

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

## **SCHEDULE 7**

**Three-month period ending 30 September 2023**

Date: 28 November 2023

## 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**

The platform remained fully utilised at end of the quarter with new service contracts replacing customers who had entered administration. Whilst current macro-economic factors are impacting some customers, we continue to see high levels of utilisation on our multiplexes.

##### **Radio**

The DAB platform remains the UK's dominant listening platform, delivering 42% of all listening hours. National DAB capacity across D1 and SDL multiplexes remain fully utilised and a large percentage of revenues on D1 have now been secured to 2035. SDL revenues remain contracted until 2028. A recent auction for SDL capacity saw significant interest from a number of parties both domestically and internationally - a new broadcaster was welcomed to this platform.

The industry continues to move towards AM switch-off diverting investment to either DAB or FM, which means parts of our AM estate are now being switched off. This is aligned with management expectations and we continue to expect FM revenues to remain strong with long term contracts in place and investment in the FM platform continuing.

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

Earlier this calendar year 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. During the quarter, two Narrative channels launched in September 2023 and Aaj Tak was secured as a new customer. We continue to carefully monitor customer demand and requirements to ensure that we are efficiently managing our satellite transponder capacity.

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

Arqplex, the Group's first customer cloud multiplexing deployment, is in final build stage, supporting 5 disaster recovery systems for ITV. The automation and orchestration services at the heart of this solution were demonstrated at the National Association of Broadcasters (NAB) show in Las Vegas with very positive feedback from international broadcasters and platform operators. A second customer deployment, Paramount, has been agreed and will be live in the next 12 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. During the quarter, Arqade has continued to gain market traction and we continue to see good take up with cornerstone customers such as NBCUniversal for whom we are expanding the number of services we provide.

##### **Government (DCMS) updates**

In June 2022, the 'Broadcast 2040+' campaign was launched by a coalition of organisations, with the aim of securing a long-term commitment from the Government to the future of broadcast services. The Broadcast 2040+ campaign includes over 30 members including charities, membership organisations, Arqiva and broadcasters.

In October 2023, the over-60s advocacy group Silver Voices (a founding member of Broadcast 2040+), released research showcasing public support for broadcast services to be protected well beyond 2040 to safeguard universality. The report generated news coverage and statements of support on the importance of broadcast services from across political parties including the Labour Party, Scottish Government, Scottish National Party, and Liberal Democrats.

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.

Ofcom has launched its call for evidence on the future of TV distribution over the next 10-15 years, which closes in December 2023. This 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.

## **Smart Utilities Networks**

### **Regulatory Environment**

The water sector regulator Ofwat finalised 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 over 650,000 meters. We remain on track to deliver 1.1million meters under existing contracts by the summer of 2024. 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.

### **Thames Water**

Since April 2015, Arqiva has delivered a smart metering network for Thames Water and by September 2023, over 940,000 meters have been installed. 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. sites outside London, the additional sites order are on track for delivery this FY.

### **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 by the end of the calendar year.

### **Other Smart Water Metering Trials**

In the Midlands, Arqiva has been participating in a multi-vendor, multi-technology smart water metering evaluation trial with a major water company. The trials have proven the excellent performance of our

technology and managed service. The customer has decided that all performance data has now been evidenced and will be considered in their 2025-2030 Asset Management Period procurement scope discussion, recent interactions have indicated excellent performance in terms of reliability and data captured.

A contract was signed with SES Water to assist in evaluating the data produced by our smart metering solution and identifying the resulting operational and financial benefits. The network is now operational with focus now moving onto the analytics.

### **New proof of concepts**

Arqiva continues to be engaged with utility customers and industry suppliers as it seeks to expand its presence in the smart utilities industry. Our Customer Side Leakage Detection proof of concept has been well received, we have several further developments and customers involved as this proof of concept evolves.

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

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

### **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**

The new permanent 300m replacement mast at Bilsdale has now restored the core Freeview channels to the region, on the same frequencies and to the same signal area as the old mast. Standard definition television services were made live on May 2023, with high-definition services live from June 2023. Work continues to install additional antenna equipment to restore radio services provided by the Bilsdale mast and is expected to be completed during winter 23/24.

The Group agreed a final settlement of £42m with its insurance provider, with the last £17m instalment received in August. The Group expects that the insurance proceeds will be sufficient to cover some but not all of the liability and costs.

In May 2023, the BBC issued proceedings against Arqiva claiming service and other credits alleged to be due to the BBC under its contracts with Arqiva, owing to the loss of service caused by the fire at the Bilsdale mast in August 2021. These proceedings are ongoing, and the Group has taken legal advice and is defending the claim.

## Capital expenditure

During the three-month period ended 30 September 2023 the Group incurred the following capital expenditure:

£m	Three months ended 30 September		Change
	2023	2022	
Growth Capex – contracted	6.4	5.6	0.8
Growth Capex – non contracted	0.6	0.2	0.4
Maintenance	7.8	10.2	(2.4)
Bilsdale – Project Restore	2.4	4.6	(2.2)
<b>Total Capex</b>	<b>17.2</b>	<b>20.6</b>	<b>(3.4)</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 broadcast products. The increase in capital expenditure from the prior year period is driven by change activity on Smart energy metering, Media and Broadcast due to new products and one-off B2B projects. This is partially offset by a decrease in water contract rollout.

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.

£2.4m 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 the 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) 30 June 2023 was 2.97;
- b) Historic Cashflow ICR for the relevant Test Period ending on (and including) 30 June 2023 was 5.56;
- c) Historic Cashflow DSCR for the relevant Test Period ending on (and including) 30 June 2023 was 2.92 (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) 30 June 2023 is 3.14;
- e) Projected Cashflow ICR for the relevant Projected Test Period commencing on (but excluding) 30 June 2023 is 4.14; and
- f) Projected Cashflow DSCR for the relevant Projected Test Period commencing on (but excluding) 30 June 2023 is 2.52 (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