TPG TELECOM LIMITED (ASX: TPM)

FINANCIAL RESULTS COMMENTARY

YEAR ENDED 31 JULY 2019

TPG Telecom exceeds FY19 EBITDA guidance

Reported Results

TPG Telecom Limited has today announced its results for its financial year ended 31 July 2019 ("FY19"), notable elements of which include:

- Earnings before interest, tax, depreciation and amortisation ("EBITDA") before impairment for the period of $809.4m;
- Net Profit After Tax attributable to shareholders ("NPAT") for the period of $173.8m; and
- Earnings per share ("EPS") of 18.7 cents per share.

Underlying[1] Results

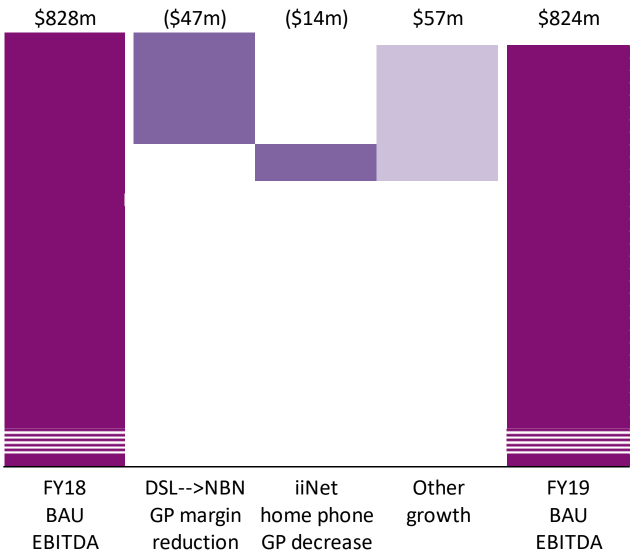
The Group's FY19 reported results are heavily impacted by the Group's decision to cease the rollout of its Australian mobile network in January 2019, which gave rise to an impairment expense of $236.8m and a significant increase in amortisation and interest expense relating to the Group's Australian spectrum licences.

FY19 results also include $9.0m of one-off transaction costs relating to the Group's planned merger with Vodafone Hutchison Australia ("VHA"). Excluding the impairment and merger transaction costs, the Group's underlying EBITDA for the year was $818.4m, a 1% decrease on FY18.

At the beginning of the FY19 financial year the Group provided EBITDA guidance of $800-820m for its 'business as usual' (BAU[1]) operations, which excluded any impact of its mobile network operations in Australia and Singapore. Actual EBITDA for the year on that comparable basis was above the top end of the guidance range at $823.8m.

As shown in the chart below, EBITDA continued to be adversely impacted by the loss of margin as DSL and home phone customers migrate to low margin NBN services.

Bridge between FY18 and FY19 BAU EBITDA



[1] A reconciliation of reported to underlying and BAU profits is set out on page 4 of this Financial Results Commentary.

The adverse profit impacts of the headwinds shown in the chart above were within expectations. The $57m of other EBITDA growth achieved relative to FY18 was driven by growth in the Corporate Division (including an uplift in contribution from the VHA fibre contract) and the continued realisation of operating expense efficiencies across the Group.

Segment Results

$m		Consumer	Corporate	Other	Total
Revenue	FY19	1,719.0	758.4	-	2,477.4
	FY18	1,742.3	753.8	-	2,496.1
EBITDA	FY19	457.3	367.1	(6.0)	818.4
	FY18	499.1	329.7	(2.1)	826.7
EBITDA %	FY19	27%	48%	-	33%
	FY18	29%	44%	-	33%

The Consumer Segment's EBITDA for FY19 was $457.3m compared to $499.1m for FY18. This movement comprises a $62.6m decrease in gross profit, partially offset by a $20.8m decrease in employment and overhead costs. The gross profit decline is driven by broadband gross margin erosion and loss of home phone voice revenue, both due to the NBN rollout. The significant decrease in employment and overhead costs reflects the results of ongoing operating cost optimisation work.

The Corporate Segment achieved EBITDA of $367.1m for FY19 compared to $329.7m for FY18. This $37.4m increase was driven by a significant step up in the contribution from the contract to provide fibre services to VHA, complemented by other on-net fibre sales. The continued shift towards revenue delivered on the Group's owned fibre infrastructure helped lift the Corporate Segment EBITDA margin to 48% in FY19 compared to 44% in FY18.

Cashflow, Capital Expenditure and Gearing

The Group's net operating cashflows before tax were again strong, exceeding EBITDA at $836.3m.

Total capital expenditure for the year of $717.3m included a $352.4m instalment for the 2x10MHz of 700MHz spectrum acquired at auction in 2017, $86.1m invested in the (now ceased) Australian mobile network build, and $80.1m in the Singapore mobile network build. The remaining 'business as usual' capital expenditure of $198.7m was $59.3m lower than FY18 and within the guidance range of $180-220m provided at the start of FY19.

At the end of FY19 the Group had net debt (including remaining spectrum liabilities payable in early 2020) of $1.94 billion which represents a leverage ratio of ~2.4x underlying FY19 EBITDA.

Singapore Update

TPG continues to densify its mobile network in Singapore with additional sites to increase capacity and deepen indoor coverage. Outdoor service coverage was measured at 99.69% in July 2019. We are on track to meet the IMDA indoor service coverage milestone and MRT and road tunnel coverage is progressing.

Signups to the free service trial continue to be strong (now close to 300k). Feedback on network coverage and quality continues to be positive and the launch of free unlimited roaming to Malaysia and Indonesia has been particularly well received. Free roaming to India will be launched in September 2019.

Dividend

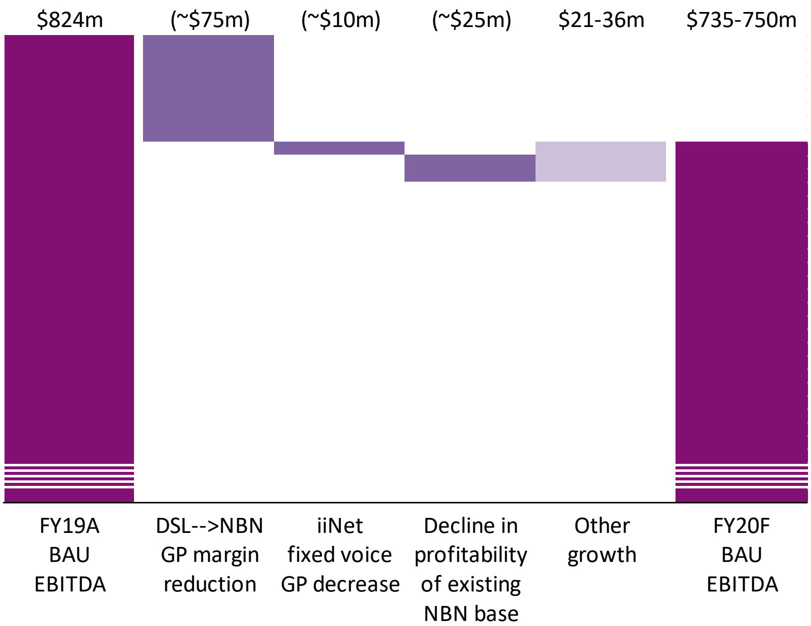
The Board of Directors has declared a final FY19 dividend of 2.0 cents per share (fully franked), payable on 19 November 2019 to shareholders on the register on 15 October 2019. The Dividend Reinvestment Plan remains suspended until further notice.

FY20 Guidance

FY20 is expected to be the year that the Group experiences the greatest financial impact from customer migration to NBN, with combined headwinds from residential DSL and home phone customers moving to NBN expected to be around $85m. In addition, the annualisation of the deterioration of profitability of existing NBN customers experienced in 2H19 a result of increased NBN wholesale cost per user is forecast to create a further NBN headwind for FY20 of approximately $25m.

By the end of FY20 the Group expects to have less than 15% of its residential broadband customer base remaining on ADSL.

Operating cost efficiency programs across the Group are expected to continue to deliver savings and another year of growth is forecast for the Group's Corporate Division but, in this peak year of NBN headwinds, organic growth for FY20 is not expected to be sufficient to offset the headwinds, with BAU[2] EBITDA expected to be in the range of $735-750m.



Update on Planned Merger

On 30 August 2018, the Company and Vodafone Hutchison Australia ("VHA") entered into a Scheme Implementation Deed under which the companies agreed a proposed merger of equals to establish a fully integrated telecommunications operator in Australia.

If the merger proceeds:

- it will be implemented via a TPG Scheme of Arrangement, with the new merged group listed on the Australian Securities Exchange ("ASX") and renamed "TPG Telecom Limited" in conjunction with implementation of the scheme.

[2] BAU EBITDA relates to existing Consumer and Corporate Division operations. It excludes Singapore EBITDA and Australian mobile network operating costs and takes no account of any impact from the planned merger with VHA, including merger transaction costs. BAU EBITDA guidance is provided on an excluding AASB16 basis. AASB16 will be effective from the start of FY20 and is expected to have the effect of increasing EBITDA by moving certain operating lease expenditure out of EBITDA and into amortisation and financing costs.

- TPG shareholders will own 49.9% of the equity of the Merged Group, with VHA shareholders owning the remaining 50.1%.

The merger is subject to a number of conditions including shareholder and regulatory approvals.
- On 8 May 2019, the ACCC announced it had decided to oppose the proposed merger.
- On 24 May 2019 proceedings were lodged with the Federal Court of Australia by the merger parties seeking orders that the proposed merger will not have the effect, or likely effect, of substantially lessening competition.
- The Federal Court hearing is scheduled to commence on 10 September 2019 and complete within three weeks.

David Teoh
Executive Chairman
5 September 2019

Reconciliation of Reported to Underlying and BAU Profits

	FY19		**FY18**	
$m	EBITDA	NPAT	EBITDA	NPAT
Reported	**572.6**	**173.8**	**826.7**	**396.4**
Add: Transaction costs re planned merger	9.0	6.3	-	-
Add: Impairment expense	236.8	165.7	-	-
Add: Acquired customer base intangible amortisation	-	30.4	-	35.7
Underlying	**818.4**	**376.2**	**826.7**	**432.1**
Add: Singapore mobile loss	2.7		1.4	
Add: Australian mobile loss	2.7		-	
Business as Usual (‘BAU’)	**823.8**		**828.1**	