

# **ARQIVA INVESTOR REPORT FOR JUNIOR NOTES TRUSTEE**

## **SCHEDULE 6**

**Nine month period ending 31 March 2020**

Date: 18 May 2020

## QUARTERLY INVESTOR REPORT

To: The Note Trustee

### GENERAL OVERVIEW

Arqiva is one of the UK's leading communications infrastructure and media services providers, with significant investments in essential communications infrastructure. The Group is the sole terrestrial broadcast network provider in the UK and the leading independent telecom towers operator, with the latter part going through a sales process as outlined in this report. The Group's core infrastructure business (comprising terrestrial broadcast, digital platforms, satellite infrastructure, machine-to-machine (M2M) and wireless site-share) 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 £4.5bn as at 30 June 2019.

### Recent developments

#### Corporate updates

##### *Sale of Towers business*

On 22 April 2020 the Competition and Markets Authorities (CMA) cleared the Cellnex purchase of our Telecoms division. The investigation by the CMA found that the deal does not raise competition concerns in the supply of large telecommunication infrastructure like mobile towers and pylons.

The c. £2.0bn deal was first announced in October 2019 and includes the sale of c.7,400 sites and contractual rights to market a further c.900 sites across the UK. The transaction has a targeting transaction close date of 30 June 2020 and the Group continues to work on business separation and engagement with various stakeholders.

The majority of the sales proceeds will be used to repay senior debt and derivatives that will result in a stronger capital structure for the remaining business which will continue to be the UK's number one broadcast infrastructure solutions provider and a leading player in the UK M2M market.

##### *New CEO*

On 20 April 2020, Arqiva announced that Paul Donovan had been appointed Chief Executive Officer with immediate effect. Paul has over 20 years' experience in senior executive roles across the technology, media and telecommunications sectors. He was a non-executive Director on Arqiva's Board and has previously been CEO of Odeon and UCI Cinemas Group and eir, Ireland's leading telecommunications business. He was also a member of the Vodafone Group's Executive Committee, where he led the Group's emerging markets businesses.

Paul succeeds Simon Beresford-Wylie who had been Arqiva's Chief Executive Officer since August 2015. Paul will work with Simon over the coming months to ensure a smooth and orderly transition, before Simon leaves Arqiva on 30 June 2020. During Simon's tenure as CEO he has simplified the business and successfully driven year on year improvement in both revenue and EBITDA.

Following the immediate period of focus on the Telecoms disposal, Paul will drive the next phase of Arqiva's evolution by focusing on strengthening the Group's position as the UK's number one broadcast infrastructure solutions provider and a leading player in the UK M2M market.

##### *COVID 19*

During this period of the COVID 19 pandemic, Arqiva continues to provide customers with essential communications infrastructure for broadcast, media, telecoms and M2M services. We have deployed business continuity plans as part of our operational and financial risk mitigation, to ensure the safety of our staff and the ongoing provision of services for our customers.

Measures have been put in place across a number of areas including:

- Supply chain, with regular communication with critical suppliers;
- Critical assets and systems, where disaster recovery plans are in place for every site;

- Critical people and activities, where dependencies have been evaluated and back-up plans are in place including access to sites whilst remaining compliant with social distancing rules;
- Cyber security, where we have reviewed and further strengthened this; and
- Financial Liquidity – where we continue to review our available facilities and have increased the Group's working capital bank facilities

#### *Transformation update*

Owing to the recent investment in Arqiva's company-wide transformation programme, 'FutureFit', Arqiva teams have been able to work very effectively during the exceptional circumstances of COVID 19. The new digital workplace has supported our business continuity processes, enabling a seamless shift of our operations (more than 1,600 people) to working from home over a short period in March.

We are also now well advanced in the preparations of our finance transformation and upgrade of our ERP (Enterprise Resource Planning) system which is scheduled to be operational before the end of this calendar year. In addition, our phased migration to new service and network management systems is scheduled to start at the end of the first quarter of next financial year and will be completed over the next two years. We continue to invest in new technologies to optimise our capabilities, secure our infrastructure and digitise our ways of working.

#### Media Networks

##### *700 MHz Clearance and DTT spectrum*

The COVID 19 pandemic has meant that the UK Government has postponed the last two Clearance events that were due to take place at the end of April 2020. The postponement is to ensure that public service broadcasting is protected during these unprecedented times and reduce potential problems with home support and aerial changes during lockdown periods, especially for vulnerable people. Arqiva was on track to complete the last events at the end of April 2020. The revised dates for the last two Clearance events are not yet published and will depend upon Government guidance; lifting of restrictions and readiness of all project delivery partners to remobilise. The impact of the delay on Arqiva's cash flow and profitability is expected to be limited, as we can align the major spend with contractors with the remaining cash receipts relating to this project.

##### *Digital Platforms channel utilisation*

Arqiva's main (DVB-T) multiplexes remain highly utilised with 89% of capacity sold as at 31 March 2020. The slight reduction in utilisation from the previous quarter is due to loss of two services from small single channel broadcasters, and the closure of a third. Arqiva took a conscious decision to preserve these premium slots to address the needs of premium multichannel broadcasters coming to market with new channels and renewals later in 2020. In a sign of the strength of the DTT platform, Smithsonian, recently upgraded from the interim DVB-T2 multiplexes to the main national DVB-T multiplexes, after less than a year.

Furthermore, the uptake of TV viewing on the DTT/Freeview platform has been very strong during the current lockdown period as more people stay at home. TV has provided a vital way of keeping people informed, helping with social isolation and entertainment. The wide reach of the DTT platform has been of vital national importance for delivering news and other information to the whole nation and for supporting society during the current pandemic.

##### *Digital Platforms DVB-T2 multiplexes*

The Group's current interim DVB-T2 multiplex licences will end in June 2020. We are expecting to be issued a new licence that is likely to be on a rolling 1 month notice period and Ofcom reconfirmed that position in March 2020. Arqiva is expecting a delay for a spectrum auction for use by mobile operators. Therefore, Arqiva will continue to have a rolling licence beyond June 2020 and high likely to be able to continue supporting customer services through 2020 and potentially up to mid-2021.

##### *Digital radio (DAB)*

Like many sectors of the wider economy, UK commercial radio has been impacted by COVID 19 with a reduction in revenues as many businesses cut advertising budgets as a result of shops, car retailers and travel companies, amongst others, closing temporarily. On the other hand, informal indications reveal that volume of hours of radio listening has increased during the lockdown as more people tune in to radio for news and entertainment, at the expense of streaming services. Once the lockdown restrictions are lifted we

expect radio advertising to increase again as companies strive to regain market share and rebuild their businesses.

Viewed over a longer timescale, trends remain positive. DAB listening continues to grow with the latest figures from industry data provider RAJAR showing that 58.5% of listening is now to digital radio platforms (Q4 2019). Listening to national commercial radio has shown particularly strong growth. The switch to the more efficient DAB+ audio coding has enabled customers to launch further new national stations. This has helped keep the first national commercial DAB multiplex, Digital One (wholly owned by Arqiva) at 100% occupancy.

In February 2020, the new Minister for Digital, Culture, Media and Sport, John Whittingdale, published the terms of reference for the government's Digital Radio and Audio Review. Publication of the review's findings is now expected in March 2021. The review will assess the development of the radio industry. Arqiva is not expecting a firm decision on switchover but we will monitor the review.

## Telecoms & M2M

### *Customer contract renewals and win*

During the quarter the Telecoms business successfully secured a new contract and completed two renewals.

A new **Home Office** contract was agreed for a 12 year period (with ability to extend by 3 years) to provide Air-to-Ground (A2G) communications as part of the new Emergency Services Network (ESN) service. The Arqiva contract covers c. 40 sites (about a third of the overall A2G network). Additional Installation Service revenues are expected in the early term whilst the network is deployed.

**Airwave** provide the current ESN service across the UK and the Home Office has extended the service mandate to Airwave for a minimum 3 year period. Arqiva has renewed the Airwave contract across c. 1,000 sites, again for 3 years, with flexibility to extend as the service mandate may also extend. Additional revenues are anticipated from upgrades across the Airwave network.

A new Master Site Share Agreement (MSSA) was agreed with **EE** for provision of site share services across c. 1,200 sites as part of EE's mobile network which includes the future ESN. The terms will operate for a 10 year period with the option of two further extensions of one year each. Additional Installation and upgrade fees are expected as part of the UK's 5G roll-out.

### *Smart energy metering rollout*

The Group's smart metering communication network in the North of England and Scotland currently covers 99.4% of premises and is planned to reach final coverage of 99.5% by end of 2020. The customer, the Data Communications Company (DCC), continues to submit change requests that reflect new industry requirements, but at a reduced volume compared to the previous period.

The Group continues to support the DCC and their users ahead of meter rollout programmes. DCC latest data states that there are now 4.3 million SMETS2 meters on the national network. Whilst the rollout completion date is currently under consultation and was likely to be extended from 2020 to the end of 2024, we believe a further extension may be considered in light of COVID 19. Arqiva continues to work proactively with DCC, BEIS and other service providers to minimise any effects.

### *Smart water metering rollout – Thames Water*

Since April 2015, Arqiva has delivered a smart metering network that enables the collection, management and transfer of metering data for Thames Water. At 31 March 2020, there were over 460,000 meters installed and over 10 million meter readings being delivered per day, it is the largest smart water metering network in the UK. The network comprises high coverage across the Thames Water London region.

### *Smart water metering trial contracts – Anglian Water*

Since June 2016, Arqiva has been operating smart water metering trials for Anglian Water in two of their regions. These trials are part of Anglian Water's strategy for a long-term smart metering programme and the delivery of our service has enabled Anglian to realise the significant benefits of improved leakage detection, and consumer engagement, whilst also informing their business plans. As at 31st March 2020, over 17,600 meters were operational under these trials and Anglian Water has seen 358,000 litres less customer leakage per day.

In May 2020, Arqiva was selected by Anglian Water as part of a competitive procurement process to deliver a smart network across their supply area as their main contractor, subject to contract. Designed to enhance water management capabilities, Arqiva's contract will support Anglian on its mission to achieve leakage and consumption savings, and meet Ofwat's increased water leakage targets for the next Asset Management Plan 5 year period. Contract signature is expected this month.

## Capital Expenditure

During the nine months ended 31 March 2020 the Group incurred the following capital expenditure:

£m	9 months ended 31 March		Change
	2020	2019	
Growth Capex - contracted	49.4	70.6	(21.2)
Growth Capex – non contracted	2.2	3.2	(1.0)
Maintenance	28.5	20.8	7.7
<b>Total Capex</b>	<b>80.1</b>	<b>94.6</b>	<b>(14.5)</b>

Contracted growth capex primarily relates to the Group's major projects including 700MHz Clearance and Smart Metering. The decrease in expenditure during the nine month period to 31 March 2020 compared to the prior year period primarily reflects the phasing of works associated with the 700 MHz Clearance programme. Decreases have been partially offset by an increase related to the Smart Metering programme mainly due to an IT refresh.

Non contracted growth capex at £2.2m has decreased due to a reduction in capitalised product development.

Maintenance capex principally includes expenditure associated with structural projects such as mast strengthening, network transformation and IT. The increase compared to the prior year period was mainly due to the phasing of our transformation programme.

## Financing

The Group's senior debt continues to be rated at BBB (Fitch/S&P) and junior debt is rated B-/B2 (Fitch/Moody's).

## Current Hedging Position

We remain in compliance with hedging covenants.

Yours faithfully,



CFO

Signing without personal liability, for and on behalf of

Arqiva Broadcast Finance plc as Issuer