic due to increased customer reliance on telecommunications services, TPG Telecom's results for 1H20 reflect a negative impact on the industry's mobile sector.

Global travel restrictions have had a significant impact on revenue and EBITDA, causing a ~80% reduction in roaming margin, ~30% decline in prepaid connections and ~20% decrease in post-paid connections.

The Company's ability to connect new customers was also impacted during March and April when call centre capacity was temporarily reduced due to local lockdown restrictions in India. Although operations have now returned almost to full capacity, higher costs are being incurred due to changes in service delivery.

About one third of retail stores were temporarily closed between April and June due to shut down and precautionary measures, also impacting sales. Throughout this pandemic, the Company is acting in line with the principles outlined in the telecommunications industry's joint statement with the Australian Government, as well as the relevant provisions in the Telecommunications Consumer Protections (TCP) Code.

To support customers' changed circumstances, extra data, free national calls and texts, and a temporary $10 'Stay Connected' financial hardship plan were made available during April and May, with these initiatives having some negative impact on mobile average revenue per user (ARPU).

Late payment fees and collection activities were also paused throughout April to June to support customers in financial hardship.

Due to global travel restrictions, there has been a significant decrease in new mobile connections from international arrivals, including students, which is a key segment for the Vodafone and Lebara brands. As at 30 June 2020, the Company had 5.464 million mobile subscribers, a decrease of 5% during the period.

Customer demand for services does, however, remain strong, driven by increased customer reliance on services for remote working and education arrangements, especially fixed broadband. The Vodafone nbn customer base increased 32% to 150k during the period.

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Pro forma financial information

As only four days of TPG Corporation's results are included within the Group's 1H20 consolidated income statement, the Group has also prepared a pro forma consolidated income statement for 1H20 as if the merger had taken effect from the start of the half-year.

This pro forma income statement includes results for TPG Corporation that have not been subject to a half-year auditor review. The pro forma financial information is provided to assist users of the accounts to obtain some understanding of the underlying performance of the Group for the period.

Pro forma Income Statement

			Proforma 1H20 Income Statement			
$m	TPG Corporation Standalone Underlying 11 months to 30 Jun-20		TPG Corporation Standalone Underlying 1H20	TPG Telecom (VHA) Standalone Underlying 1H20	Pro forma adjustments	Proforma TPG Telecom Group 1H20
Revenue	2,287		1,248	1,513	(49)	2,712
EBITDA	740		391	546	(19)	918
Depreciation & amortisation	(303)		(166)	(475)	9	(632)
Net financing costs	(61)		(35)	(188)	129	(94)
Profit before tax	376		190	(117)	119	192
Income tax	(107)		(52)	-	-	(52)
Net profit after tax	269		138	(117)	119	140
EBITDA (pre AASB16)	720		379	476	(19)	836

Pro forma 1H20 results for the Group

On a pro forma basis, after eliminating intragroup transactions, making provisional accounting policy alignment adjustments and adjusting interest expense as if the merger and debt restructuring had taken effect from the start of the period, the Group had pro forma revenue for 1H20 of $2,712m, EBITDA of $918m and net profit after tax of $140m.

It should be noted, however, that additional depreciation and amortisation relating to identified tangible and intangible assets which may arise as a result of the purchase price allocation exercise that the Group will undertake during 2H20 are not reflected in the pro forma income statement.

TPG Corporation results for the 11 months to 30 June 2020

Prior to the merger, TPG Corporation had a financial year starting on 1 August and ending on 31 July.

On 5 March 2020, TPG Corporation provided updated guidance for its financial year ending 31 July 2020 of 'BAU' EBITDA in the range of $775-785m.

TPG Corporation's actual EBITDA for the 11 months to 30 June 2020, calculated on the same basis as the guidance (ie on a pre-AASB16 basis and excluding Singapore, Australian small cell operating costs, and merger transaction costs) was $720m.

TPG Corporation results for the half-year ended 30 June 2020 (1H20)

Following the merger, TPG Corporation's results will form part of TPG Telecom Group's results with a 31 December year-end and 30 June half-year end.

TPG Corporation's EBITDA (excluding Singapore and merger transaction costs) for the half-year ended 30 June 2020 (1H20) was $391m (post AASB16). This compares to $407m for the previous corresponding period[1].

The $16m decrease in EBITDA compared to the previous corresponding period comprised NBN headwinds of $48m, partially offset by other growth of $31m.

The Company's net broadband subscriber growth accelerated in the five months since last reported as at 31 January 2020, with a 31k increase in subscribers in the five month period. As at 30 June 2020, TPG Corporation had 237k (12%) of its broadband subscribers remaining on DSL.

The $31m of 'other growth' in 1H20 was driven by continued operating cost savings as well as Corporate Division and on-net fibre to the building growth.

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[1] For TPG Corporation, the 'previous corresponding period' is treated as the six months to 31 July 2019 (ie the second half of TPG Corporation's FY19 as reported to the market in September 2019). For comparative purposes, the previous corresponding period figures have been re-stated as if AASB16 had been adopted for that period (which caused an EBITDA uplift of $11m).

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COVID impacts on TPG Corporation

TPG Corporation's revenues are predominantly derived from the fixed broadband sector which, unlike mobile, is not exposed to the negative impacts of the COVID pandemic on tourism and other international travel. With TPG Corporation's consumer business operating predominantly online, it has also not faced the disruption that lockdown has caused for operators with retail stores.

TPG Corporation successfully overcame the challenge of transitioning to a working from home model for most employees at little incremental expense and with minimal disruption. The challenge of this transition was particularly acute for the business's call centre operations because of the need to maintain customer service levels. To that end, the business adjusted to the lockdown swiftly and effectively.

As well as continuing to support customers online and through its call centres, the Company has supported customers facing financial hardship as a result of the pandemic.

Looking forward, TPG Corporation foresees the following ongoing potential risks arising from the pandemic:

- The pandemic has led to a substantial step increase in home broadband data usage. Retail Service Providers (RSPs) like TPG Corporation do not generally charge home broadband customers on a usage basis, whereas NBN does have a variable usage component to its wholesale charges to RSPs. This financial risk has been mitigated to-date during the pandemic by NBN temporarily providing an additional CVC bandwidth allowance to RSPs. However, if data usage levels remain elevated and NBN withdraws its temporary additional bandwidth allowance without making any compensating adjustments to its wholesale charging structure, there are likely to be negative consequences for RSPs and their customers, as unsustainably low RSP profit margins would put pressure on retail pricing and service quality.

- The decline in economic activity and increased business closures could negatively impact Corporate Division sales and revenue in future periods.

- The financial hardship faced by customers as a result of the pandemic has the potential to create increased bad debt risk for service providers.

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