

## TPG TELECOM LIMITED (ASX: TPM)

### FINANCIAL RESULTS COMMENTARY

#### HALF YEAR ENDED 31 JANUARY 2015

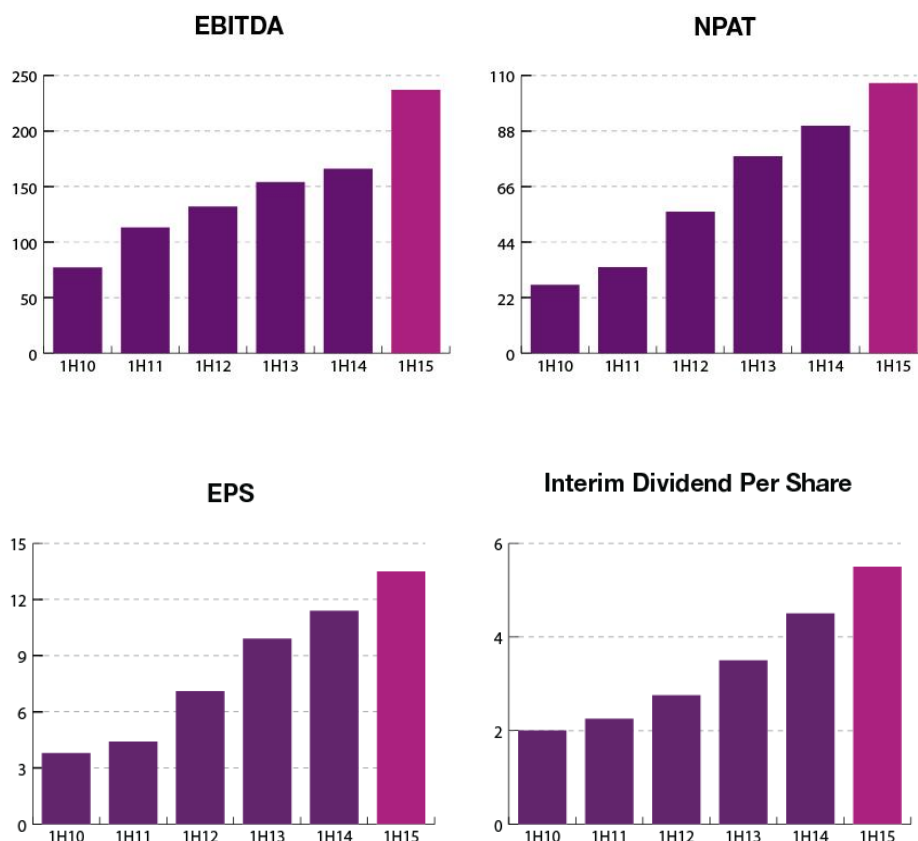
#### TPG Telecom increases half year NPAT by 18% over 1H14

- EBITDA up by 43%
- Guidance upgraded

#### Reported Results

TPG Telecom Limited has today announced its financial results for the half year ended 31 January 2015 ("1H15").

- Net Profit After Tax ("NPAT") for the period was \$106.7m, an increase over 1H14 of 18%.
- Earnings before interest, tax, depreciation and amortisation ("EBITDA") for the period increased by 43% to \$236.2m.
- Earnings per share ("EPS") increased by 18% to 13.4 cents per share.
- Interim dividend per share increased by 22% to 5.5 cents per share.



## Consumer business

The Consumer Division's EBITDA for 1H15 was \$117.1m compared to \$100.2m for 1H14. The 1H15 result contains no material irregular items (the 1H14 result was last year reported as including a \$1.0m non-recurring benefit) so the Consumer Division's underlying EBITDA growth for 1H15 relative to 1H14 is therefore \$17.9m or 18%. This has been driven by ongoing organic broadband subscriber growth as well as an increase in EBITDA contribution per broadband subscriber.

The Group's consumer broadband subscriber base grew by 38k in the half year, 2k higher than the 36k growth achieved in the same period last year. The composition of the 1H15 net subscriber growth was 21k ADSL and 17k NBN/FTTB.

As at 31 January 2015 the Group had 786k broadband subscribers and 342k mobile subscribers.

## Corporate business

The Group's Corporate Division achieved EBITDA of \$117.7m for the period compared to \$64.5m for 1H14. The 1H15 result contains no material irregular items whereas in the prior year it was reported that the 1H14 result included \$5.6m of non-recurring benefits. The EBITDA growth relative to 1H14 excluding irregular items is therefore \$58.8m.

A large component of this EBITDA growth was derived directly from the acquisition of AAPT that occurred during 2H14. However, there has also been significant improvement in operations, resulting in increased EBITDA from the Corporate Division.

When acquired, AAPT's annualised EBITDA run-rate was ~\$70m<sup>1</sup>, implying that the acquisition of AAPT added a half-yearly run rate of \$35m of EBITDA to the TPG business. The actual 1H15 EBITDA growth compared to 1H14 of \$58.8m indicates that operational improvements have delivered an additional \$23.8m of EBITDA.

The Group has also delivered significant EBITDA margin improvement from the AAPT business. Pre-acquisition, AAPT's EBITDA margin was 17%. The TPG Corporate Division's reported EBITDA margin during 1H14 was 53%. So, whilst the consolidation of AAPT's results into the Corporate Division has caused the Corporate Division EBITDA margin for 1H15 to fall from 53% to 37%, the EBITDA margin for 1H15 compared to proforma<sup>2</sup> 1H14 has actually increased from 29% to 37%, principally due to the cost savings achieved from the integration of the AAPT business.

## International Capacity

### *New Southern Cross capacity agreement*

During the period, a Group entity entered a new IRU capacity use agreement with Southern Cross to increase substantially the amount of capacity it may use on the Southern Cross cable. The capital commitment payable for this new capacity will be US\$53m with payments spread over 6 years starting when capacity first becomes available under the agreement in December 2015.

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<sup>1</sup> Unaudited – refer to page 4 of the 9/12/13 TPG investor briefing lodged with ASX

<sup>2</sup> Combination of the underlying corporate division results for 1H14 reported on page 9 of the TPG 1H14 results presentation plus the run-rates reported for AAPT on page 4 of the 9/12/13 investor briefing.

### *SEA-US capacity agreement*

In March 2015 a Group entity entered agreements with RAM Telecom International, Inc ("RTI") to acquire the right to use wavelengths on the SEA-US submarine cable between Guam and California. The SEA-US Cable is being constructed by NEC Corporation for a consortium of telecommunications companies, including RTI. The project remains subject to the completion of certain conditions precedent.

The terms of the agreement are confidential but the Group anticipates that its capital commitment for the project will be between US\$19m and US\$25m spread over the next 2 financial years.

TPG's PPC-1 cable system between Sydney and Guam has been an extremely valuable asset for the Group. With SEA-US, the reach of the Group's directly controlled network will be extended into the main hub of Internet content in the US.

### **Cashflow**

The Group delivered another strong cashflow result in 1H15 with \$238.1m cash generated from operations (pre-tax), and free cashflow after tax, capex and interest for the half year of \$102.9m.

This free cash was deployed to pay for equity investments of \$24.9m (investments in Covata and Amcom both already disclosed on the ASX during the period), to make debt repayments of \$30m, as well as to pay an increased dividend.

### **Dividend**

In light of the Group's strong cashflow and earnings growth, the Board of Directors has declared an increase to the interim FY15 dividend by 22% to 5.5 cents per share (fully franked), payable on 19 May 2015 to shareholders on the register at 14 April 2015.

### **FY15 Guidance**

The directors have upgraded the Group's FY15 EBITDA guidance from \$455-460m to a new estimated range of \$480-483m.

### **Proposed Acquisition of iiNet**

On 13 March 2015, the Group entered into a Scheme of Arrangement with iiNet Limited to acquire 100% of the ordinary shares in iiNet that it doesn't already own, for consideration of \$8.60 per iiNet share, valuing iiNet at approximately \$1.4b. The Scheme, which is recommended by the iiNet Board, is subject to certain conditions including ACCC approval and approval by iiNet shareholders.

The proposed Scheme consideration will be paid fully in cash, for which the Group has secured new committed debt facilities. Following the acquisition the Group's debt to annualised EBITDA leverage ratio would be approximately 3.1x.

David Teoh  
Executive Chairman  
24 March 2015