

# **INVESTOR REPORT FOR ARQIVA GROUP PARENT LIMITED**

## **SCHEDULE 7**

**Three months period ending 31 December 2022**

Date: 20 February 2023

## **QUARTERLY INVESTOR REPORT**

To: The Issuer Security Trustee, the Rating Agencies and the Paying Agents.

### **GENERAL OVERVIEW**

Arqiva is the UK's leading enabler of digital connected solutions across the Media Distribution and Utilities markets. It generates predictable earnings, supported by strong market positions, diverse revenue streams, long-life assets and long-term inflation linked contracts. The Group had a contracted orderbook of £3.3bn as at 30 June 2022.

### **Recent developments**

#### **Media Distribution**

##### **Government (DCMS) updates**

In June 2022 the 'Broadcast 2040+' campaign was launched by a coalition of organisations including Arqiva, with the aim of securing a long-term commitment from the Government to the future of broadcast services. The campaign provides a channel for supporting organisations to collaborate on policy developments

The campaign has attracted media coverage and engagement from members of parliament. In December 2022, the coalition released an open letter to the Culture Secretary urging the Government to protect broadcast services alongside the results of new polling evidencing the importance of broadcast services to voters across 12 parliamentary constituencies. The polling's findings have been covered in national, regional, and trade media outlets. Two MPs have asked the Minister of State for Media, Data, and Digital Infrastructure to confirm the action Government is taking to secure broadcast services for the long-term. In addition, coalition member Silver Voices has launched a parliamentary petition calling on government to protect broadcasting beyond 2040.

##### **DTT Multiplexes**

The platform remained fully utilised in the three months to December 2022 following on the new launches for Earth X and Quest +1 in the prior quarter. Looking forwards, negotiations underway with new channel entrant to replace a service that is leaving the platform in Q3.

##### **Radio**

Following the successful auction of the last vacant stream of SDL national multiplex in June 2022 the national muxes remain fully contracted with 2 more service launches expected shortly. The local muxes Arqiva operates has risen to an average 83% occupancy with significant renewal work being carried out with the BBC and Global and Bauer. The DAB platform now delivers over 43% of all radio listening.

The talkSPORT MF network contract has been extended for a significant period with News UK along with multiple other smaller FM network contracts for Global and Bauer. There is significant amount of activity in the small scale DAB space in terms of signing network access and site share contracts and installing or combining with antennas.

##### **Direct to Home (DTH)**

Arqiva signed a multi-year deal with a UK Public Service Broadcaster ("PSB), representing the first DTH deal (including satellite capacity) that has been signed with a PSB, demonstrating Arqiva's strategy of increasing its market share in the UK TV broadcast market. The services are scheduled to launch in FY24.

During the quarter Arqiva has also signed 2 HD channels launching in November 2023 meaning that Arqiva has successfully secured all 3 HD channels that have launched into market last year, bringing platform to full utilisation. There is also a strong pipeline of opportunities to fill up capacity when it is freed up following the multiplex upgrade later in the year.

In addition to above channel launches, we have retained our title as No. 1 in the World Teleport Association Independent Top 10 teleport operators list.

## **Media Management Products**

Leveraging on its media management expertise, Arqiva launched Arqade, a cloud-based television content exchange product, earlier in 2022. Arqade enables media companies to interchange their content with multiple platforms efficiently across the world through cloud technology and since its launch, the uptake of the product has continued to grow from Arqiva's existing customer base of tier 1 international broadcasters. There is also a strong pipeline of opportunities with sports rights owners issuing RfPs for global content distribution.

Following the extensive PoC development with its customer Arqiva has developed Arqplex, a product which provides secure and reliable content aggregation, encoding, multiplexing and packaging service in a cloud for content distribution. Arqplex helps its customers by increasing flexibility during the transition to the OTT and reducing the complexity of operating in the cloud and at the IBC conference in September won the Best in Show award for TVBEurope's Futures category.

## **Smart Utilities Networks**

### **Regulatory Environment**

The water sector regulator Ofwat has finalised its price review 2024 methodology, which sets out expectations for water companies 2025-2030 business plans. Ofwat outlined that it expects companies to embrace opportunities to improve performance through smart technology, that the regulator will support investment in smart metering and that smart metering is likely to be a part of 'least regret' best value programmes to reduce leakage. Ofwat further outlined that companies should consider smart meters that provide near real time data as the standard meter installation type. Arqiva contributed to the price review 2024 methodology consultation and is taking an active part in consultation processes that will inform water companies final business plans for the next regulated price period, including consultations on company draft water resource management plans.

### **Anglian Water**

Since the award of the Anglian Water contract in June 2020, the Group has rolled out over 500,000 meters out of the overall 789,000 targeted by 2025. The pace of network rollout has increased with around 37 New sites scheduled for delivery throughout the year and Anglian have recently launched a tender process for two additional regions targeting an overall deployment of 1.1m meters by the end 2025.

### **Thames Water**

Since April 2015, Arqiva has delivered a smart metering network for Thames Water and as at 30 September 2022, over 840,000 meters have been installed, with in excess of 20 million meter readings being delivered per day. It is the largest smart water metering network in the UK and has high coverage across the Thames Water London region. Arqiva continues to add a number of network sites outside London, which included recently Chiddingfold and Guildford, with Dartford currently in design for delivery later this year. Arqiva continues to rollout the network for Thames Water and is increasing device deliveries in the first quarter of this year.

In addition, Thames Valley have asked Arqiva to proceed with 11 site installations to enable a deployment of a further approx. 25,000 meters this year and around 108,000 by 2025. This places us in a strong position for the remainder of the Thames Valley rollout. The increase in meter supply is specifically to support the additional demands of the rollout into Thames Valley.

### **Northumbrian Water**

Arqiva has been selected by Northumbrian Water Group to deliver an initial roll-out of a smart metering network in Essex, where it operates as Essex & Suffolk Water. This initial contract of 5 years and 11k meters has now been extended to cover over 28k meters and for 15 years of service with 2 new sites.

### **UK Power Networks**

Arqiva has commenced the BGAN rollout for the UK Power Networks for its network monitoring with over 900 units delivered by the end of December out of the total orders of 5,000.

### **SGN Hybrid Connectivity**

The Hybrid Connectivity Proof of Concept (PoC) with SGN has completed following which they have launched their 'Strategic Connectivity' procurement exercise. Arqiva has been awarded the preferred supplier status for all three lots and will be working with SGN to conclude the contract .

### **Other Smart Water Metering Trials**

In the Midlands, Arqiva has been participating in a multi-vendor, multi-technology smart water metering evaluation trial with a major water company. The trials have proven the excellent performance of our technology and managed service. We are extending and expanding the trial for a further 12 months and 1,900 meters, on an exclusive basis, enabling the water company to evaluate fully the benefits and establish a business case for a future full smart metering roll-out. Orders have been received for the trial extension and meters have now been deployed.

A contract was signed with SES Water to assist in evaluating the data produced by our smart metering solution and identifying the resulting operational and financial benefits. This will take the form of a small pilot deployment of circa 400 meters.

### **Smart energy metering rollout**

The Group's smart metering communication network in the North of England and Scotland continues to cover 99.5% of premises. There are currently over 2 million communications hubs operating on the network representing 20% of the total UK communication hub installations. We have seen a marked improvement in the supply chain as evidenced by increased communications hub deliveries in December and we are monitoring events closely. The DCC continues to submit change requests that reflect new industry requirements and Arqiva maintains a strong pipeline.

### **New proof of concepts**

Arqiva has engaged with utility customers and industry suppliers as it seeks to expand its presence in the smart utilities industry. Our customer side Leakage Detection PoC has been well received, we have several further developments and customers involved as this PoC evolves. Our Sewer Level Monitoring PoC trial has commenced with Anglian Water with 9 sites deployed and with positive initial feedback. The focus is now on working with our suppliers to develop a full production version of the solution for wider adoption.

## **Corporate Update**

### **Bilsdale Tower Fire**

Construction of the permanent replacement mast at our Bilsdale site continues to progress. Calls to the dedicated helpline have reduced to very small numbers (Five per day in December) as the mitigation measures Arqiva put in place, including a temporary 80m tower, in-fill sites and aerial re-pointing has restored some TV services to more than 99% of households in the affected area.

A second stage payment of £10.0m was received from the insurers in September 2022. Whilst the insurers have concluded their investigations, the precise findings have not been publicly shared and we cannot comment on the findings while the claims process is ongoing.

### **Britain's Healthiest Workplace**

In December 2022 Arqiva achieved 2nd place in the Britain's Healthiest Workplace (BHW) survey, in the 'large organisations' category (1000+ employees). Colleagues were invited to complete the Britain's Healthiest Workplace health survey, submitting answers on productivity, job satisfaction and risk factors such as smoking. Arqiva's entry also required information on our leadership and culture, and the provision and use of workplace wellness interventions, facilities, and services. Physical activity, nutrition and musculoskeletal health are key areas of focus and we have been supporting these areas through our current strategy over the past three years – delivering programmes such as MyTri, Eat for... and FutureMe MSK, as well as initiatives like the annual step challenge, mini health checks and a broad range of educational workshops

### **Appointment of Executive Director, Media & Broadcast**

On 19 December, 2022, the company announced the appointment of Gaurav Jandwani as Executive Director, Media & Broadcast effective 03 January, 2023. Gaurav joins from Telia, where he was Business Head, TV & Streaming and sits on the Arqiva Executive Committee reporting to CEO Shuja Khan.

## **Capital expenditure**

During the three months ended 31 December 2022 the Group incurred the following capital expenditure:

£m	6 months ended 31 December		Change
	2022	2021	
Growth Capex - contracted	11.8	15.0	(3.2)
Growth Capex – non contracted	0.3	0.4	(0.1)
Maintenance	16.3	21.4	(5.1)
Bilsdale – Project Restore	10.4	3.5	6.9
<b>Total Capex</b>	<b>38.8</b>	<b>40.3</b>	<b>(1.5)</b>
Capital creditors/accruals	(2.6)	1.9	(4.5)
<b>Net cash capital expenditure</b>	<b>36.2</b>	<b>42.2</b>	<b>(6.0)</b>

Contracted growth capex primarily relates to the Group's major projects including the continued rollout and enhancement of our smart energy and water metering networks. The decrease in capital expenditure versus 2021 relates to lower change activity on our Smart Utilities Networks and one off IT refresh activity in the prior period not repeated as well as the completion of the substantial works of the 700 Mhz Clearance program in the previous period.

Non contracted growth capex at £0.3m has remained consistent with the prior year period.

Maintenance capex principally includes expenditure associated with structural projects such as mast strengthening, network transformation and IT. The expenditure has decreased predominantly due to spend on transformation in line with programme progression as well as network portfolio costs incurred on new products in the prior year not repeated.

£10.4m of capital expenditure has also been incurred in the year in relation to capital works on the Bilsdale transmitter site including the rebuild of the permanent mast following the fire in August 2021.

## **Financing**

The Group's senior debt continues to be rated BBB+/BBB by S&P/Fitch. Junior debt rating has been removed following the redemption of public notes on 30 September 2022.

During the quarter the Group has signed an incremental £35m senior working capital facility, increasing the total size of the senior working capital facilities to £135m and providing additional liquidity support.

## **Junior Debt Refinancing**

On 30 September Arqiva has fully redeemed the 6.75% coupon public junior notes at par funded by a combination of proceeds from the newly established £450m term loan, together with cash held on the balance sheet. This marks a further reduction in Group's leverage and demonstrates Group's a commitment to maintain a sustainable capital structure going forward. The Group has also signed a £70m a junior Working Capital Facility, none of which was drawn at the end of December 2022.

## **Ratios**

We confirm that in respect of the investor report dated 20 February 2023, by reference to the most recent financial statements that we are obliged to deliver to you on a semi-annual basis in accordance with Paragraph 1 (Financial Statements) of Part 1 (Information Covenants) of Schedule 2 (Covenants) of the Common Terms Agreement:

- a) Historic Net Debt to EBITDA for the relevant Test Period ending on (and including) 31 December 2022 was 2.99;
- b) Historic Cashflow ICR for the relevant Test Period ending on (and including) 31 December 2022 was 5.72;

- c) Historic Cashflow DSCR for the relevant Test Period ending on (and including) 31 December 2022 was 2.51 (together with (a) and (b) above, the **Historic Ratios**);
- d) Projected Net Debt to EBITDA for the relevant Projected Test Period commencing on (but excluding) 31 December 2022 is 2.70;
- e) Projected Cashflow ICR for the relevant Projected Test Period commencing on (but excluding) 31 December 2022 is 5.25; and
- f) Projected Cashflow DSCR for the relevant Projected Test Period commencing on (but excluding) 31 December 2022 is 2.74 (together with (d) and (e) above, the **Projected Ratios**).

We confirm that:

- a) each of the above Ratios has been calculated in respect of the relevant Test Period(s) or Projected Test Period(s) or as at the relevant dates for which it is required to be calculated under the Common Terms Agreement;
- b) no Ratings Downgrade Event has occurred;
- c) no Modified Net Debt to EBITDA Ratio Breach has occurred;
- d) no Default or Trigger Event has occurred and is continuing; and
- e) the statements set out in this Investor Report are accurate in all material respects.

#### **Current Hedging Position**

We remain in compliance with hedging covenants.

Yours faithfully,



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CFO

Signing without personal liability, for and on behalf of

Arqiva Financing No 1 Limited as Borrower