Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the Vocus FY21 half-year results briefing. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. To ask a question during the session, you need to press star-one on your telephone. Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Mr Kevin Russell, Managing Director and CEO for Vocus. Thank you. Please go ahead.

Kevin Russell: Thank you, Vincent. Good morning and thank you, everyone, for joining Vocus' first half 2021 financial results call. In the room with me here I've got Nitesh Naidoo, our CFO; Andrew Wildblood, CEO of Enterprise and Government; and Bill Frith, our Head of Investor Relations.

Before I proceed with our results presentation, I'll update, to the extent I can in relation to the process that's currently been undertaken with Macquarie Infrastructure and Real Assets or, as they're commonly known, MIRA. As you'll be aware, we informed the market two and a half weeks ago that we had received a non-binding and indicative proposal from MIRA and the Vocus Board had agreed to grant MIRA due diligence access to determine if a binding proposal can be put to shareholders.

Yesterday, we announced that Aware Super had joined with MIRA in a consortium to potentially progress the proposal. The diligence process is ongoing, and while we are engaging constructively with the consortium, there is no certainty that the proposal will result in a binding offer for Vocus. We will keep the market updated in accordance with our continuous disclosure obligations. We are not able to comment further on the MIRA proposal at this stage and the rest of presentation today is focused on our first half results.

Moving to slide 2. This is an important set of results for all of us at Vocus. It symbolically marks the end of a challenging turnaround and the commencement of a new phase of investment and growth. As a Group, we are in a healthy financial and operational position and we got here earlier than I thought we would. 2020 was a period of intense change. The way we responded as a collective organisation has accelerated the completion of our turnaround. The trends in today's results are positive, but more importantly the underlying operating platform is robust, and the strategic direction of the Company is clear.

The foundations of the business continue to improve. We are delivering a better customer experience. We have stronger employee engagement, lower churn rates and higher brand recognition. These themes broadly apply to all three of our operating businesses.

At our financial results in August 2018, we set out a clear direction for the Group, which we have executed against over the past two and a half years. We recognise VNS is our core business, with excellent network assets and a clear opportunity to grow market share by shifting from lower value transactions to clear target markets where we had a right to play. We also have significant work to do in the integration of legacy systems. In Retail, the challenge was to navigate the decline of legacy products during the NBN transition through tight execution and micromanagement of margins and costs.

New Zealand has been a consistent performer throughout the turnaround and today is well positioned to capitalise on growth and consolidation opportunities following our planned IPO.

Yes, we still have plenty of work to do. We have a competitive environment to work in, but the turnaround phase is over. Our focus has shifted to establishing the right capital structure and investing to maximise our market opportunity and resulting growth.

Moving to slide 3. In our 2020 full year results in August, we highlighted a number of market trends that we believed Vocus Network Services was well positioned to capitalise on. I want to reiterate these trends, because they're relative both to the momentum of VNS in these half-year results and our investment strategy and growth going forward.

Digitisation and cloud are driving bandwidth demand. We are building more fibre for hyperscale data centres as businesses accelerate their adoption of public cloud services. Vocus fibre is connected to all of the major data centres in Australia and we now sit in the top three for data centre connectivity in the Oceania region.

We said in August that security is increasingly key, particularly in government. During the half, we re-signed our largest Federal Government contract with a 30% increase in spend. Our secure, Australian-owned and operated network was pivotal to that contract. This focus on security and the broader geopolitical environment also puts our international networks in an attractive position, as OTTs and international operators increasingly seek a more secure route through Australia, which avoids contentious areas of the region.

Finally, in August we said we were seeing a shift in customer expectations from their network suppliers. This trend has continued with the volume of tenders in the market increasing and the incumbent suppliers, who were once viewed as the safe option, increasingly being challenged.

Key to VNS's ability to meet these market trends are our network assets. Fibre is the critical infrastructure in the modern economy and we have around 15,000 kilometres of terrestrial fibre between all mainland capitals and regional centres. Within this infrastructure, we operate a separate secured network supported by NV-1 security-cleared staff. Our national network is scalable and can provide upwards of 50 times the capacity we have provisioned today at economic levels of incremental investment. As technology improves, we expect to be able to expand beyond this. We already have an upgrade plan in place to offer 400-gigabyte wavelengths across key routes of our national backbone in FY22, and our extensive regional network is capable of providing thousands of regional onramps.

In summary, the market is moving and we are well positioned to benefit both through existing assets and from incremental investment.

On to slide 4. So, some key highlights for the half. First, in Vocus Network Services. Overall, we have good momentum with VNS delivering 11% growth in recurring revenue during the half. The core growth is coming from growing existing and from winning new customers with larger contract values. Notable wins have included the upsizing of our largest Federal Government contract that I mentioned earlier, our flagship win of the Australian Tax Office data network, our branch network contract with Heritage Bank and the re-sign of State Government contracts with South Australia Health and the Northern Territory Government.

In Wholesale, we've enjoyed strong success with total contract value won up 41% from prior period. We continue to succeed in delivering for our customers. We have seen marked operational improvements with on-net delivery times down 25%, tech support calls down 21% and overall customer NPS up 15 points in the corresponding period.

Simple, but important improvements have been made in alignment between capacity planning, design, and sales forecasting teams to ensure capacity is pre-provisioned and optimised. Future State continues with improving digital experiences through web, portal and API and delivery of a new CRM system.

We made a number of key investments in our network, including a near 30x's upgrade in capacity of our Adelaide-Darwin-Brisbane routes. This has been part of an exciting collaboration to establish the Terabit Territory for the Northern Territory Government. This investment brings to light to the scalability of our network.

We also built the first connected L-E-O or LEO satellite ground station in Australia. Vocus' inter-capital network is well placed to provide backhaul for this exciting new market at low incremental investment.

Moving to slide 5. It has been a busy and productive six months for our New Zealand business. The smooth integration of Stuff Fibre acquisition emphasised the operational capability and scalability of the business. The operation is well positioned to execute on further consolidation opportunities in market. In addition, key organic wins include the addition of Sky Broadband as a major new Wholesale customer and a significant new data centre build in partnership with a major OTT player. Both wins emphasise the credentials of the organisation to compete at the highest levels in the New Zealand market.

For our Retail business, the return to growth of our core consumer brands after several years of revenue decline was a huge milestone for our team. Equally satisfying are the continued improving trends in operational management. Monthly NBN churn is down about 20% year-on-year to 1.4% and our Dodo brand now has the lowest level of TIO complaints in the industry. Despite concerns that COVID would have a negative impact, cash collections remain strong and indeed improved marginally in the half.

To achieve these operational improvements, whilst reducing overheads by 9% during the half was particularly notable. So, with that, I will hand over to Nitesh to walk through our numbers.

Nitesh Naidoo: Thanks, Kevin.

Turning to page 7. I will talk through the Group results before covering each business unit individually later in the presentation. Overall, Vocus Group financial result echoes Kevin's context of turnaround and a stage set for growth. Total revenues marginally declined from lower infrastructure builds in the half; however, some work has begun on engineering design for other large builds denoted by the $1.4 million reported in the half. We hope to share more on this in the future with you.

Recurring revenue importantly grew for the Group as strong momentum in VNS New Zealand outstripped the Retail decline, which improved slightly to minus 6% year-on-year. Last year, this decline was minus 9%.

Despite recurring revenue growth, gross margin for the Group declined 1%. This was due to the margin earned from large infrastructure builds in the previous comparable period. Overheads declined, which helped enable growth in the overall Group EBITDA result. Net profit in the half grew significantly as historic amortisation related to previous acquisitions unwind.

Moving to slide 8. You can see that disciplined overhead control is maintained in the half, particularly in Retail in New Zealand, which allowed the Group to exert operating leverage. From an EBITDA composition on the right-hand side, VNS continued to grow strongly at 8%. And, excluding the prior comparable period of benefits from large infrastructure build, it would have been double-digit growth in the half. New Zealand remained a consistent performer growing 3% and Retail declines year-on-year moderated slightly.

Moving to slide 9. Vocus continues to invest around 11% CapEx-to-sales ratio in growth, while modernising and maintaining its extensive high-quality fibre asset base. Growth CapEx in the half included investment, as Kevin mentioned, in the upgrade to our inter-capital fibre network between Adelaide, Darwin and Brisbane, which will deliver 30 times capacity on our network. This demonstrates Kevin's earlier point on our ability to generate capacity at manageable CapEx levels. Across modernisation and maintenance, spend is maintained, which includes strategic investments in the future network program, new technologies and security.

Moving to slide 10. Good financial management on cash conversion has been maintained in the half at 90%. Operating free cash flow is benefiting from growth in EBITDA, lower cash CapEx and interest payments. The interest savings is related to the refinancing activities in the last half, which on execution resulted in this period's interest becoming due. Strong cash generation has allowed Vocus to continue strengthening the balance sheet. This can be seen on the next slide, 11.

It is clear that Vocus has consistently de-levered, reaching 2.6 times net leverage ratio at 31 December 2020, with covenant headroom growing to 0.65 times. Banking covenants do step down, though, to 3 times at June 2021 and we expect leverage to continue reducing, maintaining a prudent headroom. Net debt at the end of the half had a weighted average tenure of 2.9 years.

Moving to the divisions on slide 12. Vocus Network Services has had a standout performance in the half. Recurring revenue grew 11% year-on-year as compared to 6% in FY20. The quality of earnings within this growth has improved, as high margin data network revenue grew 8% year-on-year. Included in the half was a significant re-sign and contract growth of our largest Government customer.

The half also included benefits from short-term bandwidth increases during the height of the pandemic. This in itself demonstrates how Vocus performed for our customers, supporting them with their data requirements when they needed it the most. This growth in the high-margin data networks drove 8% growth in EBITDA, which, as previously mentioned, does not benefit from prior year large infrastructure margin.

Moving to slide 13. I'd like to just expand on data networks within VNS. Data network revenues represent high quality of earnings for Vocus Network Services. It represents close to 80% of product growth margins, shown on the left-hand side. The growth in year-on-year terms has been accelerating in each of the last three halves: 2%, 4% and 8%. This demonstrates clear momentum as Australia's specialist fibre provider and is benefiting from the macroeconomic conditions in the market as businesses seek productivity from digitisation and moves to cloud software.

Moving to New Zealand on slide 14. Mark and the New Zealand team have delivered three consecutive years of revenue growth in the business. In the half, they remain firmly on track to continue this into a fourth year. Consumer and small business grew 11% following organic growth in UFB and the successful integration of Stuff Fibre. This acquisition has shown, in a more mature broadband marketplace, scale opportunities exist to create operating leverage within the New Zealand business. This is demonstrated by overheads reducing year-on-year, with Stuff Fibre now fully integrated.

The Wholesale business did, however, impact the overall result, which saw a Wholesale partner migrated services. The securing of Sky New Zealand as an exclusive partner is expected to more than compensate for this in the coming half as services ramp up in market. Overall, New Zealand EBITDA grew 5% and EBITDA margin percentage held at 17%.

Turning to the Australian Retail business on slide 15. The half saw an important milestone in the Australian Retail Consumer business, which grew revenue in absolute and in year-on-year terms. Business declines have continued as conditions remain challenging for the small and medium business market. The market adoption for IT technology is resulting in loss of legacy voice revenues, which is evident across the market. The retail team have done a phenomenal job in transforming the cost base, reducing overheads by 9% year-on-year, whilst bundling energy and mobile to the core broadband services. This has enabled the business to remain profitable, with 9% EBITDA margin during a phase of NBN adoption which has been highly competitive and where competitors have struggled with profitability.

Lastly from me, moving to slide 16. Vocus Group and the Australian Retail business can now see a clear path to an end of legacy-product decline. Legacy gross margin in the half now represents 15% of the Retail business. Majority of this lies within the small and medium business standalone voice product. With Consumer now returning to growth, there is a clear line of sight to a stable Retail business.

In summary, a strong result for the Vocus Group overall, accelerating growth for VNS, consistent performance in New Zealand with good prospects in market and a clear path to stabilise Retail. With that, I'll hand back to Kevin.

Kevin Russell: Thank you, Nitesh, and on to slide 17 for those on the call.

In November, we announced our plans to IPO our New Zealand business. If I could recap on the strategic logic behind this decision, our core business is Vocus Network Services and we require capital in VNS to pursue a number of significant and attractive investment opportunities. New Zealand is a well-run business at a critical juncture where it also needs capital to grow and capitalise on market consolidation opportunities.

The timing is right to list our New Zealand business, as we have confidence in the Australian business' turnaround and the capital markets in New Zealand are strong. Finally, we believe that a New Zealand IPO is executable at a good valuation and is a more suitable option than raising equity or from a sale today of our Retail business.

So, if we can move on to slide 18, I can update you on the New Zealand IPO process. So we are on track for a dual listing of Vocus New Zealand on the New Zealand and Australian stock exchanges by June 2021, subject to market conditions, and we do intend to sell down 100% of the business, again subject to market conditions. I just want to highlight some of the key investment points for Vocus New Zealand: Clearly, a proven track record of growth and good growth prospects; a valuable fibre backbone; strong cashflow and dividend capacity; and finally, and most importantly, an outstanding experienced team, led by Mark Callander. There has been a lot of heavy lifting and good progress made to date.

So, moving to slide 19. A successful IPO of New Zealand would give us capital flexibility and we want to update you on our high-level framework for how we're balancing capital and prioritising application of funds in that environment. Our key priority in capital allocation is to invest in Vocus Network Services with a view to capitalising on a number of key market opportunities that we see today and that we believe will emerge in the future. In relation to our balance sheet leverage, we will target to operate below a net debt to EBITDA ratio of 2.5. We believe this is appropriate in the medium term for Vocus as we enter a growth phase.

Our final priority is to consider a sustainable dividend policy, which we recognise is relevant to total shareholder returns. These are our three key priorities in relation to capital allocation and they are outlined here in order of importance to Vocus at this time.

On to slide 20. At our Strategy Day in July 2019, we outlined a number of fibre investment priorities we had at Vocus Network Services. Given the progress towards an IPO in New Zealand, it is timely today to recap and again give visibility to those opportunities. We are an infrastructure company, operating in a competitive and changing market. We need to invest for the medium to long term.

First, there is a longstanding opportunity to provide high-capacity fibre through Australia's north-west. This would close the current gap in our network between Geraldton and Port Hedland and establish a western loop to provide additional redundancy, as well as providing competitive infrastructure to major resources customers in the region.

Second, we are reviewing the opportunity to connect our Australia-Singapore cable to our North-West Cable System at Port Hedland. This would provide Australia's first international cable connection to Darwin, drive international traffic through a new entry point into our domestic network and strengthen our position in target markets.

Third, we will explore opportunities to invest in our expansive regional network to capitalise on demand from regional 5G and LEO satellite services. These markets have significant growth potential and, as I mentioned earlier, Vocus has delivered the first connected LEO Satellite ground stations in Australia, so our regional reach has positioned us well for future opportunities.

Fourth, our North-West Cable System gives us the opportunity to expand our reach to Indonesia, a country with growing capacity requirements, as well as connections onto other parts of the region. With the geopolitical environment in Asia Pacific making Australia an increasingly safe path for international carriage, this connection will provide another path into Australia as a Great Southern Route for traffic from Asia to the US.

Finally, we are reviewing options to expand our international capacity on Australia's east coast over to the US. This is an important route for us to be able to support the major OTT players and international customers in the carriage of traffic into Australia. We plan to give a more detailed update on these plans post the successful completion of the planned IPO in New Zealand.

So, finally, guidance and some updates on slide 22. Given the strong growth in the first half, we are upgrading our full year guidance for VNS. As Nitesh highlighted, the 11% recurring revenue growth that we enjoyed in the first half will not be as strong in the second half for two key reasons. Firstly, the prior comparable period already has the benefit of the large customer re-sign and, secondly, some of the short-term COVID benefits in the first half are not expected to repeat in the second half.

As a result, we are upgrading recurring revenue growth from 5% to 8%. We are also upgrading guidance of VNS's underlying EBITDA growth, up from a range of 8% to 12% to a range of 10% to 12%. Group guidance remains unchanged, with underlying EBITDA $382 million to $397 million. We have changed our CapEx range guidance, which will increase from a range of $160 million to $180 million up to a range of $185 million to $200 million.

Of the increase, $15 million to $20 million relates to customer-funded fibre builds which we have recently won. Consistent with previous guidance, our net leverage will continue to reduce.

So, to recap on the key takeaways from today's results on slide 23, overall, we've had a clear and consistent strategy throughout the turnaround and our results show that we are delivering against that strategy. Our core VNS business is well positioned to win in market off the back of some very positive market trends. VNS has good market momentum and is winning share. The Vocus New Zealand business is in good shape and we have plans to complete the IPO subject to market conditions by June 2021. For the first time in several years, our Retail Consumer business has returned to growth. As a result of a strong first half performance, we're upgrading the full year guidance for VNS and we're on track to meet Group guidance.

And finally, Vocus is now entering a new and exciting stage of investment and growth. So that brings us to the end of the formal presentation and very happy to open up for questions.

Operator: Thank you.

Kevin Russell: Thank you.

Operator: Ladies and gentlemen, if you wish to ask a question today, please press star, followed by one on your telephone keypad 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 today comes from the line of Craig Wong-Pan from CLSA. Please ask your question.

Craig Wong-Pan: (CLSA, Analyst) Morning. First question, just on your guidance for the Group. I mean, that - you said that's been unchanged but you've upgraded your VNS guidance. Just wondering what the offset there has been to that strong VNS performance.

And then second question, just on the CapEx, that amount that's being funded by customers, is that the - would that, I guess, lead to revenues in the infrastructure - the VNS infrastructure line, so that we should assume that kind of comes through in the second half or beyond?

And then third question, on slide 9, there's been a drop in the maintenance CapEx, I guess, over the past three half-year periods. Just wondering what's driven that and if that level that you've been achieving for the first half of the '21 period should be a go-forward level? Thanks.

Kevin Russell: So, I'll take the first point on guidance. We've moved the guidance range up on VNS. We previously had a midrange of 10% - midway between 8% and 12%. We've increased the range up to 10% to 12%, so we've - moved that midrange up to 11%, which is a 1% point change. If you take that on overall EBITDA, it's about $2.5 million, $3 million. Our view on Group guidance is to leave it unchanged as the change in VNS guidance does not change the range for the Group.. The point I would stress is that Retail is tracking consistent with where we thought it would track. New Zealand is tracking consistent with where we thought we would track. But we do recognise the second half of the year, there can be changes in terms of the economic environment in relation to small business and the overall retail environment could weaken.

So, Craig, we're tracking according to plan, and we don't see any material reason to change the Group guidance. Nitesh?

Nitesh Naidoo: Yes. Just taking the second and third questions. So, in terms of those additional CapEx, Craig, those ones are not what we would classify as large infrastructure. They're part of the normal contract wins within Enterprise, Government and Wholesale. So, they would feature in our recurring revenue lines. But what we have seen more recently this year is that we have won some large contracts where they require fibre builds and that's fibre that we will own going forward and the customer is willing to fund it.

So, the reality is that's changing the shape of our CapEx, which is why we've elaborated this new category, because we see more of this trend happening in marketplace. Ultimately, it's a good thing for us, because we get CapEx that is funded by customers and helps us expand our network.

On the third point, in terms of the drop in maintenance CapEx, I was trying to allude to in my commentary that you should be looking at the maintenance CapEx and modernisation CapEx together, which is probably more consistent, because some of the modernisation activity provides the same effect as maintenance as it replaces infrastructure. So, I would just look at that together and that's probably more in line with the trend.

Craig Wong-Pan: (CLSA, Analyst) Okay, thank you.

Operator: Your next question today comes from the line of Eric Choi from UBS. Please ask your question.

Eric Choi: (UBS, Analyst) G'day, guys. I just have three as well. The first one, just on that stronger Enterprise performance and the higher CapEx result, I'm just trying to get a sense of how long you've been in dialogue with MIRA. I'm just trying to get a sense of if they were across that stronger Enterprise performance and that uplift in CapEx when they made that $5.50 bid?

Second question, just on VNS performance, I guess at the last Telstra result, there was talk of them disrupting themselves, i.e., cutting prices. Just wondering if this is having much of an impact on your VNS momentum or is it a case of even post-Telstra disrupting themselves, the Vocus value proposition is still compelling for customers?

Then last one on Retail. I'm trying to get a sense of how much this shift to 100-megabyte plans might benefit your gross margins? So, if I look at Dodo, I mean you guys charge $15 more in terms of Retail pricing for the 100 versus 50, so a rough stat of $10 more, so you guys are making $5 more GP on the 100 plan and did we see much of that benefit come through in this half for the Retail result? Thanks.

Kevin Russell: So, Eric, two comments on the MIRA question. (1) entered due diligence just shortly before 8 February. (2) I would say that MIRA were well informed and demonstrated a good knowledge of business and market in my own interactions with them to date. I can't really comment on anything else.

In terms of VNS and Telstra pricing, Telstra have changed price in market. It captures a few headlines, I think. Our experience of our performance in market has been strong. It's been consistent. Competitors change prices, change strategies. The reality is that a lot of our opportunity comes down to our own execution, our own brand strength, our own word of mouth, our own ability to deliver and I think that's showed up in the last few months regardless of competitive pricing changes.

On the last point on 100-megabyte plans, we are seeing some good performance there. I think that the key thing to focus on in relation to NBN margins is just the overall dynamic of the marketplace. I do think - I suspect - we'll move into a market which is at the end of the NBN market share grab, and I suspect the pricing environment to improve. I think that will be the key driver of margin growth in Retail, rather than changes in mix..

Nitesh Naidoo: I'll just add to that, Kevin, I think, Eric, you'll see in our disclosures in terms of KPIs for Retail that we have seen ARPU increase and you'll see it consecutively in each of the halves that ARPU is increasing and that benefits on the trend you're just describing. But in the last half, we're not seeing that translate to AMPU, so the sentiment around profitability in pricing is still relevant in this marketplace.

Kevin Russell: Yes.

Eric Choi: (UBS, Analyst) Got it. Thanks, guys.

Operator: The next question today comes from the line of Roger Samuel from Jefferies Australia. Please ask your question.

Roger Samuel: (Jefferies Australia, Analyst) Hi, good morning, all. I've got three questions. First one is on LEO. I'm wondering if the opportunity is significant from LEO and are you delivering satellite services as well or are you just connecting the ground stations? That's the first question.

Second question is on the VNS business. There seems to be a lot of new fibre developments started by various companies, including HyperOne. Telstra has also started selling dark fibre as well. Do you think there'll be an oversupply of dark fibre in the future or do you think that demand is going to be so strong that you can justify the new builds, including your higher CapEx guidance?

The third one is on the Retail business. I'm just wondering if you have any update on the potential sale of Retail business. Thank you.

Kevin Russell: So, on LEO satellites, our focus is ground stations and the backhaul opportunity in those ground stations. It's an exciting new opportunity. It wasn't something we expected to emerge as we were sitting here 13 months ago.

In terms of having the idea as to how significant the market opportunity would be, I think that the world of the satellites are exciting. I think there's a level of investment going in there and I guess there's a degree of an arms race that I think is an interesting opportunity for anyone who's got strong backhaul assets in regional areas where these ground stations can be housed. So, I think it is an interesting opportunity. I wouldn't quantify it just now. I think it's emerging but I think it's a really important validation of our ability as an organisation to move nimbly and establish good partnerships. That's the encouraging bit for me. I think we're well positioned there.

In relation to VNS and the overall landscape, it is absolutely interesting to look at the number of, I guess, announcements over the last few weeks on potential fibre projects or new fibre launches and then Telstra's announcement this morning. For us, the market opportunity is quite simple. We understand where we play. We understand the market trends. Our network assets are frankly under-utilised relevant to our market share.So, our fixation is on the market, it's on winning in that market and we do recognise this - probably the noise in the marketplace just now probably says that the market opportunity is growing and there's appetite to invest.

I feel pretty confident and comfortable in terms of our ability to execute our plans to the - for the period ahead.

On the Retail business, it’s been through a tough few years and the team have done a phenomenal job of tightening up the margins, stabilising the business, but they've also done a great job of just improving the operation and improving the system capability. We're now in a position where we have a bit of work to do, but we can within the course of the next 12 months have the retail business more separable. That's always been a challenge for us in terms of integration of systems and that's a piece of work that we have made progress on and can make a lot of progress on over the coming months.

So, there's no, I'll say, plans to sell Retail. We recognise it's a valuable business. We recognise there's people in the market who’d love to get their hands on it. And we recognise that separating it gives us some - a few choices there, but there's no other plans to date to talk about.

Roger Samuel: (Jefferies Australia, Analyst) Okay, great. Thank you.

Operator: Your next question today comes from the line of Brian Han for Morningstar. Please ask your question.

Brian Han: (Morningstar, Analyst) Kevin, I'm not sure whether you got a chance to look at NBN's latest corporate plan, but generally have you noticed any change in their stance on the whole CVC pricing structure on the Retail side or do you even care anymore on that front when it comes to your Retail business?

Kevin Russell: As somebody who's been in the marketplace for 20 plus years, I care about the health of the industry. I think having a pricing construct in the marketplace that is not fit for purpose, which CVC is not fit for purpose. I think that's not a good thing. I think having a construct which encourages or almost forces operators to manage bandwidth and throttle bandwidth and manage cost in a way that's inconsistent with the customer experience is a bad thing for customers and for the industry. So, I've been very black and white for years that the CVC is fundamentally flawed. That's the end of my soapbox speech.

In terms of do I fear change in NBN? We haven't engaged on the latest pricing proposals yet. I think that question can really only be answered once we feel the level of open, practical engagement to fixate on customers and the overall industry. So, I think - I'll reserve that comment for later, but I'll be blunt on CVC it’s not an appropriate construct.

Brian Han: (Morningstar, Analyst) Thanks, Kevin.

Operator: Your next question today comes from the line of Ian Munro from Ord Minnett. Please ask your question.

Ian Munro: (Ord Minnett, Analyst) Good morning, Kevin and team. Just maybe just looking at the ASC update, can you perhaps gives us a sense of the contribution of the ASC relative to the growth rate in the VNS segment? That's question one.

Then question two maybe for Andrew, how are you seeing the growth options in Enterprise and based on that how are you thinking about the exit rate in June this year and the growth into FY22?

Then just thirdly on the New Zealand business, perhaps any indicative pricing, what kind of multiple would be a minimum to proceed with the transaction? Thank you.

Kevin Russell: So, on ASC, ASC was not a big driver of growth in the half. The growth year-on-year over a 12-month period has been more single digits. We've had a really good sales half and that kind of was what I alluded to as part of that uplift in the Wholesale contract wins that you'll see getting provisioned in the second half of this year.

We're overall up to 6 terabytes of capacity sold on ASC so you're going to see a better, stronger contribution from the ASC in the second half of this year. Overall, it's proven to be a very valuable, strategic asset for us and I think some of our plans going forward, particularly the Port Hedland ASC spur is going to be leveraging the value of that investment. So, ASC has performed well sales-wise, not so much revenue in the half.

On indicative evaluations for New Zealand, I'll duck it. I think we've got good benchmarks in the marketplace in terms of EBITDA forecasts for New Zealand and I think we've got pretty good benchmarks in the marketplace as to where some of the peers are trading, Ian, and that would give us a relative range. We feel as if the New Zealand business is an incredibly valuable business in the marketplace, which is short on companies of that quality coming to market. So, we would expect to get our valuation that represented the scarcity of value of that business and the definite capability of that business.

In terms, Andrew, of Enterprise run rate, I wouldn't talk to any numbers but the momentum in the second half of the year relative to the first half of the year and maybe you can comment as well on how you're seeing some of that Telstra pricing impacts.

Andrew Wildblood: Yes. Obviously, we've had an exceptional first half, driven largely because of the selling momentum that we had coming out of last financial year. That's continued on through the first half and actually, we just landed a pretty material contract as well already in this year, in this half. So, you've got a reason to believe that momentum continues. There's more RFP activity than I've ever seen for many years as everyone starts to look at their cost base, which opens up opportunity for us.

For the question about Telstra's changed pricing, it hasn't stopped us winning. We've won against them, we'll continue to win against them and actually, the thing that customers want is a price value equation. It's not necessarily about price but they want to get services delivered and installed and that's where our value prop stands up and continues to stand up.

Being very focused on the right segments of customers, where you've got differentiation and customer experience is critical, is why we're winning and continue to win. That plays through for the ATO win and for other wins we had in the first half. Heritage Bank, that was competitive against everyone in the market, we won it and the one we've just won already in this half is the same. We're winning, taking market share, delivering great customer experiences and that's why we continue to believe that the momentum continues.

Brian Han: (Morningstar, Analyst) Thanks Andrew, thanks Kevin.

Kevin Russell: Thank you.

Operator: Thank you. Your next question today comes from the line of Entcho Raykovski from Credit Suisse. Please ask your question.

Entcho Raykovski: (Credit Suisse, Analyst) Morning, all. My first question is around the VNS guidance. Revenue guidance upgraded but EBITDA guidance only moved to the top end of the range. I don't know if I'm reading too much into this, but are you finding new contracts are lower margin than perhaps what you previously expected?

Secondly, at VNS, you've specifically flagged some of the Government and Wholesale wins in the first half. Just to clarify, was Enterprise also growing and are you winning share there in the first half or is the growth within Enterprise less pronounced?

Finally, Andrew, if I can pick up on the comments you made around the price value equation, were you finding that competitors aren't delivering service or value and what is Vocus delivering if you're not just competing on price?

Kevin Russell: Entcho, I'll try and answer a couple. The first half of the year's growth in margin really has been primarily fuelled at the Enterprise and Government level. Wholesale has been strong at a revenue level and wins have been strong to be delivered in the second half of the year. Where wholesale was strong at a revenue level was in relation to NBN resale and that absolutely helped in terms of revenue growth in the first half but that is a lower margin contribution.

If you sit back and look at the one of the key numbers in the results that I'm really pleased about is the data network's revenue growth at 8%. That has largely come from Enterprise and from Government performance.

On VNS guidance, again, we've obviously four and a half months to go so we've got a pretty good handle on our position but we are measured I think in terms of our guidance to market and we do have a desire to have a good performance. But I think that a good performance enables us maybe to make some investments from a people standpoint, overhead standpoint that is relevant to some of the market opportunities we see going forward.

We're certainly not optimising - not targeting to optimise our EBITDA result over the next six months. We are focused on also making some overhead investments that will position us for growth in the next financial year, as well. On price value…

Andrew Wildblood: An answer on Enterprise yes, we are still winning, yes, we are taking market share. I know we only called out the large government contracts. We could have called out a number of Enterprise contracts as well so we are winning in that space.

Price value, we're continuing to build on what we achieved as an amazing organisation through COVID, which was galvanising around the customer, turning networks on quickly and delivering. I think that COVID hit others in the market harder in terms of their ability to gather around the customer requirements and consequently it seems when I talk to customers that the simple services that are required are taking too long in other organisations and that's not the case with us.

So, people are saying, it doesn't have to pay the cheapest price here - I just want the service delivered and that's where we're now starting to pick up. That's across voice, data, cloud services, so it's generally across the board. Why are we providing, what are we going to do to sustain it? It also is all of the things I've been saying for the last two years since I've been here, that is your customer experience, the segments you serve, so being very clear about the segments you're in.

Then the capability uplift, we continue to roll out new product capability. We've launched our new Vocus Calling, which is a new calling platform for voice, which is very disruptive. So, we continue to do things which change the market dynamic and create great experiences. When you add that on top of our fibre network, that's how we're winning in the enterprise space, in addition to the partner ecosystem that we're building to complement our network services.

So, it's not a single bullet in this. It is a series of investments or focus areas that we've put in over the last two years that's now starting to pay dividends in sustainable results.

Kevin Russell: Yes, I would probably make one other comment, which I do think we have underperformed historically, relative to the market opportunity. I think we've got good network assets and we've had good parts of the business and strong, secure credentials. I think what we're doing now is starting to get those pieces working more harmoniously and starting to pick up a fairer share of the market relevant to our capability, as well.

Entcho Raykovski: (Credit Suisse, Analys) Okay, that's great, thank you.

Operator: Your next question today comes from the line of [Kane Hannan from Goldman Sachs. Please go - please ask your question.

Kane Hannan: (Goldman Sachs, Analyst) How are you going, it's just a couple of quick ones from me.

Andrew Wildblood: Sure.

Kane Hannan: New Zealand Enterprise and Wholesale, just a sense of what the revenue trends would have been without that Wholesale partner and where you think the Sky partnership is going to be able to offset that when that comes on line.

Then secondly around the NBN AMPU, just give us a sense of where that would have been without the CVC concessions, where it's been tracking since that offer finished up from NBN Co.

Then finally, MIRA obviously doing their DD at the moment. You do have a lot of momentum in the business. What are you presenting to those guys around your growth trajectory inro FY22? Cheers.

Kevin Russell: On New Zealand Enterprise and Wholesale, you can see that there's a solid gap that came from the loss of one major Wholesale customer. The Enterprise business in New Zealand, actually has been performing well over the last - say the last six to nine months. Had a difficult patch maybe 12 months ago but the Enterprise business, I'll say is performing well.

Sky is a big win for Mark and the team. It's a flagship brand and customer who will deliver significant growth to the market for this half. I think Mark's view - and I would support this - is that that will be every bit as big as the customer that was lost and should actually be bigger. So, that's a good place to be.

On CVC concessions, I might come back to that Nitesh as to specifically what that has or hasn't met with - it does feel as if every six month period there's another concession or rebate or some other activity from NBN. I would suggest our margins are relatively stable on NBN so we've been trying to manage our pricing so I don't believe we've got an inflated number that will fall back because of a particular concession period falling away.

I would again go towards holding the market reasonably steady and hopefully seeing some retail price sanity in the marketplace so a better dynamic in the marketplace.

There was a final question on MIRA which I think I'll just duck if that's okay, because I think it's probably given - it's going to the heart of what are your growth rates, what do you predict for FY22.

So, Kane, we've got good clear five year plans that we have been evolving for a period and I think we feel as if we're on a good trajectory on those plans. But I think I need to save that information for August.

Kane: (Goldman Sachs, Analyst) Cheers, guys.

Operator: Your next question today comes from the line of Ian Martin. Please go ahead.

Ian Martin: Hi, good morning.

Kevin Russell: Hi Ian.

Ian Martin: (New Street Research, Analyst) A couple of questions - hi. Just a couple of questions on the three-year outlook particularly for Vocus Network Services. First, in relation to the NBN corporate plan and I understand your frustration with the CVC, but the real issue from a Vocus point of view is that NBN wants another billion dollars or more out of the corporate market over the next three years. Particularly - their focus is in the same regional markets that should be a natural for VNS. I just wonder how you see that, even if it's not a realistic threat, it could do a lot of damage, couldn't it, on a three-year period?

Secondly, just in terms of the mobile opportunity, has there been any progress, any developments there that point to a role for Vocus in the mobile market?

Kevin Russell: I'll ask Andrew to talk generally about the dynamic in NBN. NBN is more at the lower end of the market, so just - context.

Andrew Wildblood: Yes, the NBN has moved away from direct selling - they did have a sales team focused on going out to customers directly and advocating for the use of NBN. That's now been removed and now it's more about education around where NBN can be useful in say satellite services or other services.

The area of the NBN market where we're really focused is not the lower end but the enterprise ethernet with the upper end of access network technologies. The win that we've had with Heritage Bank, for example, was predominantly access using NBN Ethernet. That makes sense, as an access mechanism but you have to have the platform, which is what we've got, to create the actual outcome for a customer.

I don't see NBN as a threat anymore. I see it as an opportunity to actually get the right blend of our network and our backhaul network to create compelling customer outcomes and that's holding true in the contracts we're winning. It also means that we don't have to spend CapEx building certain buildings if they've already got access to that building. So, it's a good blend of opportunity for us with NBN now, so we're in a good place. That would be my response to whether I see it as a threat.

Kevin Russell: The point is that the change in NBN's position over the last 12 months, is that we've got visibility as to how we're working the market and we're working well.

On the mobile opportunity, in this six-month period, we really haven't advanced discussions and I think some key players in the marketplace have been focused on some of their other priorities before they get to look at that broader regional 5G play.

It has been interesting for me to reflect on how the LEO opportunity has come through more strongly in the last 12 months rather than the mobile platform opportunity but I do think that's a timing issue. At some point, over the coming 12 months I think we will get greater clarity around how the backhaul opportunity for 5G looks.

Ian Martin: (New Street Research, Analyst) Okay, thanks for that.

Kevin Russell: Thanks, Ian.

Operator: Your next question today comes from the line of Craig Wong-Pan from CLSA. Please ask your question.

Craig Wong-Pan: (CLSA, Analyst) Hi, just a housekeeping question, the interest and D&A costs for the first half were a bit higher than I expected. I just wondered if you could provide any thoughts or expectations for what we should think for the second half, for D&A as well as net interest costs.

Kevin Russell: Sure, I think this will have to be the last question, Nitesh.

Nitesh Naidoo: Yes, hi Craig. From an interest perspective, the higher costs from an interest perspective were related to the undrawn portions of our debt facility, which we only refinanced in June 2020 at a higher margin than would have been there previously. That undrawn facility and the margins we're paying on that is the key reason for the high interest costs.

On D&A, I suppose you are referring to the underlying D&A. Underlying D&A is higher on amortisation, specifically related to software, so we are seeing some higher software costs and software has a shorter life of depreciation, which is why it's driving up additional costs in our results.

Craig Wong-Pan: (CLSA, Analyst) so for the D&A costs for the first half, is that a fair level for the second half?

Nitesh: Yes, it would be appropriate.

Craig Wong-Pan: (CLSA, Analyst) Okay, thank you.

Kevin Russell: I think we've got time for one more, I’m getting waved at across the table.

Operator: Our final question today comes from the line of Nick Harris from Morgans. Please ask your question.

Nick Harris: (Morgans, Analyst) Thanks. A question on turnaround. Obviously, you've said that's now complete, it's been a pretty major project. If we rewind, I guess three years, there were lots and lots of different systems and processes from all the legacy acquisitions so I wanted to understand is that all now fully merged into a single set of networks and systems and is that helping you as a unique selling point?

Kevin Russell: The way I would describe it is that we spent a fair bit of time getting our hands around its neck. Where we are now is, we've got major traction on decommissioning of say half the systems. –Its not a barrier to us now operating market and we've got a clear path forward to modernisation of our platforms for two to three years out.

First and foremost, where we are is not a barrier and we have a clear path going forward. Ongoing elimination of legacy is something that Vocus will be doing for years and years to come. I think where we were three years ago was just a mess and no plan and no commitment to actually decommissioning.

So, we're now in a fundamentally different place where we are solidand operating smoothly but there are absolutely opportunities to further modernise and streamline costs, which is the Future State program.

Nick Harris: (Morgans, Analyst) Thanks again.

Kevin Russell: Thanks, Nick. I think we'll wind up with that. Thank you very much for attending. A lot's been covered today and I think it's a set of results that's a really good step forward and we're looking forward to delivering a strong second half, as well. Thank you very much.

Operator: Ladies and gentlemen, that does conclude our conference for today. We thank you all for your participation, you may now disconnect.

End of Transcript