

Trading Update and Notice of Results

21 April 2020

Telecom Plus Plc (trading as Utility Warehouse), which supplies a wide range of utility services focussed on domestic customers, today issues a trading update for its financial year ended 31 March 2020 and a preliminary assessment of the impact from COVID-19.

Trading highlights

- Record revenues and profits
- Further organic growth delivered in challenging market conditions:
 - Customer numbers: +2.7% (2019: 4.0%)
 - Service numbers: +6.2% (2019: 8.2%)
- Quality of customer base continues to improve
- Strong growth in new Partners joining the business
- No change to previous dividend guidance of 57p (2019: 52p) per share for the year

COVID-19 impact summary

- Business currently demonstrating high levels of resilience, with a robust balance sheet; sufficient liquidity available to meet any likely scenario
- Seamless transition achieved to home working by staff
- New remote signup tool developed and released to Partners to enable them to gather customers despite social distancing restrictions, following lower levels of activity during the first few weeks of the lockdown
- Creating a highly favourable environment for Partner recruitment as people adjust to working from home and seek additional income
- Customer churn has started to fall, primarily reflecting lower activity in the housing market
- Bad debt outlook uncertain; March invoice payments from customers broadly in line with historic trends
- Falling wholesale energy costs will be reflected in the new Ofgem price cap level from 1 October, reducing current large gap between Standard Variable Tariffs and introductory deals

Financial

We expect full year adjusted pre-tax profits towards the lower end of previous guidance at around £60m (2019: £56.3m). This reflects the impact of lower retail energy prices from 1 October 2019 (in line with a reduction in the Ofgem price cap)

on our energy revenues, higher regulatory costs, and initial extra costs associated with the COVID-19 virus.

Our balance sheet is robust. We have sufficient liquidity to meet any likely scenario, with a year-end net debt position of around £50m (excluding finance leases) and undrawn facilities of £55m. We renewed our bank facilities in January 2020; these consist of a committed £150m revolving credit facility and run until early 2023, with an option (subject to bank consent) to extend for up to a further two years.

Trading

Customer numbers for the year increased by 2.7% to 652,237 (2019: 635,039) and service numbers grew by 6.2% to 2,689,639 (2019: 2,532,024) reflecting a further improvement in the quality of our customer base, with around two-thirds of new customers switching all their core services to us.

The consistently strong levels of customer gathering activity by our Partners that we had seen throughout the year came to a near standstill during March, as the country went into lockdown in response to the spread of COVID-19; this reduction in Partner activity had a disproportionate impact on our net customer and service growth for the second half of the year, as we continued to churn the expected volume of customers during the latter part of March who had initiated the change of supplier process during the previous few weeks.

The overall number of domestic customers switching suppliers across the energy industry rose to record levels during the year, reflecting the widening gap between the introductory deals at bottom of the market and the Ofgem price cap. Our own churn was not immune to this rising trend, although it remains significantly lower than the level being seen amongst our competitors. Since the year end, the number of customers leaving us has fallen, primarily due to fewer people moving home during the lockdown.

The vast majority of our employees are now working from home using the secure and robust technology infrastructure we have built, which has enabled the business to continue very much 'as usual' from a customer perspective.

We have recently provided our Partners with the facility to sign-up new customers remotely; whilst overall customer gathering activity is currently running below the levels previously being achieved, we are encouraged by the positive response of Partners to this initiative and are continuing to invest in this as a significant enhancement to their existing toolkit.

Outlook

Notwithstanding the disruption being caused by COVID-19, we remain uniquely well positioned to continue to build shareholder value over both the near term and the years ahead, with a diverse portfolio of essential household services, a motivated distribution channel, a unique integrated multi-utility business model, market leading levels of customer retention, and a strong balance sheet. These attributes have enabled us to build an exceptionally high quality customer base, and provide significant confidence over our future earnings stream.

This is in stark contrast to a number of undercapitalised energy suppliers who sell below cost, are reliant upon advance payments from their customers for their cashflow, and have adopted a less selective approach to acquiring customers. The current challenges are likely to take a further toll on these independent suppliers, leaving a more responsible and sustainable energy marketplace.

Our assessment of the main risks and uncertainties currently facing us are as follows:

1. **Risk:** *Customers' ability to pay for the UW services they are using.*

Assessment: *Early indications, based on the high proportion of customer payments falling due at the end of March which have already been received, the modest increase in the number of direct debits being cancelled since the lockdown, and the considerable support being provided directly to consumers by the Government, are that this will remain at a manageable level.*

We draw comfort from the essential nature of the services we provide and the quality of our customer base which skews towards demographic groups such as retired households and homeowners who are generally most likely to continue paying for their services.

2. **Risk:** *Social distancing regulations temporarily reduce activity by our Partners.*

Assessment: *The number of new customers being gathered is currently running at under half the volume we were seeing immediately before the lockdown occurred, although we are encouraged by the resilience that Partners are showing whilst they adopt the new remote sign-up tools. This may result in slower growth during the current year, and it is uncertain how long it will take after the social distancing regulations are lifted for their performance to return to historic levels.*

The part-time income opportunity we offer Partners remains highly attractive to people looking to replace or supplement their previous full-time incomes, and we are encouraged that Partner recruitment is currently running

considerably ahead of the comparable period last year, despite social distancing restrictions. We anticipate a considerable increase in Partner recruitment over the coming months, and this has historically been a good lead indicator to the future rate of customer growth.

3. **Risk:** *COVID-19 has a detrimental effect on the financial performance of our wholly-owned meter operator subsidiary, UW Home Services ('UWHS').*

Assessment: *We had scaled up this new business over the course of 2019 to a level where they were successfully and cost-effectively installing over 20,000 smart meters a month; this activity came to a complete standstill in late March when the lockdown took effect, and we had to cancel over 20,000 future appointments; these will be challenging, time consuming and costly to reschedule.*

In the meantime, UWHS continues to carry out emergency meter works for customers on a national basis, but is now significantly sub-scale notwithstanding that many engineers have been furloughed. It is unclear how long it will take after the lockdown is lifted before UWHS returns to its previous level of operational efficiency.

Despite these risks, and reflecting the confidence we have in the fundamental strength and underlying resilience of our business model, we intend to take advantage of the considerable pool of talent that is emerging from less sustainable businesses, by strengthening our technology team.

On the assumption that the social distancing limitations imposed on our Partners and UWHS field engineers have largely been lifted by the end of the summer, and we do not see a significant increase in bad debts, we regard a profit outturn for FY21 marginally below the expected outcome for FY20 as a reasonable base case for our planning purposes.

However, the Board emphasises that uncertainty over the bad debt outlook, the duration of social distancing restrictions, and the impact COVID-19 will have on the broader economy, make the range of possible outcomes for FY21 much wider than usual.

We anticipate having greater visibility when we release our annual results, and we look forward to updating and expanding on this initial guidance at that time.

Dividend

Since the impact of COVID-19 started to manifest itself, we have taken exceptional steps to support our customers, Partners and staff. At the same time, we recognise that dividends are an important income stream for the pension

funds, charities, ordinary savers and pensioners who hold our shares, delivering significant direct and indirect benefits to the economy.

The Company has previously stated that it intends to pay a total dividend of 57p per share for the year just ended; this would require a final dividend of 30p per share, equating to an outflow of £23.6m. We confirm that this remains our intention in the absence of a significant increase in the level of non-payment by customers over the coming months.

In relation to forward guidance, we anticipate that achievement of the profit outturn in the Outlook section above for FY21 will enable us to maintain our dividend this year at the same level as for FY20.

Notice of results

The Company is planning to issue its final results for the year ended 31 March 2020 on 16 June 2020.

Appointment of joint corporate broker

We are delighted to announce the appointment of Numis Securities Ltd (“Numis”) as joint corporate broker with immediate effect. Numis will work alongside our existing corporate broker Peel Hunt.

Andrew Lindsay, CEO, said:

“Over the last month the business has successfully pivoted virtually all its activities to a new paradigm in which the previously normal direct social contact between staff, Partners and/or customers is no longer possible. Whilst this has not been without challenges, I would like to thank everyone who has worked so tirelessly to make this transition possible.

“Our robust balance sheet, clearly differentiated business model, and strong underlying profitability put us in a uniquely strong position relative to our competitors, particularly those independent energy suppliers that are insufficiently capitalised, to ride out the current storm.

“We are entering a period during which our home-based income opportunity, which is reliant on providing essential recurring services, can be expected to flourish. Despite the inevitable challenges of the months ahead, I look forward to welcoming thousands of new Partners to the UW opportunity, and helping them earn much-needed additional monthly incomes for their families.”

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About Telecom Plus Plc (“Telecom Plus”): uw.co.uk

Telecom Plus, which owns and operates the Utility Warehouse brand, is the UK’s only fully integrated provider of a wide range of competitively priced utility services spanning the Communications, Energy and Insurance markets.

Members benefit from the convenience of a single monthly statement, consistently good value across all their utilities and exceptional levels of service. Telecom Plus does not advertise, relying instead on ‘word of mouth’ recommendation by existing satisfied Members and Partners in order to grow its market share.

Telecom Plus is listed on the London Stock Exchange (Ticker: TEP LN). For further information please visit uw.co.uk