

**TPG TELECOM LIMITED (ASX: TPM)**

**FINANCIAL RESULTS COMMENTARY**

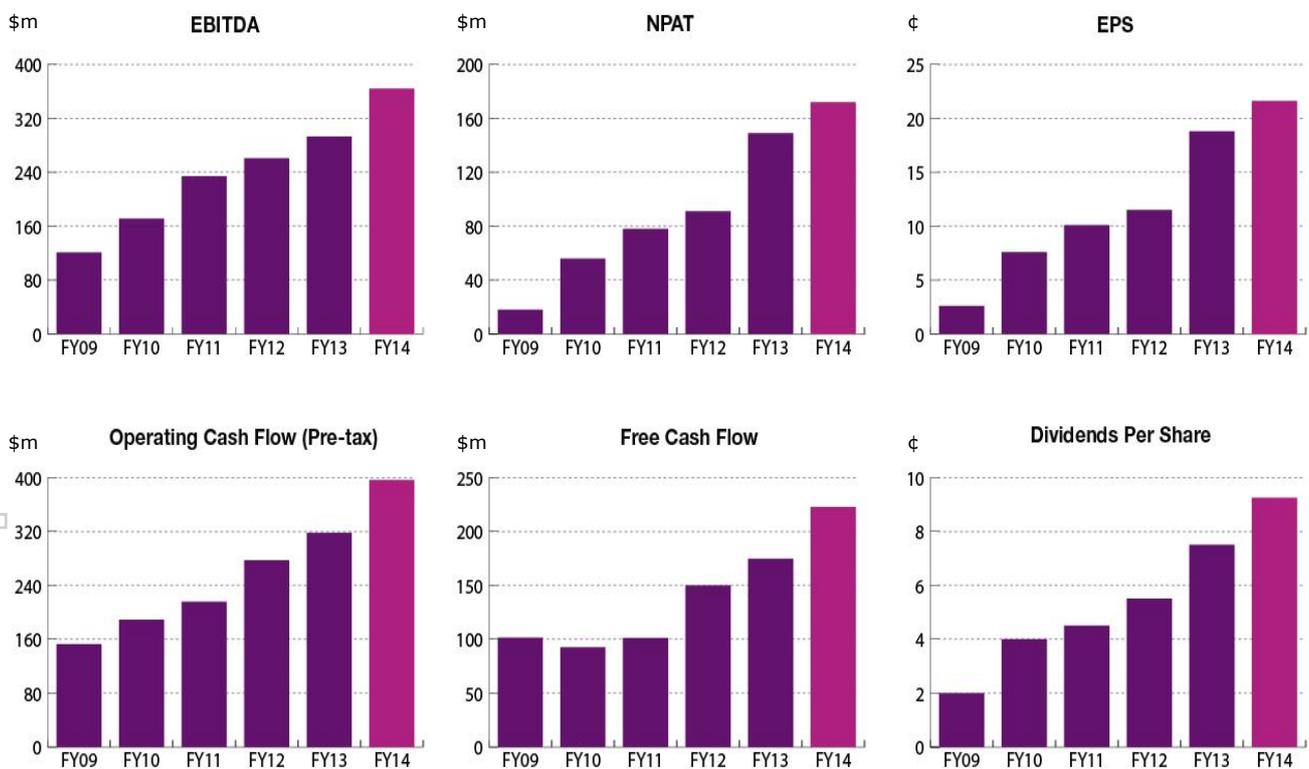
**YEAR ENDED 31 JULY 2014**

**TPG Telecom reports a sixth consecutive year of strong growth**

TPG Telecom Limited has today announced its financial results for the year ended 31 July 2014 ("FY14") which include earnings before interest, tax, depreciation and amortisation ("EBITDA") for the year of \$363.7m, up by 24% from FY13, and above the top end of the upgraded guidance of \$340m-\$355m provided in March 2014.

This result has been driven by continued strong organic growth across the Group's consumer and corporate divisions (underlying<sup>1</sup> EBITDA up by 19% and 20% respectively) accompanied by a maiden contribution from AAPT whose underlying<sup>1</sup> EBITDA for the 5 month post acquisition period of \$38.2m was also ahead of guidance.

This strong EBITDA performance is complemented by another year of record results across all other key measures as shown below.



<sup>1</sup> The 'Underlying' EBITDA of each division is explained in the commentary on each of the respective division's results on page 2 below.

## Financial highlights

- EBITDA for the year increased by 24% to \$363.7m.
- Net Profit After Tax ("NPAT") increased by 15% to \$171.7m.
- NPAT excluding intangible amortisation increased by 18% to \$196.3m.
- Earnings per share ("EPS") increased by 15% to 21.6 cents per share.
- EPS excluding intangible amortisation increased by 18% to 24.7 cents per share.
- Pre-tax operating cashflow increased by 25% to \$396.6m and exceeded EBITDA by \$32.9m.
- Free cashflow after tax, interest and capex increased by 28% to \$223.5m.

## Consumer business

The Consumer division's EBITDA for the year was \$205.6m which includes \$3.3m of non-recurring benefits arising from credits and commercial settlements related to prior years. As reported last year, the division's EBITDA for FY13 of \$180.6m benefitted from \$10.0m of back-dated rebates arising from favorable regulatory determinations. The Consumer division's underlying EBITDA growth for FY14 relative to FY13 is therefore \$31.7m or 19%. This has been driven by ongoing organic broadband subscriber growth as well as an increase in contribution per subscriber arising from continued tight cost control and an uplift in ARPU (average revenue per user) from subscribers to the Group's home phone bundle plans.

The Group's consumer broadband subscriber base continued to grow strongly increasing by a further 77,000 subscribers over the year, driven by the ongoing appeal of TPG's bundled internet and home phone plans. As at 31 July 2014 the Group had 748,000 broadband subscribers and 362,000 mobile subscribers.

During the final quarter of FY14 the Group also soft launched its first NBN plans. Since the year-end the rate of customer sign-up to these plans has reached 500-600 per week. In September 2014 the Group has also released for sale its first 'fibre to the building' (FTTB) plans.

## Corporate business

The Group's Corporate division (excluding AAPT) achieved an EBITDA of \$126.0m for the year. This result includes \$6.3m of non-recurring benefits (comprising \$4.0m of back-dated supplier credits and a \$2.3m IRU gain). As reported last year, the division's FY13 EBITDA of \$110.3m included a \$10.5m IRU gain. The Corporate division's underlying EBITDA growth for FY14 relative to FY13 is therefore \$19.9m or 20%. This increase has been achieved through revenue growth as well as an improvement in underlying margin from 43% to 50%.

## AAPT

The acquisition of AAPT on 28 February 2014 contributed \$29.9m to the Group's FY14 EBITDA. Excluding \$5.1m of one-off integration costs and \$3.2m of acquisition related costs incurred in the period, AAPT's underlying EBITDA for the 5 months to 31 July 2014 was \$38.2m.

Integration activities have focused on the consolidation of teams, systems, networks and processes, resulting in an uplift in AAPT's EBITDA margin from ~18% pre-acquisition to 23% underlying for the 5 months.

In addition to these cost benefits the integration is now also enabling the merged sales groups to leverage the Group's combined product and network strengths. The corporate sales teams now operate as TPG Network for the direct channels of enterprise, government and corporate businesses with AAPT Wholesale continuing as provider to carrier and wholesale customers.

## **Cashflow and Gearing**

The Group's excellent cashflow performance continued in FY14 with \$396.6m cash being generated from operations (pre-tax). After tax, interest and capital expenditure, the Group had free cashflow of \$223.5m.

The Group made total debt repayments of \$117m in FY14, meaning that even after a total outlay of \$465.9m for the acquisition of AAPT during the year the Group had already reduced its outstanding debt to \$350m by 31 July 2014. This level of debt represents a comfortable gearing ratio of less than 0.9x the Group's annualised EBITDA run-rate.

## **Dividends**

In light of the Group's strong cashflow and earnings growth, the Board of Directors has declared an increased final FY14 dividend of 4.75 cents per share (fully franked) payable on 18 November 2014 to shareholders on the register at 14 October 2014, bringing total FY14 dividends to 9.25 cents per share (fully franked), an increase of 23% over FY13.

## **FY15 Guidance**

The directors forecast continued strong growth for the Group in FY15 with EBITDA expected to be around \$455-460m.

David Teoh  
Executive Chairman  
23 September 2014