

17 April 2019

## Telecom Plus PLC

### Trading Update and Notice of Results

Telecom Plus PLC (trading as the Utility Warehouse), which supplies a wide range of utility services to both residential and business customers, today issues a trading update for its financial year ending 31 March 2019.

#### Highlights

- Record revenues, profits and dividend
- Significantly faster growth with momentum continuing to build:
  - Customer numbers: up 4.0% (2018: 0.5%)
  - Service numbers: up 8.2% (2018: 2.3%)
- Quality of customer base continues to get better
- Accelerating growth in new Partners joining the business
- Improvements to our energy supply arrangements with npower
- Total dividend of 52p (2018: 50p) per share for the year (+4%)

#### Financial

Full year adjusted pre-tax profits are expected to be towards the lower end of previous guidance at around £56m (2018: £54.3m). This reflects the impact of a warm winter and the Ofgem price cap (which reduced energy revenues during the final quarter), and modest initial losses associated with our expansion into related business areas (Glow Green and Boiler & Home Cover insurance).

Underlying cash flow remained strong, although net debt has increased to approximately £38m (2018: £11.2m) at the year end, reflecting higher working capital requirements associated with changes to the phasing of certain energy industry payments, higher Technology investment, smart meter roll-out costs, the success of our Quick Income Plan in driving higher levels of Partner activity, and the share buy back in July 2018. A number of these increases were of a one-off nature, and only a further modest increase in working capital is anticipated over the course of the coming year.

We are encouraged by the profit outlook for the current year. The combination of accelerating growth in customer numbers and a small increase in our gross margins (resulting mainly from the improved supply arrangements with npower which have just been agreed - see below), mean that we expect adjusted profits before tax of between £60m and £65m for FY2020, with a commensurate increase of c.10% in the total dividend to 57p per share in line with our published distribution policy.

#### Trading

We saw an acceleration in customer growth during the course of the year, notwithstanding a significant and persistent gap between the low introductory fixed price energy deals available from other independent suppliers, and the standard variable prices charged by the 'Big 6' (which we use as the basis for our own range of discounted retail tariffs).

Although this gap narrowed during Q4 following the introduction of the Ofgem price cap, it has since started to widen again, driven by the questionable pricing strategy adopted by a handful of independent suppliers who continue to sell energy at a zero (or even negative)

gross margin; this is clearly unsustainable, as shown by the significant number who ceased trading over the course of the last 12 months, and we are pleased that Ofgem has belatedly recognised the need to take action in this area with the announcement last week of tougher entry tests for new energy suppliers.

Against this challenging backdrop, our accelerating growth and modestly higher profitability, are testament to the resilience and strength of our unique business model. Customer numbers for the year advanced by 4% (2018: 0.5%) to 635,039 (2018: 610,739) and service numbers advanced by 8.2% (2018: 2.3%) to 2,532,024 (2018: 2,340,719). In addition, we saw a further improvement in the quality of our customer base, with 26.6% (2018: 23.2%) of our membership having now successfully switched all their core services (energy, broadband and mobile) to us.

It is particularly encouraging that in an energy market which continues to see record levels of switching (with domestic customer churn now running at an annualised rate of over 21%), our own churn not only fell slightly year-on-year, but remains at less than half the level seen by many other independent suppliers. This reflects our longstanding policy of providing consistent everyday low pricing to all our customers combined with a range of other unique benefits, rather than seeking to attract new customers through price comparison sites by offering unsustainable below cost introductory deals.

This faster growth has been driven by growing confidence and activity within our distribution channel, with increasing numbers of Partners taking advantage of our Quick Income Plan; this enables them to combine the benefit of receiving meaningful introductory payments from recommending our services in the short term, with building a long-term monthly residual income for the future.

During the first half of the year, the number of new Partners joining each month was running consistently at between 600 and 800, before accelerating to around 1,000 per month during the autumn; more recently, we have seen the run-rate increase to over 1,200 per month. These numbers are encouraging, and significantly higher than we have seen for many years.

Our annual sales conference took place last month, with attendance levels significantly ahead of the previous year. We announced our new Boiler & Home Cover insurance service (which received an enthusiastic response from the 6,000 Partners present), provided them with useful tips to help build their businesses, shared motivational ideas, recognised their achievements, and encouraged each Partner to define and commit to their own clear vision for the next 12 months.

## **Insurance**

The Boiler & Home Cover insurance product we launched last month has been designed primarily as a customer acquisition and retention tool, rather than as a further profit centre. It offers market leading cover at a highly competitive monthly premium, combined with a unique 10% discount on the cost of any gas we supply to them whilst they maintain their Boiler & Home Cover policy with us. Early sales are encouraging at around 150-250 policies per week.

We continue to make good progress in gathering Home Insurance renewal dates from our members, with around 125,000 (2018: 60,000) having been collected by the end of March. Total policies grew to around 14,500 (2018: 4,500), reflecting the need to continue strengthening our panel of insurers in order to make our proposition as competitive as possible across the widest possible range of risk profiles. This product is now making a modest contribution to group profits, which will become increasingly significant as the

penetration of policies within our membership base continues to grow, supported by renewal rates which are consistently running above 96%.

### **Boiler Installation and Servicing**

Twelve months ago we announced the acquisition of a 75% shareholding in Glow Green, a regional supplier/installer of domestic gas boilers and warranty/care plans, for a modest initial cash investment of £2m. Since then, losses have been running slightly higher than anticipated (c.£1m for the period to 31 March 2019), although we expect to reach break-even on a monthly basis within the next few months.

Since making this investment, we have assisted them in securing improved customer financing and boiler procurement terms, upgrading their financial controls, optimising their marketing spend, and implementing a new CRM platform.

In February 2019 we ran a trial with our Partners, offering them the chance to obtain a new boiler from us, with fulfilment being carried out by Glow Green; this was successful, and as a result we made this new service available to our entire customer base from last month. Whilst initial volumes are expected to be modest, this represents a substantial medium-term business opportunity for us, with around 35,000 of our members needing to have their boiler replaced each year.

### **UW Home Services**

We announced last autumn our plan to establish a wholly-owned licensed Meter Operator and Meter Asset Manager (for electricity and gas respectively) under the 'UW Home Services' brand to implement our smart meter rollout programme more efficiently, whilst delivering a better customer experience.

We are extremely pleased with the progress made over the last six months, during which they have established a centralised support team, recruited and trained their first 40 live engineers, and successfully installed their first smart meter before Christmas. By the end of last month they had installed over 5,000 smart meters, and are on track to deliver a significant acceleration in activity over the course of the current year as they progressively expand their geographic footprint.

### **Improved Energy Supply Arrangements**

The proposed merger between Eon and Innogy created an opportunity to initiate discussions with npower (a wholly owned subsidiary of Innogy) on the terms of our current wholesale energy supply arrangements with them. This has resulted in a number of changes to the previous arrangements including:

- An overall modest improvement to the commercial terms, including a small increase in the current level of discount we receive;
- The ability for us to switch from our current 'retail-minus' wholesale pricing structure onto industry standard wholesale supply arrangements (either with npower or an alternative counterparty) from 1 April 2024, mitigating the risk that the current pricing structure ceases to be appropriate over the medium term as the energy industry continues to evolve;
- A relaxation in the previous exclusivity obligations, giving us the freedom to source energy in the open market in relation to any other company, business or customer base we may acquire in future (although there are no current plans to do so).

In return, we have agreed to delete our termination rights on any future change of control in the ownership of npower.

## **Dividend**

The Company intends to pay a total dividend per share for the year just ended of 52p (2018: 50p), representing an increase of 4% compared with the prior year. The final dividend of 27p is expected to be paid on 2<sup>nd</sup> August 2019, subject to shareholder approval at the AGM which will be held on 25<sup>th</sup> July 2019.

## **Outlook**

We remain well positioned for further growth, with a diverse portfolio of services, a motivated distribution channel, a unique integrated multi-utility business model and a strong balance sheet. These attributes, together with our continuing focus on treating our customers fairly, delivering consistently good value and great customer service, have enabled us to build an exceptionally high quality membership base, with market leading levels of customer retention and clear visibility over our future earnings stream.

We anticipate the momentum that has been building over the last 12 months will continue, with growth in customer and service numbers for the year ahead reaching 5% and 10% respectively. Despite the higher costs associated with acquiring multi-service customers, we are hugely encouraged by the continuing high proportion of new members choosing to switch all their services to us, and remain firmly focussed on this point of differentiation as these higher quality customers have the greatest expected lifetime value.

From a financial perspective, the combination of higher quality customers, improved commercial terms from our wholesale partners, growing benefits from our smart meter roll-out programme, and an initial contribution from the extra customers we added over the past 12 months, mean that in the absence of unforeseen circumstances we expect adjusted profits before tax for FY2020 to be between £60m and £65m – a significant increase on the anticipated outcome of around £56m for the year just ended.

## **Notice of results**

The Company will issue its final results for the year ended 31 March 2019 on 18<sup>th</sup> June 2019.

## **Andrew Lindsay said:**

“I am excited by the increasing confidence we are seeing amongst our Partners, and the higher levels of activity this is generating. We anticipate this momentum will continue to build, delivering growth in customer and service numbers of around 5% and 10% respectively over the course of the coming year.

“The combination of this accelerating growth in customer numbers and a small increase in our gross margins means that we expect adjusted profits before tax of between £60m and £65m for FY20. This represents a significant increase on the anticipated outcome of around £56m for FY19, with a commensurate increase of c.10% in the total dividend for FY20 to 57p per share.”

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*Notes*

*This announcement contains inside information. The person responsible for arranging the release of this announcement on behalf of Telecom Plus PLC is David Baxter, Company Secretary (Tel: 020 8955 5000).*

**About Telecom Plus PLC (“Telecom Plus”): [www.utilitywarehouse.co.uk](http://www.utilitywarehouse.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 [www.utilitywarehouse.co.uk](http://www.utilitywarehouse.co.uk)