

27 February 2019

CLEAR MOMENTUM IN VOCUS STRATEGIC TURNAROUND REITERATES FY19 GUIDANCE

Vocus Group Limited (“Vocus”, ASX: VOC), a specialist fibre network services provider operating Australia’s second largest inter-capital network, today announced its results for the half year ended 31 December 2018 and progress of its 3-year strategic business turnaround.

Vocus Group Managing Director and CEO, Kevin Russell, stated “Having closed out my first six-month period at Vocus, I have great confidence in the strategic growth opportunity for our Company, with the core of that opportunity being in our Australian infrastructure business, Vocus Networks. This is a 3-year turnaround and our Board and leadership team is very clear on the way forward. The turnaround program is well underway, and momentum and change has clearly been established. I would highlight the following key achievements over the last 6 months:

- Board renewal completed
- Organisation restructured into 3 distinct business units
- Leadership team rebuilt and remuneration aligned to 3 year turnaround
- Australia Singapore Cable (“ASC”) launched
- Optus MVNO renegotiated, including path to 5G
- Network consolidation program commenced

“In August last year, I said that my key priority was building the right leadership team. I am delighted and confident with the progress we have made in recent months. We now have a group of experienced and driven leaders in place, who can deliver the execution challenge and maximise our future potential.

“With the new leadership team in place, we will continue to build momentum. I am pleased to reiterate our expectations for FY19 Underlying EBITDA to be between \$350m - \$370m,” concluded Mr Russell.

Business Performance

Revenue increased slightly on the previous corresponding period (pcp) to \$974.2 million, supported by growth in Vocus Networks but offset by declining revenues in Vocus Retail. Underlying earnings before interest, tax depreciation and amortisation (excluding share-based payments) decreased 7% on the pcp to \$176.4 million. Cash conversion in the period was strong at 98% but is expected to have a sustainable level of between 90% and 95%. Capex decreased 8% on the pcp as the business reviewed spending in the context of strategic opportunities for growth.

Vocus Network Services (Enterprise, Government and Wholesale segment) delivered accelerating new sales, in part due to investment in the sales team. In addition, demand for capacity on the Australian Singapore Cable, which was delivered ahead of schedule and under budget, continues to be strong, with 3.2TB of capacity now sold. Strong sales momentum was, however, offset by higher than normal churn and provisioning cadence, both of which are being addressed as a priority.

Vocus Retail (Business and Consumer) is an important turnaround opportunity, where we have substantial legacy revenue from fixed broadband and voice services. Whilst revenue is declining in the Retail brands, sales and service automation and digitisation has resulted in significant cost reduction, particularly from our Manila-based outsource provider, where headcount has reduced by 25%. The sharp focus on cost reduction resulted EBITDA margin improving to 13%, up from 12%.

The NBN also creates significant challenges. The variable nature of NBN pricing is incompatible with the fixed prices paid by end consumers. The complexity of NBN pricing, together with a lack of pricing stability, add operational complexity and hence cost. For these reasons, NBN broadband is economically unattractive, especially for new customers in our Consumer brands. Consequently, we do not intend to grow NBN share in this market but will focus on optimising the broadband experience for existing customers.

There is real equity in the Dodo, iPrimus and Commander brands and we will grow these brands in the markets where it makes economic sense. The Optus MVNO deal signed in December gives Vocus the ability to participate in the wireless broadband and mobile market, including the coming 5G environment, and to take advantage of the opportunities in the wireless market across all our brands, including applications for business within Commander. Energy is also a focus for our retail business, and multi-product bundling is expected to drive growth across the board.

We are strongly committed to the small business market and the Commander brand. After a period of under-investment in this area, we have, in recent months, taken significant steps to reinvigorate Commander, including customer retention programs, new products and pricing, completely refreshed branding, and a revitalised partner and distribution network.

Outlook

The Company reiterates its FY19 expectations as stated on 22 August 2018, with Underlying EBITDA expected to be between \$350m - \$370m.

Webcast for Investors

Group Managing Director and CEO Kevin Russell and Group CFO Mark Wratten will hold a webcast for investors at 9.30am on 27 February 2019. To join the webcast, please go to our website:

<https://vocusgroup.com.au/investors/company-performance/results/>

ENDS

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About Vocus

Vocus Group Limited (ASX: VOC) is a specialist fibre network services provider operating Australia's second largest inter-capital network as well as back haul fibre connecting most regional centres in Australia. Vocus also operates an extensive and modern network in New Zealand, connecting the country's capitals and most regional centres. In total, the Vocus terrestrial network is c.30,000 route-km of high performance, high availability fibre-optic cable supported by 4,600km of submarine cable connecting Singapore, Indonesia and Australia and 2,100km of submarine cable between Port Hedland and Darwin and connecting offshore oil and gas facilities in the Timor Sea. Vocus owns a portfolio of brands catering to enterprise, government, wholesale, small business and residential customers across Australia and New Zealand.