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Operator: Ladies and gentlemen, thank you for standing by and welcome to Vocus Group FY19 Results Conference Call. At this time, all participants are in a listen-only mode. Today's call will include a question and answer session, at which time if you wish to ask a question, you will need to press star 1 on your telephone. I must advise you that this conference is being recorded today, Thursday 22 August 2019.

I would now like to hand the conference over to your speaker host today, Mr Kevin Russell, Managing Director and CEO of Vocus Group. Thank you, please go ahead.

Kevin Russell: Thank you, Amber, and good morning, everybody. Welcome to the Vocus Group financial year '19 Full Year Results. With me in the room here I've got Mark Wratten, our CFO; Antony de Jong who heads up our retail business; Ash-Lee Jegathesan, our Legal Counsel; and Bill Frith, our Head of Investor Relations.

I'm very aware today and today's presentation that we did a detailed update seven weeks ago, 3 July, a detailed strategy update, so I'll keep my comments relatively brief, and I'll leave Mark to focus this call from early on the financial year '19 results.

Just to start, maybe some contextual comments. The core Vocus opportunity is simple, we have a tier 1 fibre and network asset in Australia and the opportunity to substantially grow market share, revenue and profit in our enterprise, government and wholesale markets. At the same time, we have three reality checks to work through.

We have not adequately integrated network systems, processes and cultures from a number of historical acquisitions. We have not invested in people capability, partnerships, products, systems and strategies to deliver on that market opportunity. Then finally, we have to work through and absorb the impact of NBN and the erosion of legacy voice revenues in our retail business.

In summary, we have great growth opportunities at Vocus, but we have a lot to work through. It's all doable, but it takes time, and that's why we talk about a three-year turnaround. This is a progressive three-year plan. 2019 was a critical year to turn around foundations solidly in shape, not to rush and chase short-term financials.

This is now my fifth time within a start-up or a turnaround. My experience, we get the foundations right, the results will follow. 2019 has been about two things, (1) get the basic foundations in place to deliver in the long-term on the market opportunity, and (2) meet financial guidance including cash, debt management.

We have made a lot of foundational change and there is a lot to be positive about. If I start just with organisational clarity, our core identity. Our core financial opportunity is to build Australia's specialist fibre and network solutions provider. We've also established now three discreet separate businesses with Vocus Networks, Vocus Retail and Vocus New Zealand. They can each operate autonomously with accountability and speed.

On culture, how we do things has held us back. Resetting culture has been a key priority for me. We are small, we have to treasure the benefits [of being] small, ease of collaboration and alignment, this must be one team with shared values, not historical tribes, a higher appetite for change, risk and disruption and a ruthless focus on commercial returns.

We are a work in progress, but the improvement of our cultural leadership has been significant over the last 12 months. Comprehensive leadership changes and significant capability gaps have been filled. We have hired well, and whilst we've had delays and disruption from people changes, the benefits are starting to come through. I am crystal clear here, we have hired very, very well and the benefits of that will come through increasingly over the next 24 months.

We've worked through big strategic reset at Vocus Network Services and retail. Our three-year offering and plans are clear, and our goals set and aligned. It's basic stuff but it's critical stuff. We know what we have to do, what our priorities are. We did not 12 months ago.

Key improvement plans are underway in service delivery, sales commission, account management, product roadmap and of course areas to reduce cost. Benefits will flow this year. We have had and have a lot to operationally improve on. Our technology programs to consolidate and modernise are now firmly underway with significant cost reduction targets committed two to three years from now.

Finally, and critically, we have clarity and progress on a number of strategic fibre builds which we will progressively update on as they land. It is critical as we build our identity as an infrastructure business that we continually, smartly expand our fibre reach and build associated annuity revenues.

In the context of the [all the] change and foundations set, I'm broadly satisfied with our financial results. It was critical to our credibility with investors and lenders that we hit our financial guidance and delivered improvements in cash conversion and debt profile. We have achieved this without compromising on getting the key foundational elements of our turnaround in place.

So, with those comments I will pass over to Mark to walk through our results.

Mark Wratten: Thank you, Kevin. Before I commence, I will remind you that in addition to this presentation, we have also today published our statutory 4E and FY19 financial statements, which does include our operational and financial review document, which does contain more detailed information covering the Group and our operating divisions.

I'll start with slide 4, the Group financial summary. Full year revenues at a consolidated level were slightly above those of the prior corresponding period or prior year. At a higher level, revenue growth in Vocus Network Services and New Zealand was offset by declines in the retail division, and I'll provide divisional-level information in the following slides.

Our underlying EBITDA which is now adjusted to exclude non-cash share based payments, and we have a slide in the appendix that you can refer to for the quantum, was down 2% versus FY19, and was negatively impacted by the decline in the retail division as well as the increased investment, mainly head count, required in our infrastructure and operations business.

Underlying EBITDA was within the guidance we provided initially in August 2018 and then throughout the financial year. EBITDA margin decline year-on-year was mainly due to the impact of the lower margin one-off project revenue in network services, as well as the strong growth in NBN wholesale revenues, which deliver lower margins.

Underlying NPAT reduction was driven by the small EBITDA decline, coupled with high D&A and finance cost expenses. High D&A expense was mainly due to the completion and capitalisation of the ASC project in Q2, whilst finance costs increased due to the high debt levels throughout the year combined with higher interest rate margins as a result of our net leverage ratio.

Pleasingly, our full year cash conversion was strong at 100%, and this was assisted by the receipt in the first half of a large upfront payment associated with a long-term IRU [sold on] ASC. Sustainable levels of cash conversion are in the 90% to 95% range that we've previously guided to.

CapEx was again managed tightly during FY19 and we landed within our guidance range. Our net debt and net leverage ratios, which both peaked in December 2018, improved in the second half. Net leverage ratio at 2.87 was down 21 basis points from December, and is targeted to reduce further by June 2020, although it may move a little higher at the end of the first half due to higher first half CapEx and stronger H2 EBITDA.

Slide 5 sets out for the first time the allocation of our infrastructure and operations and corporate costs for our business, and shows how we allocate our $165 million of infrastructure and operations costs and $55 million of corporate costs to the Vocus Networks and Retail business, so that we can give a full measure of underlying performance.

Given New Zealand operates independently, we have not allocated any cost to that business unit. Whilst we've spent a lot of time on these allocations, it's not an exact science, and we will continue over time to refine and improve our allocation methodologies.

The allocation of infrastructure and operations, which is our network and technology costs to resale has been determined by identifying those costs that are directly attributable to resale as well as allocating a portion of indirect shared cost to the retail division. Direct cost includes the retail-specific operating and billing system, support systems and includes maintenance, security and third-party network costs.

Indirect costs are made up of external vendors and allocation of internal labour. No internal charge has yet been made to resale for the use of Vocus owned network assets, but that is the intention. Telstra refer to this as the internal access charge, we may do likewise.

The allocation of corporate costs, which are shared Group costs, with the highest component being facility costs across network services and retail, has been determined by specifically identifying costs associated with the retail division, which is for $15 million with the remainder allocated to network services.

Retail costs comprise directly attributable office and warehouse costs, with legal, finance and human resources support costs determined using an allocation methodology. In later slides we'll show how these allocations with the respective divisional - fall within respective divisional results. Due to the time and effort involved, we've not gone back to determine FY18 allocations.

Starting at the divisional - looking at the divisional results and starting with network services. Whilst overall network services revenue increased by 23% year-on-year, the bulk of this was driven by non-recurring project revenues, predominantly the Coral Sea Cable System Project, which remains on track to be completed by December this year.

Recurring revenue did grow 5% on last year, helped by the successful launch of the Australia Singapore cable and solid growth in wholesale NBN, as well as federal and state government business. An improving sales result was however offset by price erosion and churn, and particularly the one-off churn associated with the BHH contract.

As we highlighted in our recent Investor Day, the manual provisioning processes on multiple networks continues to drive higher cost to serve, and greater complexity in our business. A number of projects are underway to improve delivery and automate provisioning, and we expect continued improvement during the course of FY20, with longer term and more significant cost savings to be delivered with the Future State technology program which we highlighted in the July investor day.

Moving to slide 7. As you can see on this slide, we have included the allocation of costs against network services for the first time, and these total $159 million. However, as mentioned in the earlier slide, it does not yet include any charge to resale for the use of Vocus owned network assets. This charge, once determined, will need to be on an arm's length basis.

The allocation of costs makes it very clear that network services generates the majority of EBITDA and value for our group, and it is here that our greatest future growth opportunities are. Underlying EBITDA pre-allocation for the core network services division was up 5% on last year. EBITDA margins were 9% lower due to the lower margin on the Coral Sea Cable Project and NBN wholesale revenues. Much is the same as we experienced in the first half.

Recurring revenue growth margins are consistent with FY18 if you exclude wholesale NBN. We did invest in people, capability and product in FY19, which also impacted FY19 EBITDA growth. This SG&A increase will also flow into FY20; however, this investment will drive growth going forward.

We've also changed the commission structure of our sales teams, which was previously too heavily weighted towards new sales, with insufficient focus on customer retention. This should help to reduce churn going forward.

Moving onto retail. Revenue within our retail division fell by $148 million year-on-year, with declines coming from four main areas, being copper broadband, revenues were down $82 million driven by the migration to NBN and overall churn. Legacy voice revenues declined $66 million, again due to reduced services and operation, mainly driven by mobile substitution.

Energy revenue reduced by $35 million, driven by a 5% decline in energy customers and lower average energy usage per customer. Finally, other revenue declined $22 million and comprises discontinued [pendo] and insurance revenues and reductions in other fees and charges which we no longer apply.

Offsetting this revenue decline somewhat was the growth in NBN revenues of $60 million. Whilst the mobile revenue was slightly down, we do see our Optus MVNO arrangement as a pathway to mobile market growth, share growth and future 5GM fixed wireless opportunities.

The three pie charts on this slide indicate the declining percentage of legacy product revenue versus total revenue. These legacy revenue streams have declined form nearly two thirds of total revenue in FY17, to just over one-third in FY19, and this trend will continue for the next few years, as we indicated at the recent Investor Day.

If we look to July 2019, our most recent month, legacy products contributed around 25% of total revenues for the retail, which suggests that we are substantially through the headwinds from legacy products.

Whilst our retail business experienced material revenue decline during FY19, Antony and his quite new management team have done a great job in driving cost savings, such that the 15% revenue decline has resulted in a much lower 7% EBITDA decline. As a result, overall EBITDA margins have actually improved to 19.1% pre-cost allocations.

Cost savings have been derived from marketing cost savings as well as a more efficient business operating structure, both for consumer and commander combination. In addition, a 20% reduction in offshore headcount from a continued focus on digitisation and automation has delivered material savings.

Whilst energy FIOs and volumes declined, the EBITDA impact was offset by favourable long-term hedging positions. As with network services, we've now allocated infrastructure and operations and corporate costs to the retail division for the first time, and these total $57 million. With the increased visibility that this process has given us, we are now very focused on how these costs can be further reduced.

Moving to New Zealand. Our New Zealand business had another great year in what remains a very competitive market. Mark and his team grew revenues by NZ$16 million or 4.5%, and EBITDA by 2.5%. Whilst margins in our core telecommunication services have been maintained, strong energy revenue growth from bundled attachments at lower margins have changed product mix and overall margins.

We do expect the New Zealand business to continue to perform strongly in FY20, and the team have a great opportunity to gain further market share, particularly in the enterprise and government sectors.

Finally, strong cash generation, probably a highlight of the year for myself. We had a very strong cash performance, particularly in the second half, which was largely driven by an improved working capital management. We closed the year with net debt at $1.034 billion. This is an improvement of $55 million from what we had at December 2018.

Our cash conversion, as I mentioned earlier, was at 100% for the full year, and this was helped by the upfront ASC receipt, which I also mentioned. This is up from 88% which we reported in FY18. As we mentioned in February, our net debt and leverage peaked at the end of the first half and post funding of the ASE build, and we would reduce going forward.

We ended the financial year with net leverage ratio at 2.87, down from 3.08 we reported at December. We remain well within our covenant headroom of 3.5 times.

With that I'd like to hand back to Kevin.

Kevin Russell: Thanks, Mark. Just moving into FY20 and some comments and guidance. As I mentioned at the start, we had a detailed update on plans and priorities at our strategy briefing on 3 July. These have not changed; those plans are consistent and will be consistent for the next 24 months.

Financial year '19 was very much about getting the key foundations in place. Financial year '20 and '21 are quite simply about executing and delivering on our plans. Our priority is revenue growth, but it's important to highlight that we're also now more comfortable and confident in the cost improvement opportunities.

Interesting to reflect in 12 months' time our core infrastructure business in Vocus Network Services is likely to be contributing well over 60% of our underlying EBITDA. That percentage will continue to grow.

The areas highlighted here are critical for our financial and strategic success this year, and I look forward to updating on our progress as the year unfolds. If I single out some key areas in Vocus Network's improved revenue traction and technology consolidation, modernisation are critical to long-term value creation.

In retail we must get traction in mobile and energy and start to diversify away from NBN through wireless where possible. In New Zealand market share gains and enterprising government are particularly important.

To guidance, our guidance remains consistent with that outlined at our strategy day in July. After adjusting for the impact of expected share-based payments, our guidance at $359 million to $379 million for underlying EBITDA is consistent with 2019. Within that guidance we are highlighting two clear trends, expected growth in the core infrastructure unit in Vocus Network Services of $20 million to $30 million, offset by a similar decline in our retail business.

Just to reflect, our expected VNS, Vocus Network Services EBITDA growth would equate an annual increase of 10% to 15% at a time that we are not yet operating optimally. Our turnaround is progressive and we expect the second half of 2020 to be stronger than the first.

CapEx in the range of $200 million to $210 million with investments in technology consolidation and modernisation and also some committed IRUs. Cash conversion at 90% to 95% and we expect our net lending ratio to continue to reduce.

We also want to complete the [shape] of our three-year turnaround by outlining 2020 to 2021. We expect to see higher absolute EBITDA growth again in Vocus Network Services in 2021. This will roughly guide us to an underlying EBITDA higher than $250 million for a core infrastructure business in '21.

Our retail business we see stabilising in the second half of financial year '21 and ready for growth in '22. In New Zealand we see ongoing strong and steady growth.

With that I would like to open up for questions.

Operator: Thank you. Ladies and gentlemen we will now begin the question and answer session. If you wish to ask a question now, please press star 1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Your first question comes from the line of Eric Pan from JPMorgan. Please ask your question.

Eric Pan: (JPMorgan, Analyst) Good morning guys, thanks for taking my questions, just three from me. First, would you go back and be more aggressive in retail if the current round of NBN's wholesale pricing review lowers the cost of [CVCs] for RSPs in general, or if the current competitive environment eases?

Then secondly, can you give us an update on how much is the 40 terabits of capacity on

ASC have you sold thus far and how is the pricing that you're getting compare to forecast?

Then lastly, how shall we think about the $30 million of cost out by fiscal '23 in terms of timing? Is it more back end loaded or will it be more evenly distributed over the next three years?

Kevin Russell: Okay, Eric, just in the first question, more aggressive in NBN, we would be more aggressive in NBN if we saw better commercial returns in NBN. So those can be combined by two things, they can be obviously reducing wholesale access costs from NBN and also secondly the competitive environment.

We've got to be crystal clear that our core capital allocation, our core financial allocation has to be prioritised to Vocus networks, but if there's opportunities to make money in retail, we will pursue those opportunities. The reality is that that's not where we are just now, there hasn't been any change in pricing the market dynamic remains competitive because NBN is strategically important to those who have large consumer bases like Telstra, Optus and TPG.

In terms of ASC, there was a couple of questions. The pricing is pretty much consistent with what we expected and with the [unclear] market we haven't seen any need to change our pricing. The first part I think was how much of the capacity have we used?

Mark Wratten: Sold, yes, we've sold around - hi, Eric, it's Mark, we sold around just over 4 terabits. The system itself now, I think as we mentioned in July at the investor day, the capacity is now at 60 terabits, so we've got a long way to go to fill it up, but yes, it's a tick over 4, I believe.

Kevin Russell: The third question I think was around the $30 million of cost out in infrastructure and ops. I think we gave back in July a pretty clear view as to where that was going to go. So, our infrastructure and ops cost financial year '19 was $165 million. We expect that to come down in financial year '20 to $161 million, financial year '21, $150 million, financial year '22, $145 million and financial year '23, $135 million.

Eric Pan: (JPMorgan, Analyst) Great, that's helpful, thank you.

Operator: Thank you, your next question comes from the line of Kane Hannan from Goldman Sachs. Please ask your question.

Kane Hannan: (Goldman Sachs, Analyst) Good morning, guys, just three from me please. Just in terms of that guidance and trying to work out the impact of the share-based payments, so thinking about $6.4 million in the year, so on a like-for-like basis with your prior guidance, you did about [unclear] million in EBITDA. Then if we think about the FY20 guidance on your metrics of $350 million to $370 million and those comments of network gross offsetting retail declines, which are obviously unchanged, could you comment on where you're making up that $6.4 million to get back to the midpoint, given you haven't changed that range?

Secondly just on the allocation of corporate costs. Obviously take the point this isn't an exact science, but could you comment on how you think that $160 million you've allocated to the Vocus Networks business would be impacted if you were to divest the retail business?

Then finally just the recurring network service revenues, comment on whether that 5% growth would have been positive if we were to adjust for the Aussie Singapore sales? Cheers.

Mark Wratten: Thanks, Kane. In terms of guidance, as we've set out in the appendix, you see the impact of the LTI expense for FY18 all the way through to FY23. There was a $6.4 million cost this year, which as I said we've put below the line. So, you're right, our $360 million that we're reporting would be more like $354 million . As I said, I guidance on a like-to-like basis is the $350 million to $370 million. I'm going to leave it up to you to figure out where we might land in that. But we're obviously confident within that range.

In terms of the allocation of corporate costs, obviously that's part of the challenge. We are obviously looking to make retail more separate going forward, and we've got a project underway in regards to looking at the various parts that would be required to make that happen. Part of that would be to understand clearly which of these costs can be moved across to the retail business now, versus the best managed within a consolidated maybe instruction operations team.

Also, what of those costs might be lift and shift, as in as I said they can move across versus stay and pay, which might need some sort of form of transition arrangements. So, we haven't done enough work on that, it is a big focus of ourselves. The allocations at this stage we're basing on that if retail was to go, we would be able to either move those costs directly to retail or eliminate them from our business.

Then sorry the last question around recurring revenues, I just missed the last bit of it, can you just repeat that?

Kane Hannan: (Goldman Sachs, Analyst) Just whether that 5% growth, whether that's all been driven by the Aussie Singapore sales, or if there's any comments you can make there.

Mark Wratten: Yes, well it is, obviously the 5% does include - and you'll see a chart I think in the network services revenue bridge, you'll see a big chunk of it comes from NBN wholesale growth. We don't split out ASC growth but obviously we've had nice growth in ASC, so that does contribute, as well as growth in the federal and government revenues as well.

But as I said, offsetting that has been the churn, particularly the voter churn as well price erosion, and we talked about that in the first half, so that's something that we're working our way through. The voter churn will have a little bit of an impact as we move into FY20, as we lose a full year [a lot] of it, but it'll work its way through the system.

Kane Hannan: (Goldman Sachs, Analyst) I was just going say that NBN wholesale revenue, is that aggregating other RSP business, or is that more a corporate enterprise wholesale customer that you have through NBN?

Mark Wratten: They're smaller RSPs where we provide a full-service connectivity to the NBN. Obviously, the revenue, the margins are quite low because we're passing through [AGC and CBC], and obviously then putting on top of that our network backhaul and other services. But that's a very small component of the overall deal. But it is yes, the smaller RSPs.

Kevin Russell: Kane, I think it's fair to say our recurring revenue in the Vocus network sales [last year] is not really consistent with the levels we've expect [unclear]. It's actually been an interesting year in terms of selling, we've actually sold pretty well. I expect us to sell better this year and the year after, but we've actually sold reasonably well.

We have unquestionably had some churn that's come through, probably from sales [unclear] and historical [unclear] ideal, and I think we can do a better job in managing price erosion as more products come to market, that's for sure. The benefit of [unclear] selling activity in 2019 also is to some degree is held up in service delivery.

Service delivery can take from sales anything from four, five, six months to actually be delivered and show up in the P&L account. So, one of the improvements we've made in enterprise will not come through until financial year '20, and that may well be the second half of financial year '20, that's simply because the work done from negotiation to actually contractor then delivery can be a 12-month cycle.

So, it's a slower 2019 than we would expect, recurring revenue-wise in financial year '20 and obviously '21.

Kane Hannan: (Goldman Sachs, Analyst) Thanks guys.

Operator: Thank you, your next question comes from the line of Sameer Chopra from Bank of America. Please go ahead. Sameer, your line is open, please go ahead.

Sameer Chopra: (Bank of America, Analyst) Hi, morning. Three questions, two on margin and then one on cash collection, please. Just on margin, could you give us a guide around where the recurring revenue margins are sitting right now? If there's any puts and takes into FY20 for each of the businesses, just on the margins.

Then on cash collection, just wondering how shall we think about - you've given us a 90% to 95% for next year, which is great, can you give us a sense of how that works out between the business segments? Is a lot of this being driven by pre-selling in the cable network business and does the rest of the business still have a pretty good cash collection as well? Thank you.

Mark Wratten: Kevin's pointing at me on all of these questions. The margin, well we don't actually disclose our recurring revenue margin, but I think if you've worked backwards in the past, it's at the gross margin level above 50%, high 50s, and we expect that to continue, obviously as it should be when you've got an infrastructure business and you're utilising your own assets, you should be expecting high gross margins.

So, we're not, as I said, if you take away the NBN wholesale revenues and the margin impact of that plus obviously the Coral Sea Cable Project, our recurring revenue margins have been very consistent with prior years, which is what we'd expect.

In terms of cash collection, the 90% to 95%, if I break it down by business, and we're starting obviously to do this a lot better, New Zealand is very close to 100%, in fact it'll be in the high 90's for sure. Same with retail, retail is a very good cash generating business and actually has a very good working capital profile.

So, there's the difference or what drags us down really is the network services business, and that's predominantly as a result of the deferred revenues that we have on our books, and so we've spoken about that many times over the past few years. A lot of that was inherited when we bought the next gen business, and in previous OFRs and investor presentations we've given you how that deferred revenue runs off.

It hasn't - it changes a little bit, we do that big upfront that we received in the first half, that now is sitting in deferred revenue and will unwind over the coming years. But we don't expect to do a lot more of those large upfronts going forward. So, I do think that's why as our EBITDA grows and our deferred revenue unwind sort of space reduces, that cash conversion ratio should actually climb above the 95%.

Sameer Chopra: (Bank of America, Analyst) Thank you.

Operator: Thank you, your next question comes from the line of Ian Munro from CCZ Equities. Please go ahead.

Ian Munro: (CCZ Equities, Analyst) Morning Kevin, morning Mark. Just looking at the networks business, can you perhaps give us a sense of when your product pricing personnel mix will be right to really contest some of these enterprise type customers? I know that you made the comment that federal and state's going well, and perhaps can you comment on the size of the pipeline at the moment too please?

Kevin Russell: So, in federal and state, federal and state is going well. That said, we've got some new secure network capabilities that will be launched into market in January of next year, six months away, that is really important and is really exciting. So, we expect that to open up substantial new opportunities.

On enabling NBN, we really just have got ourselves into position to enable NBN ethernet in the last few weeks, and that does open up market opportunities for us. I would say relative to where we were 12 months ago, we are in a significantly better position from a product standpoint going into 2020. We'll make improvements during the course of the year, but I'd say we're actually a pretty competitive place on a product standpoint.

In terms of pipeline, pipeline is good, is strong, there's a couple of good deals out west that have landed that we'll talk about at the next year results, that are positive. We've actually sold well during last year, but a lot of that will come into financial year '20 and the pipeline will build. Competitively, we feel pretty good in marketplaces now, we think the competitive environment is probably working more in our favour now than it was 12 months ago.

I think some of the changes that have happened in account management at Telstra that were announced three or four months ago are very interesting for someone like Vocus, because obviously when your key competitor says they're going to prioritise account management to the top 650 customers and the next 14,000 are not going to get individual account management, that presents opportunities for the Vocuses as well. We just need to progress and we work those through.

Enterprise takes time, government takes time, wholesalers usually have to switch on quickly. The impact we've had from the team getting built in enterprise has built over the last six months. Andrew came on board in January, where he is today is in a far stronger position than he was say in March or April, likewise with the product team.

So, we feel pretty good going into financial year '20, but I'm very clear that it will continue to build as the year goes on.

Ian Munro: (CCZ Equities, Analyst) Thanks, and just a follow-up on the retail segment please, just the comments around second half FY21 stabilisation, can you perhaps give us a sense of what sort of key metrics we're looking for to see that that stabilisation's occurring? And perhaps what gives you confidence that it's second half FY21 and not six months after that.

Kevin Russell: I think a key element around confidence is obviously the ability to get through the bulk of the legacy revenues. I think Mark alluded to the fact that by July we're down to 25% legacy revenues to transition through [unclear], so that's a big difference from three years ago when that number was north of 60%. So, that absolutely helps in terms of the easing of legacy margin erosion.

The key things you should look for in terms of retail being able to offset the margin challenges in NBN, and those two products are critical for us to get traction on over the next six to 12 months. So, our expectation is we have a good opportunity in mobile, more market share, and new plans launched just in the last few weeks, and that is critical to get traction on.

The other part, the other piece of the puzzle you should see is [steps on] probably more in the second half of this year is what will we do in wireless in relation to broadband, and we think there are interesting opportunities to increasingly look at wireless broadband as and when appropriate as an alternative to NBN.

Ian Munro: (CCZ Equities, Analyst) Thank you.

Operator: Thank you, your next question comes from the line of Eric Choi from UBS. Please ask your question.

Eric Choi: (UBS, Analyst) Hey team, I'm probably going to pick on you as well, Mark, sorry. The first one, I'm just trying to work out the underlying network services EBITDA growth.

So, you've given us the Vodafone impacts, and if I back out the on-off stuff, was the underlying EBITDA growth circa $20 million in FY19? That's the first question.

Then just a second one on NBN's mission creep that impacted the Telstra results, I know that you guys have said you want to work with the NBN, but just wondering how that might impact your forward margin assumptions? If it does impact the confidence in you hitting that $20 million to $30 million of enterprise EBITDA growth that you've guided to?

Then just lastly on cash conversion. I think based on your previous comments, Mark, we're sort of alluding to the fact that FY19 cash conversion would have been over 90% ex all the upfronts and IRUs as well. But can you confirm that's the case? Thanks.

Mark Wratten: Maybe I'll work backwards. So, cash conversion, yes, if you ignored that IRU payment in the first half, we would have probably been around the 95%, [unclear] 95% for the year, so within that range that I've been talking about for a while. So, that's the cash conversion.

In terms of NBN, assumptions going forward are that NBN remains as it is, very uneconomic, that they don't change their pricing structure in any way that's favourable for RSPs or for our customers. So, we'd hope that if common sense does prevail at some point in time, that that would be an upside opportunity for us, but certainly we haven't factored that into our thinking for the next few years.

In terms of underlying EBITDA growth for network services, I can't talk to that specifically. Obviously, we talked to the 5% growth, that obviously does include - if you exclude the margins for the project, the Coral Sea Cable Project, then obviously new margins that have come through from ASC etc cetera, but it's been offset by certain cost increases, which I also spoke about. But I can't specifically give you a number.

Eric Choi: (UBS, Analyst) That's helpful.

Kevin Russell: Just a couple of comments from me on that scope creep concern on NBN. I think it is interesting to reflect on where Vocus has its strengths in its assets, and obviously our [inter-capital] assets are really strong. We've got some good regional network capability and then we've got some really good sub-sea cable capability in the North West Cable line up into ASC. Where we do recognise that we are not head-to-head with Telstra and Optus and TPG arguably is in metro building [unclear].

We've talked to the strategy that we have 5500 buildings fibred up. We don't intend to go out there and fibre up another 20,000 buildings. So, we do have opportunities with NBN because of the benefit of NBN's metro capability to partner with them, selectively as and when appropriate to secure business we would not otherwise have.

So, we do see NBN in enterprise, not in resale but in enterprise as some good incremental opportunities. That obviously may blend out to [lower] margins, but those would still be incremental margins that we would not probably be able to get to without accessing NBN. So, we see it as an incremental opportunity and enterprise, but we do see it absolutely as a challenge in retail.

Eric Choi: (UBS, Analyst) That makes sense. Can I ask a quick follow-up on the other one sort of picking on the point. Can you tell us what the VHA contract drags in FY20 will be and how much of the non-recurring revenues will fall off in '20?

Mark Wratten: Roughly the VHA impact's probably going to be about the same, the $10 million that we've got there, obviously as a full year view of it all, that's roughly. Bill's pulling a face at me, so it might be slightly higher or lower. The project revenue, that project will finish at the end of this year, so December this year, and the revenues in the first half are actually significantly smaller than what we've exposed to date.

I can't give you an exact number but it's probably only $40 million or so of revenue left for that particular project. Obviously then there'll be potentially other one-off projects that might come in throughout the course of FY20. But the Coral Sea is about $30 million or $40 million remaining revenue, I believe.

Eric Choi: (UBS, Analyst) Okay, thanks very much guys.

Operator: Thank you, your next question comes from the line of Brian Han from Morningstar. Please go ahead.

Brian Han: (Morningstar, Analyst) Kevin, you mentioned how important mobile is for the Australian retail business, is it equally important to have that proper mobile offering in New Zealand to hit that 25% UFB market share aspirations?

Kevin Russell: I think it would be beneficial in New Zealand to have a better mobile offering. To Mark's point earlier, the New Zealand business is really rock solid and performing well. They've got through I would think what I would categorise as a really competitive consumer environment in the first half of last year, and I think a lot of those competitive pressures have eased.

So, the business feels really well positioned going into financial year '20. But that positioning is without a strong mobile offering, and put simply if they could access a strong mobile offering, its results and potential would be [higher]. So, it doesn't feel like something that is critical to achieve the targets in ultrafast broadband, but it's something that would be beneficial to add additional margin profit on a business that's performing already very well.

Brian Han: (Morningstar, Analyst) Okay, thanks.

Operator: Once again ladies and gentlemen, if you wish to ask a question now, please press star 1. The next question comes from the line of Nick Harris from Morgans. Please go ahead.

Nick Harris: (Morgans, Analyst) Thanks, good morning, just two questions from me please. I think in April of this year you pushed through a $10 price rise on your NBN back book. Just interested to see how that went, did that spike churn or was that pretty much largely absorbed by customers without any major churn?

Then the second question was just a little bit more detail in your comments on taking about six months in the network side from signing a customer to actually billing. Is that a handbrake on sales, or does that still match customer lead times, and what do you need to do to shorten that? Also, do you think you'll be able to shorten that in FY20 or is that still another couple of years away? Thank you.

Kevin Russell: Thanks, Nick. So, a $10 price rise, we have a very clear view that we're not going to sit and absorb price increases from NBN, we're going to push them on into the marketplace. We're not here to subsidise NBN, we're here to make money. The $10 price rise has landed I think reasonably well. I think those price points can be more inelastic for existing customers maybe than the market worries about.

So, yes, we've had a degree of incremental churn, but a couple of months in I think we would say that the results have been absolutely net favourable from a commercial standpoint. We'll update that again in more detail in six months' time, but initial signs would be net positive.

In relation to service delivery, our service delivery timelines are probably as good as anyone in market. I think we would average probably five months, the competitors, some particular competitors right now can be north of 12 months. I would not say that it is a handbrake on sales, but it absolutely does mean that when you're in a position where you are, you're ramping up sales, you don't see that benefit for a period of time.

It's one of these reality checks that churn happens now but new sales take time to land.

So, we can make significant improvements during the course of this year on service delivery, and that will be around efficiency in terms of timeline and cost. But I don't think it will be dramatically below five months, we can squeeze a month, six weeks out of it. But we're also often reliant on third party deals et cetera, which take a little bit of time.

Nick Harris: (Morgans, Analyst) Thank you, Kevin.

Kevin Russell: Thanks.

Operator: Thank you, your next question comes from the line of Andrew Levy from Macquarie. Please go ahead.

Andrew Levy: (Macquarie, Analyst) Thank you. Just two questions from me, I was just wondering if you could give an update on where you're at with some of the cable build projects that you flagged at the Investor Day, and also talk to those in the context of your balance sheet and whether balance sheets are constrained on going ahead with those? Or it's just finalising terms and customers around those to progress, and whether you think anything will get underway in FY20?

The other one was you talked at the time about doubling revenues in the enterprise space or in the VNS space, I was just wondering if that ambition still fits given obviously it's a slow start this year? Thank you.

Kevin Russell: On the cable build projects, I think it was important at the - we flagged the cable build opportunities back in February, and then we withdraw them in a little bit more detail in July. Mark and I both felt that it was really important to start to give the marketplace visibility on opportunities that were coming through, particularly in relation to that North West Cable.

Those opportunities are progressing. The ones we outlined, we've talked about a couple in terms of oil and gas, those are progressing solidly, there's been no substantive changes to the negative. Good progress to the positive [then] as and when things come through. We do have good funding flexibility in terms of the ability for customers to fund a number of those builds, in fact the majority of the builds we're looking at will be customer funded. So, from a balance sheet standpoint we feel as if we're in pretty good shape there.

In terms of doubling revenues in VNS, I absolutely have moved away from talking too much about it, but not moved away from the expectation or aspirations to double revenues. I think in terms of [high lines], based off the growth this year, we're probably a year or two out where I'd like us to be. But one of the things I have reflected on as the year's gone on, is that we do have to first and foremost focus on delivering the next two years' results to get us on the right track.

Two, we have to focus more on the cost opportunity in the overall EBITDA number. So, unquestionably what I saw a little bit was people looking at revenue opportunities that may be more marginal. At the end of the day it is all about EBITDA growth and return on capital.

So, I think that the doubling of revenue target has been important and beneficial in reorientating the organisation around growth. But we absolutely are fixing the organisation more around EBITDA growth now in terms of internal targets. Mark will look for that in terms of how people are commissioned now as well.

Andrew Levy: (Macquarie, Analyst) That's great, thank you. Can I throw one more in just on the Coral Sea project? Is that reasonably steady margin all the way through the project if we take revenues and just assume - I think you talked to a low teens margin on that project, or is it typical of those projects that you'll release a contingency towards the end of it during this financial year? Thanks.

Mark Wratten: No, certainly during the course of the year, Andrew, we're being quite consistent, like it's a construction project, we've [ended] it early on and then you reflect a margin on the base of the percentage at completion type thing. But you're right, there is some contingency that we've built in there, and the project management team were very experienced at this with North West Cable, ASC et cetera, certainly delivering to allow us to release some of the contingency.

We did release a little bit of it in FY19, which was certainly within our internal plans, and we've got a little bit left in FY20.

Andrew Levy: (Macquarie, Analyst) Okay, thank you.

Operator: Another reminder ladies and gentlemen, it's star 1 for questions.

There are no further questions at this time, I'd like to hand the call back to the management team for the closing remarks.

Kevin Russell: Thank you very much, Amber. I think certainly in the last 12 months there's been some pretty good communication coming out of Vocus, and I think the strategy day seven weeks ago hopefully was very transpiring and comprehensive in terms of trying to build a better and better understanding of where we are, where our plans are and where we're going.

Hopefully these results will also help fill in some of those gaps. Any other questions, look forward to answering in the days ahead but thank you very much for joining, and we'll talk again soon, thank you.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for participating.

End of Transcript