KCOM Group PLC
Interim Results Presentation 2018/19

27 November 2018

Business update

Graham Sutherland
Chief Executive

Initial impressions

- HEY full-fibre investment leads the market, protects cash generation and creates opportunities
- Trading performance is well below expectations in both NNS and Enterprise
- Core issues identified:
  - short-term management focus prevalent
  - lack of robust medium-term plans
- Significant complexity for a business of our size; opportunities to simplify and reduce costs

Trading update – 20th November

Significant EBITDA challenges ahead in FY20

- Flow through from NNS customer churn
- Order intake in Enterprise and unwind on large customer contract (FY19)

Large increase in net debt driven by network investment and material permanent working capital outflow

- Net debt March 18 - £63m, Sept 18 - £109m and March 19 – c.£115m

Action taken to address net debt

- Tighter control of capex and management of related returns
- FY19 dividend of not less than 3p per share for the year
  - 1p interim dividend

Half year summary

Hull & East Yorkshire

- Good progress, with both Consumer and Business revenues growing 5% (pre-IFRS 15)
- On track to pass all available premises with fibre by March 2019
- Full-fibre penetration of broadband customer base now at 61%

Enterprise

- Revenue flat, with Projects and Network both down 3%
- Order intake margin* down 18%

NNS

- Disappointing performance, revenue declining 14% and well below market
- Significant flow through impact from customer and product churn impacting EBITDA
- Order intake margin* down 12%

*First year gross margin on all orders closed in H1

Three key priorities for H2

Review of Group strategy

- Sharper focus on value creation from KCOM assets
- Complete in March 2019

Rebuilding trust and improving clarity

- Disciplined approach
- Relevant performance metrics for FY20

Financial and operational delivery

- Initiatives to improve business performance
  - E.g. operating model to reduce complexity, revenue/cost assurance, commercial & pricing management

Financial performance

Anna Bielby
Interim Chief Financial Officer

Basis of financial information

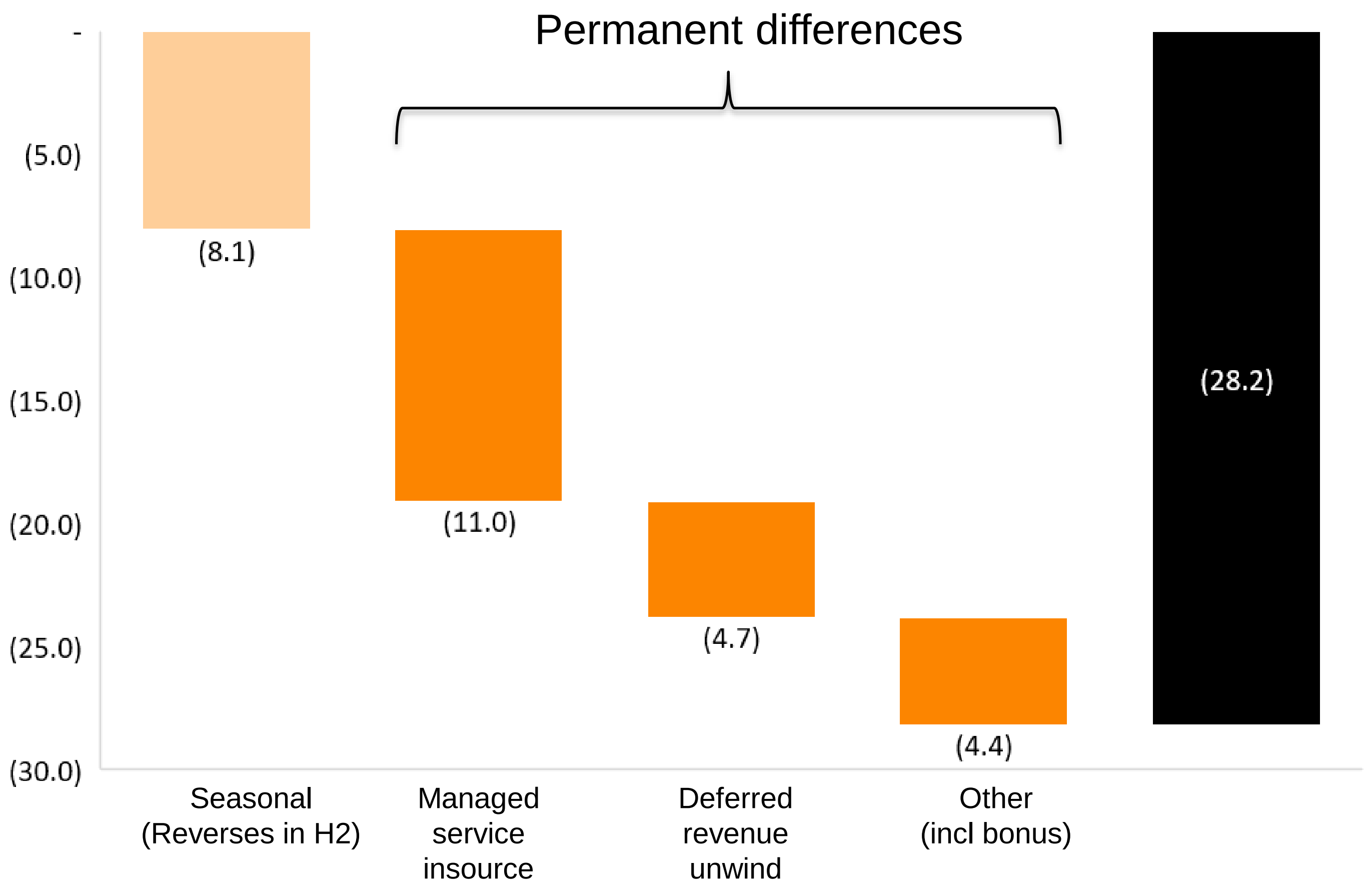
- New accounting standards, IFRS 15 (revenue) and IFRS 9 (financial instruments) adopted for the first time
- Both new standards applied to FY19 only - comparatives are prepared in line with legacy accounting standards
- Aggregate impact on FY19 H1 **Revenue £1.4m lower, EBITDA £1.5m lower, PBT £0.2m lower**
- Timing only and cash flow neutral
- The principal areas of impact are:
  - Routers in HEY **EBITDA £0.9m lower**
  - “Agent” v “Principal” in Enterprise **Revenue £1.8m lower**

Strong performance in HEY, disappointment in national segments

	H1 FY19 £m	IFRS 15 & IFRS 9 * £m	H1 FY19 Adj £m	H1 FY18 £m	% Change
Revenue	**142.0**	**1.4**	**143.4**	**151.3**	**(5%)**
EBITDA**	**29.0**	**1.5**	**30.5**	**29.8**	**2%**
EBITDA %	*20%*		*21%*	*20%*	
Profit before taxation**	**12.8**	**0.2**	**13.0**	**13.6**	**(4%)**
Adjusted basic EPS (pence)***	2.06		2.09	2.16	
Exceptional items	(33.8)		(33.8)	1.2	
Cash capex	(18.2)	(0.9)	(19.1)	(18.6)	
Net debt	(108.5)		(108.5)	(67.8)	
Interim dividend per share (pence)	1.00p		1.00p	2.00p	

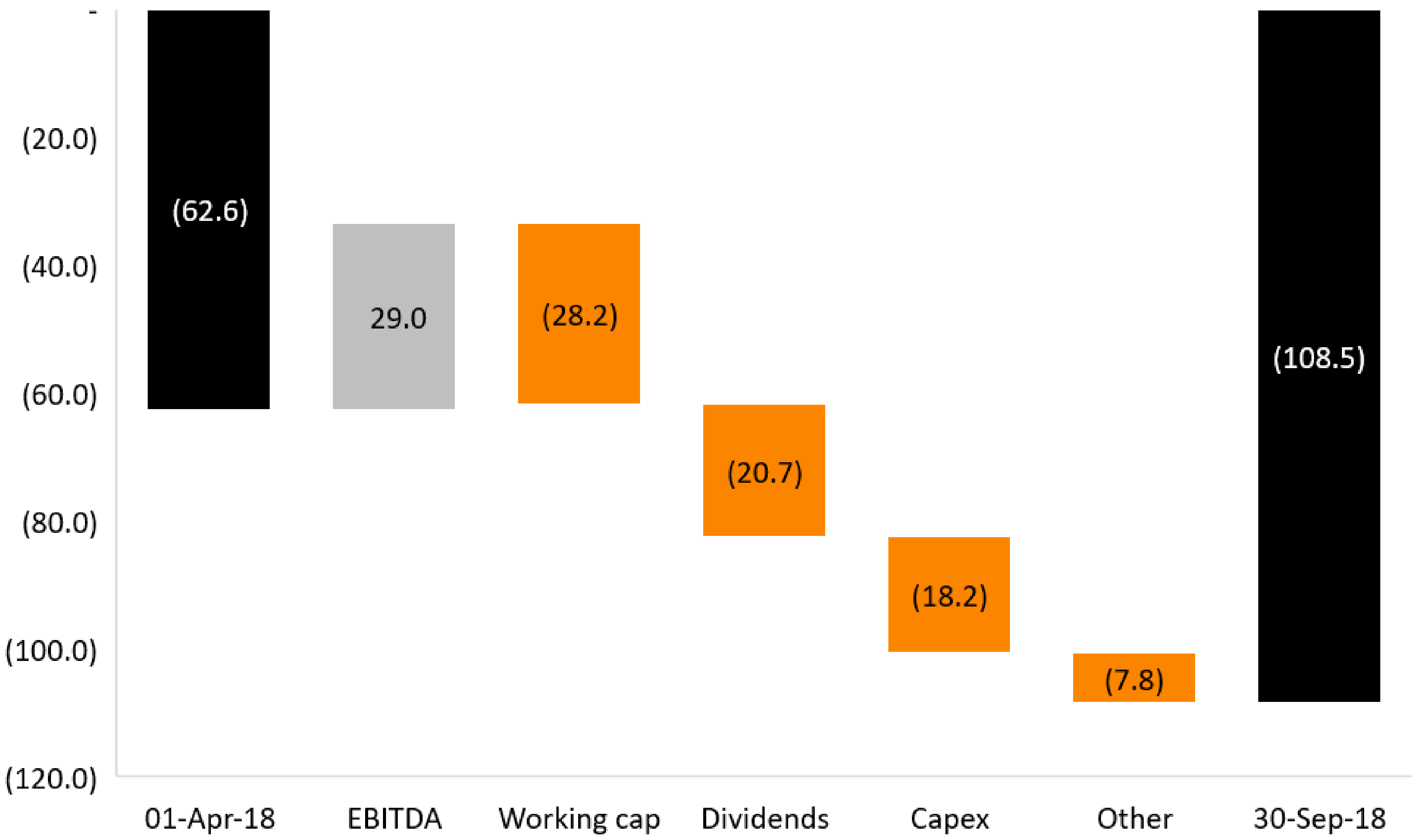
* IFRS 15 (Revenue) and IFRS 9 (Financial Instruments) adopted for the first time this period
** Amounts are before exceptional items (including goodwill impairment)
*** Adjusted basic EPS is basic EPS adjusted for post tax impact of exceptional items

Material working capital outflow in H1



- Working capital outflow includes expected seasonal impact which will reverse in H2
- Permanent differences relate to managed service insource and deferred revenue unwind
- Underlying working capital remains strong. Days' sales outstanding of 35, in line with the comparative period
- Full year FY20 we expect to return to broadly flat working capital

Net debt reflects working capital outflow and capex

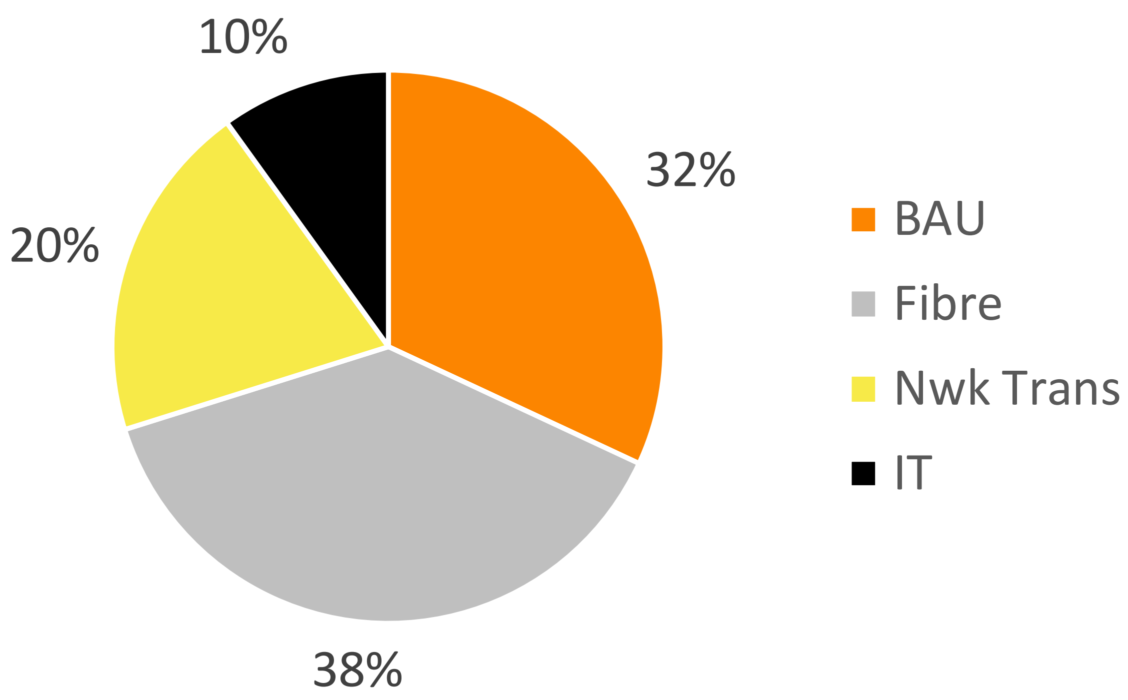


H1 capex drives fibre roll out and network transformation

- H1 capex principally relates to our fibre roll out and network transformation
- This investment will continue in FY20, after which capex levels will reduce

	H1 FY19	H1 FY18
Additional premises passed (000)	15	10
% of consumer broadband base that is fibre	61%	44%
Consumer ARPU (£ per month)	35.97	34.46

H1 capex £18.2m

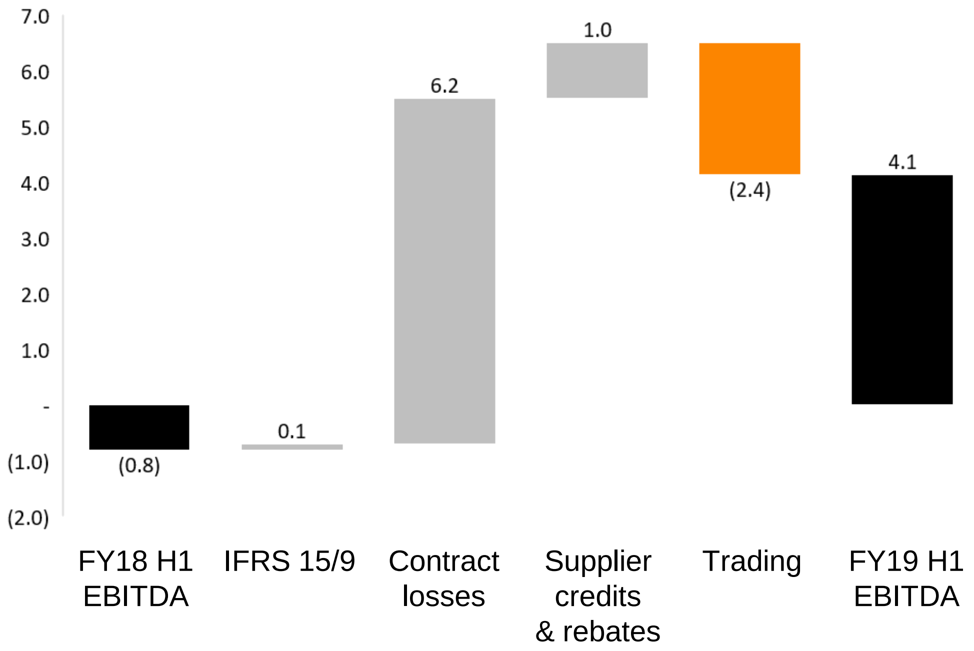


Continued strong performance in HEY

	H1 FY19 £m	IFRS 15 & IFRS 9 £m	H1 FY19 Adj £m	H1 FY18 £m	% Change
Revenue					
Consumer	30.0	0.2	30.2	28.8	5%
Business	15.0	0.1	15.1	14.4	5%
Wholesale	4.7	0.1	4.8	5.3	(9%)
Non Core- Media & Contact Centres	1.1	-	1.1	2.6	(58%)
Total revenue	**50.8**	**0.4**	**51.2**	**51.1**	**-**
Gross margin	**39.7**	**1.0**	**40.7**	**39.6**	**3%**
Gross margin %	*78%*		*79%*	*77%*	
EBITDA	**29.6**	**0.9**	**30.5**	**30.5**	**-**
EBITDA %	*58%*		*60%*	*60%*	

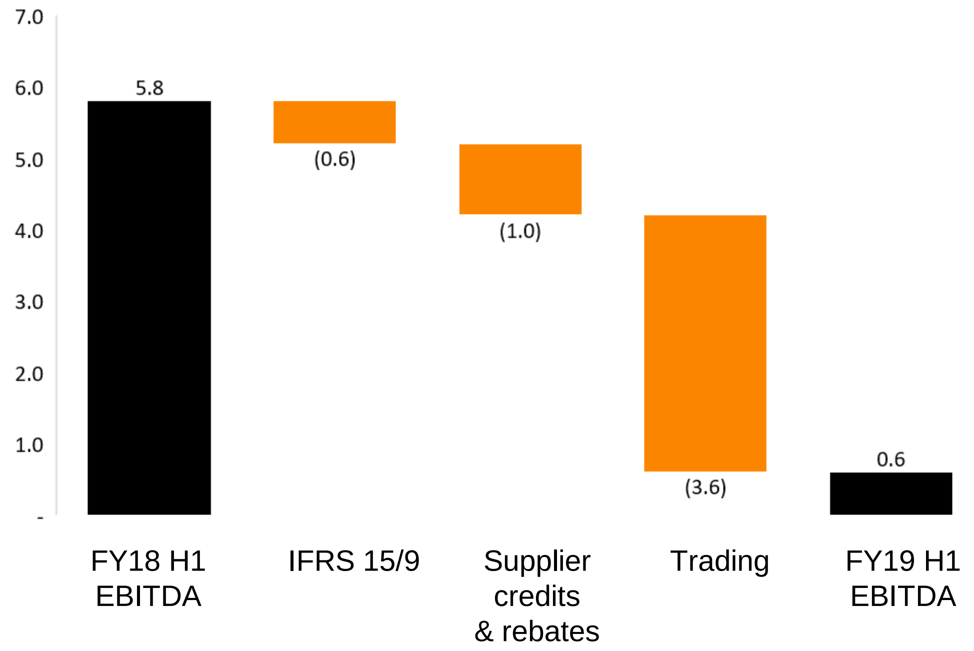
Enterprise revenue flat due to lower order intake

	H1 FY19 £m	IFRS 15 & IFRS 9 £m	H1 FY19 Adj £m	H1 FY18 £m	% Change
Revenue					
Projects	13.8	1.5	15.3	15.7	(3%)
Managed Service	22.4	(0.6)	21.8	21.5	1%
Network	6.4	(0.0)	6.4	6.6	(3%)
Total revenue	**42.6**	**0.9**	**43.5**	**43.8**	**(1%)**
Gross margin	**16.2**	**(0.2)**	**16.0**	**10.2**	**57%**
Gross margin %	*38%*		*37%*	*23%*	
EBITDA	**4.1**	**(0.1)**	**4.0**	**(0.8)**	
EBITDA %	*10%*		*9%*	*(2%)*	

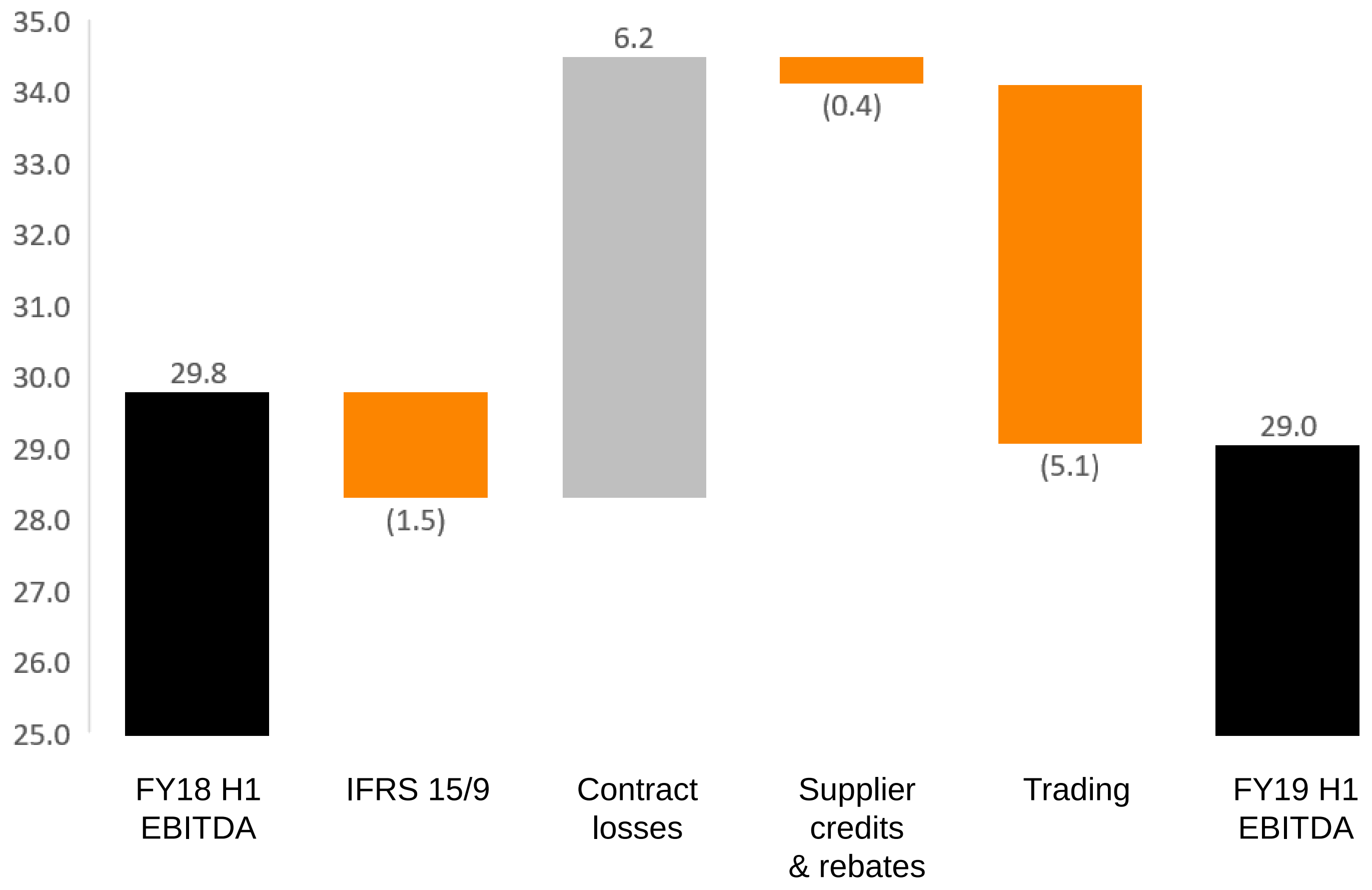


Disappointing performance in NNS with continued churn

	H1 FY19 £m	IFRS 15 & IFRS 9 £m	H1 FY19 Adj £m	H1 FY18 £m	% Change
Revenue					
Connectivity	31.8	0.2	32.0	34.0	(6%)
Voice	12.3	-	12.3	16.4	(25%)
Hosting	3.4	-	3.4	3.7	(8%)
Managed service & other	2.6	-	2.6	4.3	(40%)
Total revenue	**50.1**	**0.2**	**50.3**	**58.4**	**(14%)**
Gross margin	**11.4**	**0.5**	**11.9**	**16.1**	**(26%)**
Gross margin %	*23%*		*24%*	*28%*	
EBITDA	**0.6**	**0.6**	**1.2**	**5.8**	**(79%)**
EBITDA %	*1%*		*2%*	*10%*	



Reduction in Group trading EBITDA



H2 expected outturn

EBITDA

- FY19 EBITDA (pre IFRS 15) expected to be c.5% below previous market expectations

Net debt

- FY19 net debt expected to be c10% higher than previous market expectations

Dividend

- Interim dividend of 1p per share, with recommended total dividend of not less than 3p per share for the full year

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Q&A