



24 August 2020

Chorus delivers in-line result despite COVID-19 impact

Chorus today released its audited annual results confirming earnings before interest, tax, depreciation and amortisation (EBITDA) of \$648m for the year ended 30 June 2020.

Summary

- Final EBITDA result in line with February's guidance of \$640 - \$655m
- Net profit after tax was **\$52m** (FY19: \$53m)
- Operating revenue for the period was **\$959m** (FY19: \$970m)
- Operating expenses were **\$311m** (FY19: \$334m)
- Capital expenditure **\$663m** (FY19: \$804m)
- Depreciation and amortisation for the period was **\$402m** (FY19: \$393m)
- Earnings before interest and tax of **\$246m** (FY19: \$243m)
- Final, fully imputed dividend of **14 cents per share**
- **751,000** active fibre connections (FY19: 610,000)
- UFB1 fibre uptake at **63%** of homes and businesses (FY19: 54%)

Speaking about the results, Chorus CEO JB Rousselot said: "This year saw our broadband infrastructure pass its greatest ever test. The COVID-19 pandemic meant New Zealanders were heavily reliant on our copper and fibre networks to keep connecting, working and learning through months of change and uncertainty.

"I'm proud of how our business, and our people, rose to the challenge presented by the pandemic. They helped deliver strong operational results and further cemented broadband's role as an essential utility for all New Zealanders.

The sudden suspension of non-essential field activity through the alert level 4 lockdown period placed financial strain on Chorus' service companies.

"We chose to provide \$5 million in financial support to our service companies and their subcontractors. This assisted them with the impact of reduced levels of work and helped retain the workforce for a rapid resumption of activity as alert levels relaxed.

"We also agreed a relief fund of \$2 million which we made available to retailers to help address the expected increase in bad debts for consumers and small businesses unable to pay their bills during lockdown," said Mr Rousselot.

The demands placed on our network as a result of COVID-19 underlines the importance of continuing to invest in network capacity. Broadband traffic increased by about 35 percent during the lockdown period and to meet this and other demands Chorus is continually upgrading its network.

"In July, before Auckland moved back into alert level 3, we announced the commissioning of two new multi-terabit core routers that increase network capacity in the Auckland area by more than 200 percent.

"Behind the scenes, we work with the broadband retailers to fast-track the handover and backhaul capacity upgrades they need to keep their services congestion free."

In November, Chorus celebrated a significant milestone with the completion of the original Ultra-Fast Broadband (UFB1) fibre roll-out to 28 major towns and cities across the country.

The completion of the UFB1 rollout, together with the suspension of non-essential roll-out and connection activity during the first lockdown, saw a substantial drop in overall capital expenditure from \$804 million in FY19 to \$663 million this year.

"At the end of the June there were 751,000 active fibre connections on our network. In UFB1 areas uptake of fibre reached 63 percent, while in UFB2 areas uptake has already reached 37 percent.

"The UFB project was a textbook case study of how a public-private partnership can combine the benefits of private sector disciplines with broader socio-economic objectives," said Mr Rousselot.

Looking ahead into FY21

While the impact of COVID-19 had a negative financial impact on Chorus' EBITDA in FY20, it has accelerated some positive underlying trends that support the business.

"We remain focused on connecting more New Zealanders to fibre," said Mr Rousselot.

"We're continuing to lift our game as an active wholesaler and our latest advertising campaign demonstrates this. It helps position fibre as the 'new normal' for internet connectivity by showing the everyday benefits of a rock-solid connection to encourage late adopters to make the change.

"We're seeing something of a *fixed-line renaissance* as consumers place even greater value on the reliability and unlimited capacity of fibre relative to other broadband technologies.

"The Minister for Broadcasting, Communications and Digital Media, Hon Kris Faafoi, recently said that fibre represents the 'gold standard' for internet connectivity. His view is backed up by independent testing from the Commerce

Commission that shows fibre generally supports latency-sensitive applications, like videoconferencing or gaming, better than other technologies.

Later this year Commerce Commission is expected to publish the final copper withdrawal code.

"I would like to make it clear that we're not going to switch off the copper network overnight. There will be lengthy notice requirements that we'll follow, and we'll take a careful, considered and consumer-centric approach.

"As we've said before, it will only be where fibre is already available, and on a localised street-by-street basis."

New connectivity offerings

Chorus continues to explore opportunities to grow revenues through new products and services that offer improved connectivity options for its customers.

"We're starting to see interest from local government organisations for 'smart location' connectivity, like CCTV cameras, traffic lights and digital advertising sites. Often these will be switching from existing copper or mobile connections, taking advantage of fibre's higher and more consistent bandwidth.

"We have also developed a service that makes it easier for retailers to expand their fibre services nationwide and we're planning the launch of a new peering service in the first half of FY21 in conjunction with the New Zealand Internet Exchange.

"The opportunities presented with the latest consumer and business Wi-Fi standard, Wi-Fi 6, is interesting. Internationally this is considered a potential alternative to 5G in enterprise and other private environments (like airports or stadiums) where cost effective capacity and support for a large number of devices is important."

Evolving regulatory environment

In the next few months, the Commerce Commission will make its final decisions on key aspects of the new regulatory regime for fibre.

These decisions present the Commission with an opportunity to ensure that investors get a return that represents the risk they took to build a fibre network.

"The Commission can make these decisions in the knowledge that that end users are well protected with the 100Mbps fibre service price capped as an 'anchor' service. There is great potential for a win-win here.

"Under the current proposed settings, investors will not get a return that reflects the risk they took. Instead the Commission's approach banks the success of the build and, with the benefit of hindsight, effectively de-risks it.

"If this occurs investors will not consider UFB a model for the successful transformation of additional New Zealand infrastructure," said Mr Rousselot.

Dividend

Chorus will pay a final dividend of 14 cents per share, fully imputed, on 12 October 2020 to all shareholders registered at 5pm on 15 September 2020.

A dividend reinvestment plan will apply for the final dividend at a discount rate of 2%. Applications to participate must be received by 5pm (NZ time) on 16 September 2020.

FY21 guidance

- EBITDA: \$640 - \$660 million
- Capital expenditure: \$630 - \$670 million
- FY21 dividend: 25 cents per share, subject to no material adverse changes in circumstances or outlook.

UFB2 programme guidance: updated from range of \$505 - \$565 million to a new range of \$548 - \$568 million to reflect greater proportion of underground build and extended footprint of ~1,000 premises.

ENDS

Chorus Chief Executive, JB Rousselot, and Chief Financial Officer, David Collins will discuss the full year results from 10.00am, NZ time, at www.chorus.co.nz/webcast

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