

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

## **SCHEDULE 7**

**Six-month period ending 31 December 2023**

Date: 23 February 2024

## 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 £3.2bn as at 30 June 2023.

### Recent developments

#### Media Distribution

##### **DTT Multiplexes**

Despite challenging trading conditions for customers that saw insolvencies of 2 customers on the DTT platform during the six months to 31 December 2023, the platform was fully utilised at the reporting date as replacement customers were launched.

##### **Radio**

Contracts with our larger customers relating to 80% of capacity on the national multiplex D1 have been extended out to 2035 which further provides certainty in revenues for the longer term, whilst the remainder of the mux remains fully occupied. SDL, the 2<sup>nd</sup> national multiplex, is also fully occupied and a large number of contracts are secured until the current license end date in 2028.

Our local DAB multiplexes remain 83% occupied despite exposures in the market due to softer advertising. Negotiations for customer launches are ongoing and are agreed in principle securing capacity across all the muxes out to 2035.

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

Earlier in 2023, 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 later in FY24.

At the end of the quarter the DTH platforms remain almost full with renewals completed for SBN, Talking Pictures, Virgin radio and Talk Sport. Negotiations are progressing for some of the multi-channel broadcasters and are looking positive for renewals early in the new year.

##### **Media Management Products**

Arqplex, the Group's cloud multiplexing deployment, is in service, supporting 5 disaster recovery systems for ITV. A second customer deployment, Paramount, has been agreed and will be live in the next 6 months.

Arqade, Arqiva's cloud-based video content exchange product launched in 2022, enables media companies to interchange their content with multiple platforms efficiently across the world.

Arqads, our addressable advertising solution, is powering new customer services for Sky AdSmart and development of features to support targeted advertising on Freeview is underway.

There is an exciting pipeline of potential customers across all of these products we are in the process of a number of active bids to expand this business.

## **Government (DCMS) updates**

The Government published a draft Media Bill in March 2023 with a second reading in Parliament completed in November 2023. The Bill includes a range of provisions to modernise broadcasting regulation and support public service broadcasters, including measures to provide public service broadcasters with the flexibility to fulfil their remit across a range of services, provide prominence for public service broadcasters on connected devices, reduce regulatory burdens for commercial radio stations, and protect radio's position on voice-activated smart speakers. During parliamentary, reading MPs spoke about the importance of protecting delivery of Broadcast TV into the long-term, to ensure broadcast services remain available to everyone in the UK and additional measures to be addressed through amendments.

In October 2023, Ofcom launched its call for evidence on the future of TV distribution over the next 10-15 years with a closing date for submissions in December 2023. Both Arqiva and the Broadcast 2040+ coalition submitted evidence. The Ofcom review follows the DCMS asking Ofcom to review market changes that may affect TV distribution in its 2022 Broadcasting white paper. The Culture Secretary has also announced that DCMS will undertake research on the future of TV to inform long-term policy decisions. Arqiva is proactively engaging in these processes and providing information on the important role of DTT in serving UK audiences in the future.

The World Radio Conference (WRC) 23 (which determines the allocation of radio spectrum between countries), took place in Dubai concluding in December 2023. The conference saw no changes for the use of spectrum in the UK and that this would next be reviewed at WRC 31 and that any review would be in relation to the upper part of the spectrum used by DTT rather than the whole band.

## **Smart Utilities Networks**

### **Regulatory Environment**

The water sector regulator Ofwat has drafted its price review 2024 methodology, setting out its expectations for water companies 2025-2030 business plans. Ofwat outlined its support for investment in smart metering and the importance of reducing leakages. Ofwat further outlined that companies should consider smart meters that provide near real time data as the standard meter installation type.

Water companies have submitted their business plans, and Ofwat is due to release its draft determinations by June 2024, before its final determinations in December 2024. Company business plans indicate the sector could aim to rollout over 15 million advanced metering infrastructure smart meters by 2030; subject to Ofwat's final determinations.

In October 2023, the National Infrastructure Commission (NIC) released its Second National Infrastructure Assessment, which takes a 30-year view of the UK's infrastructure needs and provides recommendations to Government on how to meet these needs. The NIC recommended the Government enable water companies to implement compulsory metering and require companies to systematically roll out smart meters.

### **Anglian Water**

Since the award of the Anglian Water contract in June 2020, the Group has deployed 700,000 meters. The pace of network rollout continues to accelerate with a joint plan to complete all sites before the end of the 2020-2025 period. Device deliveries continue at a rate of 40,000 per month. Anglian have launched their 2025-2030 procurement process with the process conclusion expected in July 2024.

### **Thames Water**

Since April 2015, Arqiva has delivered a smart metering network for Thames Water and in January 2024 achieved delivery of 1m meters. This is the largest smart water metering network in the UK and has high coverage across the Thames Water London region. Arqiva continues to expand its network for Thames outside the London area, with additional sites on track for delivery this financial year.

### **SGN Hybrid Connectivity**

Following a successful bid for the Strategic Connectivity competitive procurement exercise, Arqiva has been awarded the preferred supplier status for all three lots and will be working with SGN to conclude the contract in the next few months.

### **Other Smart Water Metering Procurements**

Utilities metering continue to be a focus for Arqiva and in line with existing and future business plans of water companies and we expect an increased number of procurement opportunities in this market over the coming year.

### **Smart Water Metering Solution**

The smart water metering solution portfolio has been expanded to include incremental network technologies and meter manufactures to offer choice for customers with different preferences driven by their geography, budget, and use cases.

### **Beyond the Meter**

Our Sewer Level Monitoring trial has continued with Anglian Water with 9 sites deployed and with positive feedback. The requirements are now expanded to include a wide range of sensors such as water quality, pressure, and temperature.

### **Customer Application and Data Analytics**

We have further shared with existing and potential customers a new prototype version of our performance reporting tool, very positive feedback has been received and the development is continuing, we hope to deliver this to interested customers ready for the procurement cycle for the next regulatory period. This has been successfully deployed for SES Water.

### **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 2.9 million communications hubs operating on the network representing circa 25% of the total UK communication hub installations. Our communications hub supply chain remains stable with historic backlogs in communications hubs deliveries now cleared in support of the programme rollout. Continued volatility in global energy markets combined with domestic initiatives to address the increasing need for a more flexible and data driven energy system, creates the need for considerable change and places new additional demand on our solution. We have built a strong pipeline of change requests submitted by the Data Communications Company (DCC) to meet these needs, including an expansion in capacity to support the additional traffic and network demands now forecasted to occur.

### **Corporate Update**

#### **Bilsdale Mast Fire**

Following the build of the new permanent 300m mast at Bilsdale, radio services were made live in January 2024. This followed television restoration in May 2023 and now means all broadcast services have been restored to the main Bilsdale mast.

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

In January 2024 Arqiva was named Britain's Healthiest Workplace, in the 'large organisations' category (1000+ employees). This further demonstrates our commitment to ensuring the overall welfare of our employees.

## Capital expenditure

During the six-month period ended 31 December 2023 the Group incurred the following capital expenditure:

£m	Six months ended 31 December		Change
	2023	2022	
Growth Capex – contracted	12.4	11.8	0.6
Growth Capex – non contracted	2.7	0.3	2.4
Maintenance	13.9	16.3	(2.4)
Bilsdale – Project Restore	3.9	10.4	(6.5)
<b>Total Capex</b>	<b>32.9</b>	<b>38.8</b>	<b>(5.9)</b>
Capital creditors/accruals	1.4	(2.6)	4.0
<b>Net cash capital expenditure</b>	<b>34.3</b>	<b>36.2</b>	<b>(1.9)</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 and delivery of our broadcast services. The increase in capital expenditure from the prior year period is driven by one-off projects including a programme to improve the efficiency of sites management with Cellnex.

Non-contracted growth capex has increased from the prior year period due to new Media products.

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 IT transformation due to completion of the Group's transformation project in the prior year.

£3.9m of capital expenditure has also been incurred in the year in relation to capital works on the Bilsdale transmitter site including the restoration of services on the new permanent mast.

## **Refinancing**

In July the Group successfully refinanced the £172m and £90m of the EIB and ITL senior debt that was due to mature in January 2024 and June 2024 respectively. The prepayments were financed by the Group issuing the amortising USPP notes of \$118m (final maturity in June 2031), followed by the 5-year £250m public bond.

Simultaneously, the Group has rebalanced its interest rate swaps portfolio to maintain compliance with the hedging covenants. In addition, to manage Group's exposure to inflation, it has entered an inflation collar transaction setting a RPI cap at c6% on the accretion paydowns associated with the index-linked swaps. Following the abovementioned refinancing, the Group's senior debt continues to be rated BBB+/BBB by S&P/Fitch.

## **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 2023 was 3.11;
- b) Historic Cashflow ICR for the relevant Test Period ending on (and including) 31 December 2023 was 4.75;
- c) Historic Cashflow DSCR for the relevant Test Period ending on (and including) 31 December 2023 was 2.75 (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 2023 is 3.04;
- e) Projected Cashflow ICR for the relevant Projected Test Period commencing on (but excluding) 31 December 2023 is 4.46; and

- f) Projected Cashflow DSCR for the relevant Projected Test Period commencing on (but excluding) 31 December 2023 is 3.05 (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