



# Telstra September 2021 Debt Investor Presentation

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# Financial headlines



## FY21 Reported

**Total income:** \$23.1 billion, -11.6%

**EBITDA:** \$7.6 billion, -14.2%

**EBITDA lease adjusted<sup>2</sup>:** \$7.4 billion, -11.5%

**NPAT:** \$1.9 billion, +3.4%

**EPS:** 15.6 cents, +2.0%

**Total dividend:** 16 cps<sup>5</sup> (consistent pcg)

## FY21 Guidance basis<sup>1</sup>

**Underlying EBITDA<sup>3</sup>:** \$6.7 billion, -9.7%

1H21 \$3.3 billion, 2H21 to \$3.4 billion

**In-year nbn headwind<sup>3</sup>:** ~\$650 million (LTD ~\$3.2 billion)

**Estimated COVID impact<sup>4</sup>:** ~\$380 million (FY20 ~\$200 million)

**Underlying EBITDA decline ex in-year nbn headwind<sup>3</sup>:** ~\$70 million

**Capex<sup>3</sup>:** \$3.0 billion, -6.6%

**FCF<sup>3</sup>:** \$3.8 billion, +11.6%

1. This guidance assumed no impairments in and to investments or non-current tangible and intangible assets, and excluded any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum, and excluded the impacts of Pitt St exchange sale and leaseback. The guidance was based on management best estimates of nbn impacts including input from the nbn Corporate Plan currently published at time of issue of this guidance. Refer to Full year results and operations review – guidance vs reported results reconciliation (set out in our ASX announcement titled “Financial results for the full year ended 30 June 2021” lodged with the ASX on 12 August 2021).

2. ‘Reported lease adjusted’ includes all mobile handset leases as operating expenses, and all rent/other leases below EBITDA.

3. Refer to definition in the Glossary.

4. COVID impact in FY21 includes estimates across international roaming declines, delayed cost out, customer support and deferred NAS professional services.

5. Total dividend of 16 cents per share fully franked comprising total ordinary dividend of 10 cents per share and total special dividend of 6 cents per share.

# Operating highlights



## Mobile strategy continuing to deliver growth

### Mobile service net adds

- +101k retail postpaid handheld services including +67k branded +34k Belong
- +95k retail prepaid handheld unique users
- +240k wholesale MVNO including prepaid and postpaid services
- +892k retail IoT services

### Fixed service net adds

- -69k retail fixed bundle and data services including +10k Belong
- +246k nbn connections with 45% estimated market share as at end of FY21 (ex-satellite)

## Building value

- **Mobile:** +\$3 TMMC mass market branded growth on pcp and \$170m EBITDA growth on pcp
- **Fixed – C&SB:** Focus on higher speed tiers and add-ons
- **Fixed – Enterprise:** Positioning for return to growth with Adaptive Networks
- **Telstra Health:** FY21 revenue growth 6% and confident for high teens organic revenue growth in FY22
- **Telstra Ventures:** ~\$300m increase investment value

## Improved customer experience

- Episode NPS improved +9 last 12 months and +6 last six months
- Strategic NPS improved +7 last 12 months and +2 last six months

## Continued cost reduction

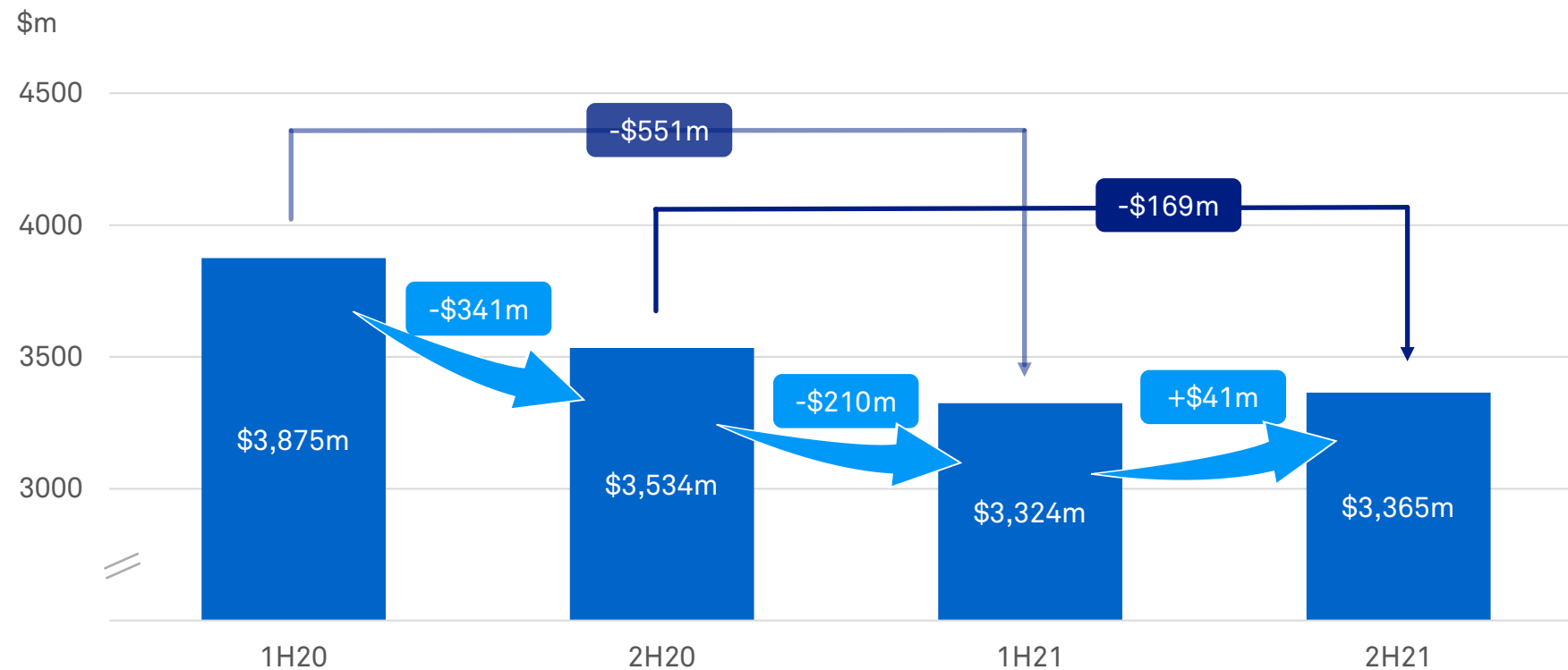
- \$490m or 8.1% underlying fixed cost reduction in FY21
- \$1.8b or 10.2% decline in FY21 total operating expenses<sup>1</sup>
- \$2.3b underlying fixed cost reduction since FY16. On track for \$2.7b cost reduction with \$430m target in FY22

1. 'Reported lease adjusted' includes all mobile handset leases as operating expenses, and all rent/other leases below EBITDA.

# EBITDA by half shows improving momentum



## Underlying EBITDA – halves



### Reduced rate of Underlying EBITDA decline on pcp:

- 1H21 -\$551m
- 2H21 -\$169m

### Sequential growth in 2H21 \$41m, including:

- Mobile EBITDA growth
- Fixed-C&SB stabilising
- Enterprise positioned for FY22 growth

# Capital position



	FY20	1H21	FY21
Gross debt	\$17.3b	\$17.4b	\$16.4b
Cash and cash equivalents	\$0.5b	\$1.3b	\$1.1b
Net debt	\$16.8b	\$16.1b	\$15.3b
Average gross borrowing costs <sup>1</sup>	4.6%	3.8%	3.8%
Average debt maturity (years) <sup>1</sup>	3.9	3.7	3.4
Cash and unused bank facilities	\$4.3b	\$4.8b	\$3.6b

## Financial parameters<sup>2</sup> Comfort Zones

Debt servicing	1.5 - 2.0x	1.9x	2.0x	2.0x
Gearing	50% to 70%	52.7%	51.5%	50.0%
Interest cover	>7x	11.7x	13.6x	13.2x

## Ratios

Capex <sup>3</sup> to sales	14.2%	13.3%	14.4%
ROE <sup>3</sup>	12.5%	15.2%	12.8%
ROIC <sup>3</sup>	7.6%	8.7%	7.5%
Underlying ROIC <sup>3</sup>	5.4%	4.5%	5.0%

**Net debt declined ~\$1.5b in FY21 supported by our strong FCF**

**Average gross borrowing costs expected to continue to decline in FY22**

**Access to diverse and efficient sources of funding**

**Strong liquidity.** \$1.1b cash & \$2.5b of unused committed bank facilities

**Balance sheet strength and flexibility.** Parameters within comfort zones

**FY21 Accrued capex<sup>4</sup>** of \$3,020m or 14.4% capex to sales (guidance basis)

**Target FY23 underlying ROIC of ~8%**

1. Excludes leases.

2. Debt servicing calculated as net debt over reported EBITDA. Gearing calculated as net debt over total net debt and equity. Interest cover calculated as reported EBITDA over net interest expense (excluding capitalised interest, revaluation impacts on our borrowings and derivatives and other non-cash accounting impacts).

3. Refer to definition in the Glossary.

# T22 achievements to date



## Simplification & Digitisation

- ~8.8 million services on 20 new simplified C&SB in market plans
- ~3.5 million Telstra Plus members
- Reduced Enterprise active products by more than half since FY18
- Digital sales increased +9pp in FY21 to 39% in C&SB
- Digital service interactions >73% in C&SB
- Reduced annual contact centre calls by two-thirds since FY18

## Ways of working

- Leaner, more efficient organisation including ~17k working in Agile
- ~8.3k direct FTE reduction since FY18 ex-COVID hires
- FTE reduction by one-third or ~25k: ~7.6k direct, ~17.4k indirect

## Productivity

- \$2.3b cost reduction since FY16 – on track for \$2.7b
- \$2b asset monetisation

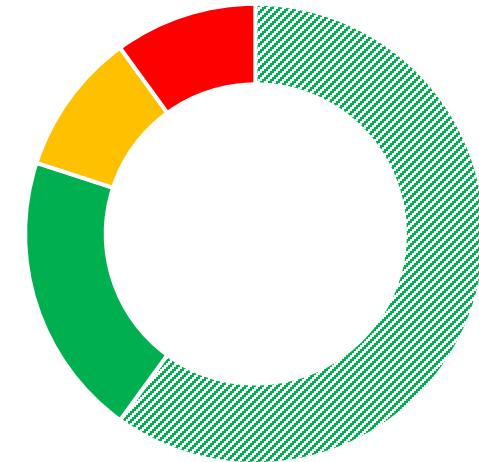
## Network leadership

- 75% of population covered – Australia’s largest 5G network
- ~1.6m 5G devices connected to the Telstra network

## Infrastructure

- Completed first year as infrastructure business function in FY21
- Announced 49% sale of InfraCo Towers for \$2.8b
- Proposed legal restructure: It was our intention to seek shareholder approval at AGM. We now aim to do so at a separate general meeting before the end of calendar year 2021

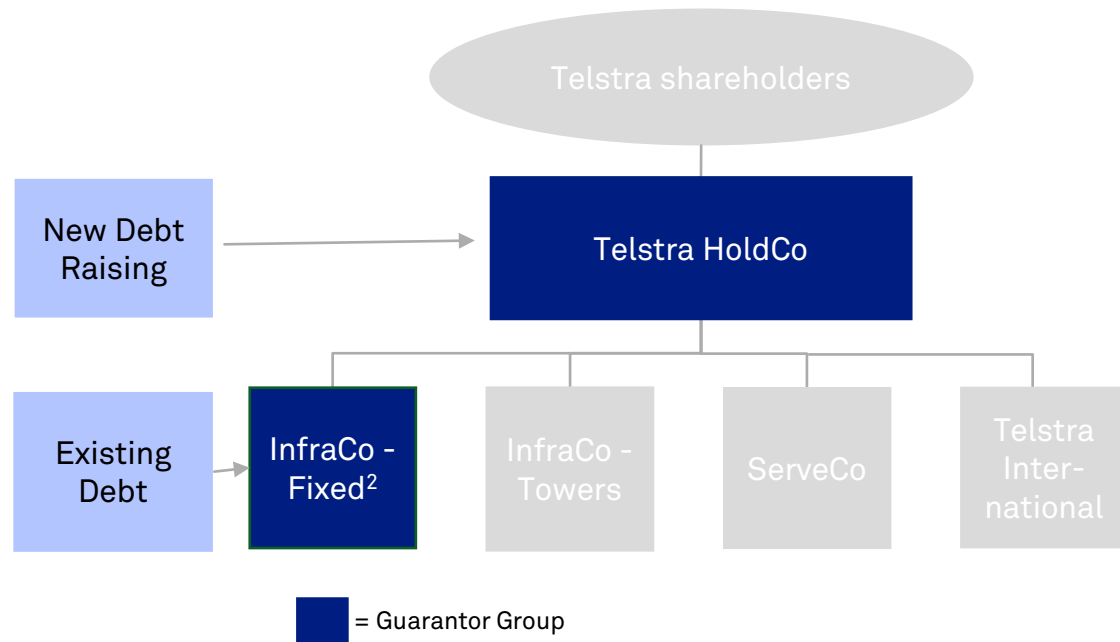
## T22 Scorecard metrics – as at FY21



- Completed
- On track for delivery
- Progress but below target metric
- Below target metric

~80% metrics completed or on track for delivery

# Proposed debt structure<sup>1</sup>



- We remain committed to our Capital Management Framework
- Existing external debt will remain in Telstra Corp Ltd (to become InfraCo Fixed) with refinancing expected at Telstra HoldCo
- No change to group debt levels is anticipated as a result of the restructure
- We are currently considering a cross guarantee between Telstra HoldCo and InfraCo Fixed (where each entity would guarantee the other's relevant debt)
- This guarantee is envisaged to have features allowing it to be released upon a substantive sale of InfraCo Fixed
- Telstra looks forward to consulting with debt holders on the proposed structure

1. No final decisions made. No change to current structure until completion of the restructure / scheme implementation. Any restructure will involve certain regulatory and other requirements. There may be delays in implementing parts of the program, or they may not be implemented at all if approvals not obtained.

2. It is intended that InfraCo Fixed will be the current Telstra Corporation Limited entity. The assets of InfraCo Towers and ServeCo, and in due course, of International, will be transferred out of the current Telstra Corporation Limited entity into their new respective legal entities.

# FY22 guidance



	FY21	FY22 guidance <sup>1</sup>
<b>Total Income</b>	\$22.9b	\$21.6b to \$23.6b
<b>Underlying EBITDA<sup>2</sup></b>	\$6.7b	\$7.0b to \$7.3b
<b>Capex<sup>3</sup></b>	\$3.0b	\$2.8b to \$3.0b
<b>Free cashflow after lease payments (FCFaL)<sup>4</sup></b>	\$3.7b	\$3.5b to \$3.9b

1. This guidance excludes material one-offs, such as mergers and acquisitions, disposals, impairments, spectrum, restructuring costs and such other items as determined by the Board and management.
2. Underlying EBITDA excludes net one-off nbn DA receipts less nbn net C2C and guidance adjustments. FY20/21 underlying EBITDA also includes depreciation of mobile lease right-of-use assets.
3. Capex is measured on an accrued basis and excludes spectrum and guidance adjustments, externally funded capex, and capitalised leases.
4. Free cashflow after lease payments defined as 'operating cash flows' less 'investing cash flows' less 'payments for lease liabilities', and excludes spectrum and guidance adjustments.





# Our strategy: T25

Our purpose and values

To build a connected future so everyone can thrive

We are changemakers

We are better together

We care

We make it simple

Our strategic pillars

An exceptional customer experience you can count on

Leading network & technology solutions that deliver your future

Sustained growth and value for our shareholders

The place you want to work

Excelling at new ways of working

Accelerating digital leadership

Doing business responsibly

Our businesses

Consumer & Small Business

Enterprise

New Markets

International

Infrastructure

# We will deliver growth through our T25 strategy



## Financial strategy

**Build financial momentum across our portfolio to deliver growth**

**Deliver net cost reductions – \$500m net fixed cost out from FY23 to FY25 while investing for growth**

**Focus on cash conversion and generation**

**Active portfolio management to unlock value and manage our Balance Sheet**

**Create shareholder value through our capital management framework**

## Financial ambitions



### Underlying EBITDA<sup>1</sup>

- \$7.5–8.0b by FY23
- Mid-single digit CAGR FY21 to FY25



### Underlying ROIC<sup>1</sup>

- ~8% by FY23
- Grow beyond to FY25



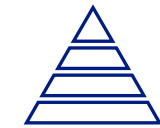
### Underlying EPS<sup>1</sup>

- High-teens CAGR FY21 to FY25



### Dividend

- Maximise fully-franked dividend and seek to grow over time



### Excess cashflow

- Invest for growth and return excess cash to shareholders

1. Refer to definition in Glossary and see disclaimer slide in relation to these financial ambitions

# Capital management framework



## Fiscal discipline

### Objectives

 **Maximise returns for shareholders**

 **Maintain financial strength**

 **Retain financial flexibility**

### Principles

1. Committed to balance sheet settings consistent with an A band credit rating
2. Maximise fully-franked dividend and seek to grow over time<sup>1</sup>
3. Ongoing business-as-usual capex of ~\$3b p.a. excluding spectrum<sup>2</sup>
4. Invest for growth and return excess cash to shareholders

1. The dividend is subject to no unexpected material events and is subject to Board discretion having regard to financial and market conditions, business needs and maintenance of financial strength and flexibility consistent with Telstra's capital management framework.

2. Capex is measured on an accrued basis and excludes spectrum and guidance adjustments, externally funded capex, and capitalised leases.

# T25 scorecard



**Customer experience**



**Network & Technology**



**Growth and value**



**New ways of working**



**Digital leadership**



**Responsible business**

Our commitments and metrics

Market leading CX with

- eNPS >40 by FY25
- sNPS uplift of +25 by FY25

Getting it right for customers

- >90% 'Once and Done' by FY25 (C&SB)
- 90% rating in support and engagement by FY25 (TE)

Reduce our complaints

- One-third by FY23, 50% by FY25 (C&SB)
- >95% of billing disputes will be resolved in 1 cycle by FY25 (TE)

Grow Telstra Plus members (#) and engagement (%)

- 5.4m and 70% by FY23
- 6m and 80% by FY25

Grow digitally active users by 2m to 8.5m FY25 (C&SB)

Improve availability of infra. assets for customers, by FY25

- 250 new towers
- 6,000km of fibre deployed

Network leadership; by FY25:

- ~95% pop. coverage for 5G
- >80% of traffic on 5G
- 3G closed in FY24

Win majority of key surveys for best fixed/ mobile network including

- Coverage, and
- Overall customers speeds for mobile FY23-FY25

Double metro cell sites by FY25 to densify the network

Expand regional coverage

- 100,000km<sup>2</sup> new coverage by FY25

Underlying EBITDA

- \$7.5-8.0b by FY23
- Mid-single digit CAGR FY21 to FY25

Underlying ROIC

- ~8% by FY23
- Grow beyond to FY25

Underlying EPS: High-teens CAGR FY21 to FY25

Maximise fully-franked dividend and seek to grow over time

Maintain cost discipline

- \$500m net fixed cost out from FY23 to FY25 while investing for growth
- Maintain leading operating cost metrics for full-service telco

Maximise value from infra.

- Amplitel EBITDAaL CAGR – low-to-mid single digit
- InfraCo Fixed EBITDAaL CAGR – low-single digit

Remain at 90th percentile employee engagement (equivalent to high-performance norm)

Improve agile maturity of teams, with 70% scoring above 4 by FY25

Halve our time to market for products and services from FY22 to FY25

50% increase in representation of Data & Analytics workforce by FY25

Direct software engineering workforce delivering ~2x the percentage of strategic development work by FY25

All key service transactions with customers are capable of being conducted digitally by FY25

100% of key business processes enhanced/ improved using AI by FY25

Reach top 20% in Digital Capability Index by FY25

100% API-first architecture for customer management, product development, and external monetisation

Move ~90% of applications to the public cloud by FY25

Enable renewable energy generation equivalent to 100% of our consumption by 2025

Reduce absolute emissions from FY19 by at least 50% by 2030

Increase digitally active customers by 2m, including building digital skills for 500k Australians, by FY25

Help keep 1m customers in vulnerable circumstances connected each year from FY22-25

4-7pt uplift in RepTrak reputation score by FY25

# Glossary



Term	Definition (unless separately defined in the slide footnotes)
<b>Capex</b>	Capex is measured on an accrued basis and excludes spectrum and guidance adjustments, externally funded capex, and capitalised leases
<b>Free cash flow after operating lease payments (FCF)</b>	'operating cash flows' less 'investing cash flows' less 'payments for operating lease liabilities', and excludes spectrum and guidance adjustments
<b>Free cash flow after lease payments (FCF<sub>al</sub>)</b>	'operating cash flows' less 'investing cash flows' less 'payments for lease liabilities', and excludes spectrum and guidance adjustments
<b>Guidance adjustments</b>	Guidance adjustments include impairments in and to investments or non-current tangible and intangible assets, proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. Refer to Full year results and operations review – guidance vs reported results reconciliation which details the adjustments made for the current and comparative period to reflect performance on the basis on which we provided guidance to the market for FY21 (set out in our ASX announcement titled "Financial results for the full year ended 30 June 2021" lodged with the ASX on 12 Aug 2021)
<b>In-year nbn headwind or nbn headwind</b>	The net negative recurring EBITDA impact of the nbn on our business for the reporting period. See 'nbn impact on EBITDA' slide for details of the in-year nbn headwind
<b>Net one-off nbn DA less net C2C</b>	Adjustments for net one-off nbn receipts which is defined as net nbn one off Definitive Agreement receipts (consisting of PSAA, Infrastructure Ownership and Retraining) less nbn net cost to connect
<b>Reported lease adjusted</b>	'Reported lease adjusted' includes all mobile handset leases as operating expenses, and all rent/other leases below EBITDA. FY21 adjusted to include \$194m (FY20 \$494m) of reported depreciation of mobile handsets right-of-use assets in EBITDA. No adjustment expected in FY22.
<b>ROE</b>	Calculated as profit after tax attributable to equity holders of Telstra as a percentage of equity
<b>ROIC</b>	Calculated as Net operating profit after tax (NOPAT) as a percentage of total capital
<b>Total Income</b>	Total income excluding finance income
<b>Underlying earnings</b>	NPAT from continuing operations excluding net one-off nbn receipts, one-off restructuring costs and guidance adjustments. Guidance adjustments include impairments in and to investments or non-current tangible and intangible assets, proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum. See 'Underlying earnings' slide for details of underlying earnings
<b>Underlying EBITDA</b>	EBITDA excluding net one-off nbn DA receipts less nbn net C2C, one-off restructuring costs and guidance adjustments but includes depreciation of mobile lease right-of-use assets
<b>Underlying ROIC</b>	Calculated as NOPAT excluding net one-off nbn receipts, one-off restructuring costs and guidance adjustments less tax as a percentage of total capital. Guidance adjustments include impairments in and to investments or non-current tangible and intangible assets, proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum

# Disclaimer



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In addition, there are particular risks and uncertainties in connection with the implementation of the Telstra2025 strategy (T25), including the response of customers to changes in products and the way we interact with them as we move to a digital operating model; the risks of disruption from changes to the ways we work; that detailed business plans have not been developed for the entirety of the strategy and the full scope and cost of T25 may vary as plans are developed; Telstra's ability to execute and manage the elements of T25 in a sequenced, controlled and effective manner and realise the planned operational synergies, cost savings and revenue benefits. There are also risks and uncertainties in connection with the proposed legal restructure announced on 22 March 2021.

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