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Operator: Thank you for standing by, and welcome to the Vocus Group FY18 results conference call. All participants are in listen-only mode. There will be a presentation, followed by a question-and-answer session. If you wish to ask a question, please press the star key, then one, on your telephone keypad. I would now like to hand the conference over to Mr Kevin Russell, Group Managing Director and CEO. Please go ahead.

Kevin Russell: Thanks, Jean, and good morning, everybody. I've also got Mark Wratten, CFO at Vocus, in the room with me, and Mark Callander, who heads up our New Zealand business, actually also is covering off our enterprise, wholesale and government business in Australia temporarily.

Just want to move on to what we're going to cover off today, so it's an important results announcement for Vocus, at the end of a year of significant change, and as the new CEO coming in, I just want to share a bit of context to some of the changes that are happening. As we go through, I also want to share my observations, initial observations on the business and also our outlook and into 2019. Mark will also walk us through our 2019 financials.

So we've had a very clear strategy of bringing these network assets together and they continue to represent a real strong and compelling opportunity, but there is no question as to missteps, and as a Company, we haven't executed well enough on the opportunity in front of us. For the last few months, we have seen a major reset of Vocus from a Board standpoint, a leadership standpoint and strategic priority standpoint. So if I try and take a few minutes just to reflect on exactly what's changing, it's fair to say that we're moving with a sense of pace, a sense of purpose and absolutely a sense of urgency.

We're clear that there is a need for significant and immediate change, so from a Board standpoint, just over the last three months, there have been four new directors appointed, myself and Mark Callander coming on in May, and then today we're also announcing Rhoda Phillippo and Jon Brett stepping down, but also Bruce Akhurst and Matt Hanning, both strong and respected directors stepping onto the Board. So really, a clear renewal of the Board. I wouldn't say it's complete yet, still ongoing work to be done, but in a very, very good place.

From a leadership standpoint, I'm really pleased with the progress we've made in a very short period of time, so including my appointment back in 28 May, just three months on effectively, there's been five new appointments into the team. We have also restructured the team during that period, and we've also really comprehensively overhauled the executives rem structure, and this is very consistent with a structure that I am - I want to have in place. I think clearly it represents where investors want us to go, so the rem structure has moved to a no-STI, but a three to five-year LTI, and that is more consistent with the strong view we have that this is a two, three-year turnaround, and we want the discussions focussed on what's right for Vocus three years out, not what is right for Vocus just in six months or 12 months.

Some detail on that rem structure is just the strike price has already been done back at 1 July at $2.39, and I think important for everyone to be aware of, vesting in this structure requires a minimum of a 50% increase in share price, and that's for 50% of that LTI to vest, 100% increase in share price to enable 100% to vest. So I think, again, it shows a level of commitment to growth and a level of focus on where we want to be three years out.

When I look at strategy and where we are thinking, where we are focussing, I definitely have come in with a strong belief that our growth potential is significantly greater than we have challenged ourselves to realise to date. So our primary focus is on growth. Our market share is subscale. It is low relative to the fibre and network assets we known, and our priority is to maximise that profitable growth within the core enterprise, government and wholesale businesses, not just in Australia, but in both Australia and New Zealand.

Our operational leverage and growing on top of our core infrastructure is a significant advantage for us going forward. So clear target, we have to double our revenue from enterprise, government and wholesale across Australia and New Zealand, within a maximum of five years. Other changes in thinking, we are one executive team, and we have collective accountability for the performance. I have observed coming in silos within the organisation that are not acceptable as we go forward.

In the same breath, I also want a team that is empowered to deliver in the individual markets, and I want to see us running hard. So we have been set up in a way that our business units are empowered, are supported technology wise to make decisions quickly that are consistent with the market opportunities they see ahead of them. Culture and technology are both critical enablers for us being successful in market. We're the small guy. We need to be nimble. We need to be customer focussed. We need to be easy to do business with, and we need to be backed up by technology that enables us to do that.

I do see our marketplace where we have a significant opportunity with larger players in transition periods, so we have to be maximising the cultural advantage we have. Finally, on cost, CapEx and cash, I am probably by reputation a bit of a cost-cutting CEO. I wear that badge with a sense of pride, frankly, because being smart about how you spend your money is a good thing, and being commercially sharp is a good thing. I expect our ability to manage our costs and our cash as just a core part of our cultural DNA going forward. I'm not pushing any big standalone transformation program. Saving money and being smart about how we spend the money is what we do as leaders day in and day out, and that's how we will approach it.

If we move on to just the changes from a leadership standpoint, six changes in just the last few months, I come in very clearly excited about the opportunity. And what brought me into Vocus was frankly the opportunity to grow, that core belief that our growth potential is greater than we've challenged ourselves to realise on - realise, is a key reason I am here. And there's nothing that's come across my desk in the last three months that has in any way dampened my confidence around that growth opportunity. In fact, completely the opposite.

The other changes we've made, people wise, Andrew Wildblood coming in to head up enterprise and government. That point, what will happen in the months ahead, he will join in the months ahead, that's a big hire for us. Andrew's knowledge of midmarket in Australia, of enterprise in Australia, is second to none. I think the message it sends or the message that someone who knows the market so well and has competed against Vocus, has that passionate and confidence to move over to the Vocus team from the incumbent operator, I think is a strong and positive message for our opportunity going forward.

Antony de Jong has joined as of just a couple of days ago. He signed up a couple of days ago and will join officially I think on the start of September. Antony, by way of background, he started Belong - I worked with him in a previous life. He started the Belong, the mobile broadband challenger brand for Telstra. He knows us doing telco well. He's a detailed, hands-on operator, and again, a little bit like Andrew, he's been as a consultant, helping us look at the Commander business for the last month, and again, the fact that he has looked around at Vocus, looked around at Commander business, tried the full-year buying opportunity, and has the confidence to sign up and join when there are many other opportunities for him in the marketplace is exciting and confidence boosting.

Other key change in terms of these three business units over the last few months is the expansion of Mark Callander's role. So Mark has built an exceptionally strong business in

New Zealand, and frankly, we want and need more from Mark, so his ability to stretch across wholesale as well is something we're really excited about, and that will also include his focus going on to the opportunities we have with the Australian-Singapore cable.

So just these four business units now, we feel as if - I feel as if we're in a very good place in terms of leadership, and these are the roles that are critical for us growing them forward. A couple of other key changes - Matt Walsh's come in or been elevated up from within the business to a Chief Customer Officer role. This is consistent with my passion and focus around how do we get things right from a customer standpoint, and Amber Kristof will join from L'Oreal in the middle of September, and again, a strong operational hire focussed on people, culture and what needs to change from a leadership standpoint within Vocus.

So just a final comment would be what a change, moving fast, feel as if we're in a really good place from a leadership standpoint, and this is an operational experience team. So with that, I'll pass over to Mark.

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 full-year financial statements, as well as a detailed operational and financial review document, which contains more detailed information covering the Group and the operating divisions.

Now, starting on slide seven, presentation of Group financial highlights, I'll mention now that the FY17 numbers in the top section, and indeed, in most of this investor presentation, are adjusted pro forma numbers. The reconciliation from '17 reported to '17 adjusted pro forma is in the appendix of this presentation and in the OFR, and the adjustments we've made are consistent to those which we have set out previously and include the overlay of the four months of the Nextgen business for the period that we did not own it during FY17, as well as normalising for the deferred SAC benefit that we had reported in FY17.

Using these adjusted FY17 numbers, we're able to provide a more accurate comparative and commentary on the year-on-year movements, and we're comparing these to FY18 reported numbers on a constant currency basis so as to remove the impact of the FX differences across the Group, which are actually relatively minor. Our FY18 revenues and underlying EBITDA are in line with our February guidance, albeit at the lower end and reflect a 2% and 7% increase against PCP. I do have both revenue and EBITDA bridges coming up in the following slides.

Pleasingly, our EBITDA margin has improved 100 basis points against FY17. Our underlying NPAT came within our February guidance, but again at the lower end, due to lower-end EBITDA. As mentioned in February, the major item negatively impacting this line versus PCP is the significant increase in D&A expense, which is $35 million higher than FY17, with about half of this increase to the incremental four months of the Nextgen business and the balance from the flow-through impact of recent CapEx spend levels.

A material highlight of our FY18 financial performance was the much improved cash conversion rate, and we finished the year at 88% cash conversion versus just 52% last year. We had a strong second half in cash, driven by much lower negative drag associated with deferred revenues, deferred SAC and the other known items which are washing their way through the system. And in addition, working capital did improve in the second half.

Net debt at June '18 was $28 million lower than June '17 and better than our guidance and net leverage ratio ended the year at 2.73 was again better than our guidance and helped by the stronger cash conversion and cash CapEx, excluding ASC, coming in well below our guidance at $166 million. Moving on, thanks, to slide eight. Revenue growth profile.

As mentioned in the previous slide, Vocus grew revenues by 2% in FY18. However, this net number does not tell the full story. Whilst I was - I'll cover this only at a high level. In Kevin's next section, he will provide more context to our divisional performance, our strategies and the outlook. Firstly and most significantly, our enterprise, government and wholesale business delivered strong revenue growth, increasing revenues 11% versus last year, on the back of a disciplined and structured sales approach, with our fibre and Ethernet products driving much of that growth. Our New Zealand business performed well during a tough year for the team due to the long sale process and delivered revenue growth of 4% on last year with growth enjoyed across all segments.

Our consumer division was broadly flat in terms of revenues in what continues to be a challenging market. We did see growth in energy revenues, which offset the ongoing decline in voice revenues. As Kevin mentioned, we have separated out our Commander SMB business in both this investor presentation and the OFR, as going forward, it will be managed under a separate division with a separate management team.

Doing so highlights that this business suffered, mainly due to a lack of focus, during FY18, with revenues declining 15% versus last year, as legacy voice products have been in decline and we've been under-investigating - sorry, under-investing in marketing and products. Our total NBN market share, excluding satellite, grew during FY18 to 8.9% from

8.2% with our consumer market share slightly declining to 7.4%, due to reduced H2 marketing spend, which we deliberately slowed until we finalised the rebrand of dodo and completed other marketing and digital initiatives.

However, this decline was offset by the strong growth in wholesale NBN situations. Moving on to slide 9, FY18 constant currency EBITDA was up 7% on prior period, and like it, or sorry, like revenue, it has many components to it. Enterprise, government and wholesale grew divisional EBITDA by $42 million on the back of the strong revenue growth I mentioned earlier, which leverages our core infrastructure assets for solid earnings growth in that division.

New Zealand enjoyed EBITDA growth in line with its revenue growth, and consumer was broadly flat, as voice declines and AMPU erosion from copper customers migrating to the NBN were able to be offset by energy margin improvements and cost savings, driven by a number of major initiatives in that division.

The Commander business saw EBITDA declines driven by the voice legacy revenue declines I mentioned earlier, and group services costs did increase versus PCP, with the main driver being some one-off consulting costs and the investment in resources to drive our critical projects. Moving to cash conversion, as I mentioned earlier, cash conversion percentage improved significantly in the second half, and we finished at 88% of our EBITDA converting into cash, which was a significant improvement on FY17.

This was driven by the stabilisation of our working capital balances and the lessening impact of the deferred revenues, onerous contract provision unwinds and deferred SAC. We didn't - we received no material upfront payments in FY18 that impacted cash conversion rates, so it's a pretty clean number. Our focus on cash will remain strong as we move into FY19, and I expect that we should see cash conversion rates improve further during this year.

We still have opportunities to materially improve our billing, credit and debtor management processes and systems and a number of projects have been initiated, covering these critical functions. In regards to CapEx and D&A, our cash CapEx in FY18, excluding ASC, was $166 million and well below what we guided in February. We obviously are continuing to improve our CapEx disciplines and controls and our effort is starting to bear results.

Apart from the more standard CapEx associated with network capacity upgrades, customer growth, such as modems and consumer and fibre builds and CPE and enterprise and wholesale, Vocus has been investing in a number of projects designed to reduce operational complexity and reduce costs, including the implementation of a single advanced core network within Australia, the consolidation of our Australian NOCs, the implementation of improved digital sales and service capabilities in our consumer business and network resiliency and security.

In addition to - entering FY18, we spent A$52 million on our ASC project, with a balance of around A$162 million being incurred in the first half of this financial year. The construction phase of the ASC cable is now complete, including all of our terrestrial network upgrades, and the system will be ready for service in mid-September, so around three weeks away. In regard to D&A, we did incur $141 million in FY18, which was $35 million higher than last year. As I mentioned, a large part of that increase was driven by the incremental four months of the Nextgen business, as well as the flow through of the D&A from recent CapEx spends.

Our D&A guidance for FY19 is in the range of $160 million to $165 million, with the increase mainly driven by the commencement of the depreciation of the ASC project build costs, as well again as the flow-through impact of CapEx levels over the past year, and CapEx we'll also invest in FY19. Our D&A profile has also changed as a result of our CapEx spend in the last 18 months has shifted materially away from large fibre investments, which typically were amortised over 15 to 25 years to assets we amortise over a shorter timeframe.

Now, just last slide in this deck, as we announced in June, we did close a new debt facility, which amended, extended and upsized our facility. In addition to assisting with the final funding of the ASC project, our new facility provides us the required flexibility to execute on our strategic initiatives over the coming years.

The covenants relating to interest and gearing ratios have remained unchanged. However, the maximum net leverage ratio covenants have been amended and are set out in the table. Our June '18 covenant was 3.75, reducing to 3.5 at June of next year and 3.25 at June 2020.

As previously announced, dividends will not be paid until the net leverage ratio is below 2.25 for two consecutive testing dates, and as such, the Board has not declared a final dividend for FY18. I'd now like to hand back to Kevin, who will take you through the divisional performance, strategy and outlook.

Kevin Russell: Thanks, Mark. So as I mentioned earlier, it is a new team, and some actually not even in roles yet, but I do want to share maybe some initial observations from me coming in and just how our directional thinking is evolving, and obviously detail will follow through at later dates.

But just moving through to enterprise, government and wholesale, and again, just context, enterprise, government and wholesale division grew by 11% in financial year '18. By way of context, we want to double - we have to double this revenue of this business over five years, and that's a CAGR of 15%, so we are in a position where this business unit is already performing strongly, and frankly better than I expected coming in. That is critical, because enterprise, government and wholesale represents 60% of the business unit EBITDA, so to have that core performing well, I personally was very pleasantly surprised coming in to see that.

In the course of the year, the really good, positive story is the way the enterprise team has been structured, and some of the basic disciplines that Julia Walsh, our Head of Enterprise Sales, has brought into that team and the improvements coming through are really encouraging. The strong uplift we've seen in wholesale NBN subscribers during the course of the year has proven to be an exciting opportunity, and we believe that opportunity will continue.

So there is really good - a good platform already in place. If we start to look at the market opportunities and where our priorities will be in '19 in these respective individual segments, enterprise, we have a phenomenal opportunity in the enterprise market, and if I just put it into a real simple context, our market share in enterprise in West Australia is 17%. Our market share in New South Wales, Victoria and Queensland, those core enterprise markets, was 2%.

So we are fractional share, subscale and have a very exciting opportunity to grow. We're in a market where that midmarket, that 50 to 500 Telstra called out the other day, is underserved, and has not been a good focal point for our competitors, and that is a market that is very well understood by people coming into Vocus now.

But also this really good trend in the marketplace, where the result of the network outages and challenges that a number of our competitors have had over the last 24 months has absolutely seen an increase in demand for diversity from almost across the board in terms of enterprise customers. So the market opportunity for us is now - is good. It is exciting. It does come down to our ability to execute and differentiate. We will have a clear focus on differentiation and customer experience, and good products that are easy to do business with, and what you should see in financial year '19 is us investing in additional sales capability and building a number of strategic partnerships that we haven't focussed on to date, as well as strengthening our basic product portfolio, and it's not [basically] going across the map and doing everything. But there are a couple of key products that we believe we will benefit from having in marketplace, via the SD-WAN and Unified Comms or a couple of others.

If I move to government, the market opportunity in government, I think I alluded to earlier, just I'm pleasantly surprised coming in a couple of areas. Government is one of them. Our government opportunity or government relationships are strong at a federal level, and we have a real opportunity to grow more strongly in government than we have seen to date. Victoria and New South Wales states are low share for us. Again, it's 2%, and those are significant target areas for us over the next 12 months. So you will see some developments from us on the network side over the coming six to 12 months. I can't share today, but we think it is and will be exciting.

Other focusses in '19, delivery of the Coral Sea Cable. That award of that program to us or that build to us is a recognition of the level of respect federal government has for us, so we have to execute that well. We also have to execute in terms of getting the right resource into New South Wales and Victoria to grow those markets. The move to wholesale, we have performed well in wholesale for the last couple of years, but this is going to be an important 12, 24 months for us in terms of how we leverage the capability coming in from the Australian-Singapore cable.

I think we're in a very, very good position. I like the idea that we have that cable laid, that it has been tested, that it is operating, and very critically, that we have our permits in place and that we will be in marketplace in the middle of September, or more specifically on 14 September. In other words, I like the fact that we've executed and delivered and got our act together. I think the opportunity there will be largely influenced by the time we have in market before competition comes in market, and that will be interesting to see how long that period of time is, but demand so far has been encouraging, and we sold 2.5 terabytes of capacity already.

So there'll be a big focus for us on building sales momentum in ASC during the course of financial year '19 and we will watch carefully how the competition progresses to see how big a window we will have there to maximise that opportunity. We will continue to focus on the progress we're making in NBN and wholesale as well, as well as just continue that overall intercap and metro Ethernet network wholesale that we've made a very, very good run at over the last couple of years. So wholesale again, key opportunity, but particularly in the back of the rollout of ASC.

If I move on to New Zealand, initial observations on New Zealand, and we've obviously got Mark Callander in the room here, so I'll be nice and gentle, but this is a good business. If you look at the growth, 4% revenue growth year on year, solid, positive, and that growth is across every single segment. I do think New Zealand's a business that's been managed to a number, and I think it has delivered to a [period], rather than being freed up to grow consistent with the market. And the challenge for the team in New Zealand and the opportunity for the team in New Zealand over the next 12 to 24 months, we will invest more into New Zealand from our sales capacity standpoint to capitalise on that opportunity in New Zealand that's similar to Australia.

So the enterprise market share in New Zealand is about 2%, 1% to 2%. It's a very similar story to Australia. We have significant - we have excellent assets and a significant growth opportunity there. We're also very well positioned in terms of as a credible alternative to the incumbents in that position as an agnostic partner for ICT suppliers in New Zealand. So we will push hard to expand into enterprise and government over the next 12 and 24 months in New Zealand.

If I move on into consumer, consumer is hard in Australia just now, and I say that across both broadband and mobile. The resale economics in NBN are obviously tight and differentiation is hard, and this transition to NBN is largely - is removing a lot of legacy voice and certainly reducing some of the margins in the business. This has been a transition year for us in consumer, but I'm very - our strategy is very clear. We have new leadership in place under Sandra de Castro, so Sandra has brought in a number of very strong executives below her on the sales and marketing side, digital side, with a change in systems, and there was a lot of work on the rebranding of dodo, which I think is excellent and will come into market in the coming days. And we also did a lot of work on building out the digital capability that will be critical for us in terms of improving experience and reducing cost.

So I feel as if we've done a lot of work the last six months and are better positioned going into financial year '19 to start to get back into growing market share. Our market opportunity is clearly to grow our broadband share as NBN rolls out and also to leverage more products into that base, so the opportunity to cross-sell energy and where we go to in terms of mobile resale will be both opportunities we will pursue hard. And key elements of the strategy, we have to digitise, we have to get a cost write-down, and there's been excellent progress in doing that, and we have to get an energised dodo brand into the marketplace in the coming days.

Commander. So certainly it's definitely coming in. This is the one area that has been of significant concern and probably different to what I expected coming in. If you look at the Commander performance over the last 12 months, Mark alluded to it. Our revenue is down around $40 million, or 15%, and that decline on revenue has been accelerating over the last few months.

If I reflect, there has been a lack of focus into this business, and I think there's been decisions that have been made that have been - may have helped in terms of short-term cash, short-term cost savings, but have not been optimal in terms of sustainability of the business. SMB is an exciting market opportunity for us. It's a growing market. It's a market that frankly is very poorly served today. It's a market where I would expect us to grow share in. I think we've got good assets and the Commander brand is a very exciting brand to move into or to use in that marketplace, but we do have short-term remedial work that we are all over.

Antony de Jong's appointment is an important step forward. How we re-establish the standalone Commander business in the days ahead is an important step forward. How we secure the base, how we reenergise our channels and re-establish our brand are all critical things we have to get right, as well as improving the digital front end and just getting the churn right down within the business. I do see challenges in Commander, but they are all fixable, and I would stress this, I am very excited about the long-term opportunities in SMB once we get our act together and fix the elements we have to fix just now.

So moving on to guidance, and just to frame this up, we absolutely are in financial year '19 investing to drive revenue through '20 and '21, so going all the way back to my earlier comments, we are - it is a transition year, and we are focussed on where we need to be in two or three years out.

Our underlying EBITDA guidance, we're guiding towards a range of $350 million to $370 million, and some of the elements within that, just to give some clarity, the enterprise, government and wholesale we see gaining momentum during the course of the next 12 months, but we are investing another $15 million in other OpEx initiatives that will drive growth into '20 and '21. And we do see an accelerating decline in Commander on legacy voice before we start to stabilise it.

Do expect the second half of the year to be stronger than the first half of the year, and obviously that will be in part the improvements we make in Commander as the year goes on. Depreciation and amortisation, guiding towards the range of $160 million to $165 million, as Mark mentioned earlier, and CapEx, excluding ASC, guiding towards $160 million to $170 million. ASC CapEx, financial year '19, $162 million, as previously guided, and again, this is very clear. We will operate comfortably within existing bank facilities and covenants.

So just to close, some simple takeaways from my chair. This is a major reset, a new Board, new leadership and new strategic direction, and there is an urgency and purpose with which we are executing right now. I'll also stress, the growth potential we have is greater than we have challenged ourselves to achieve, and we have a clear target to double the revenue from core enterprise, government and wholesale businesses in both Australia and New Zealand over the next five years, and it's important to note that these are businesses that are already performing well today.

The Commander business does require a significant turnaround, but we are frankly all over it just now and taking I think the right steps. We have a new incentive structure in place that I think better aligns with the expectations of investors and makes a clear statement around our confidence in the value-creation opportunity focus in years ahead. In terms of cost and CapEx, we will drive cost and CapEx hard because we have to. It has to be a part of our core DNA, consistent with how we also manage cash, and then finally, and critically, it's not a big strategic challenge. The market opportunity is there. It's an execution challenge for us.

So the basics around team, the right products at the right customers, how we get customer experience right, how we execute in channel and how we align technology into the business is a critical focus for us right now and in the months ahead. So with that, I'll stop and open up for questions.

Operator: Thank you. If you wish to ask a question, please press the star key, then one, on your phone, and wait for your name to be announced. The first question today comes from Kane Hannan from Goldman Sachs. Go ahead, please.

Kane Hannan: (Goldman Sachs, Analyst) Good morning, guys. Just two for me, please. I suppose just firstly on the guidance into '19 and that $15 million of reinvestment, just comment around I suppose the segments that's going to be focussed on, and then a sense of your expectations for the Aussie consumer business and New Zealand business. And then secondly, probably a bit more topical today, but just around how you think Vocus is positioned in the longer term, I suppose given the lack of a mobile infrastructure and whether you see opportunities to address that over time.

Kevin Russell: Okay, so there's a few questions in there, so the $15 million, and firstly, it's prioritised towards those growth opportunities in enterprise and government across Australia and New Zealand, as well as elements to strengthen the brand and channel capability in Commander.

In terms of consumer in New Zealand, I'll ask Mark to talk about New Zealand for a minute, performance in New Zealand next 12 months.

Mark Callander: Yes, so again, we expect - we had a reasonable period in the last 12 months despite a very challenging market, so we mentioned net growth around 5000 subs. We expect a similar performance going to the next 12 and continued focus on energy bundling, which has been very successful for us.

Kevin Russell: And in consumer, absolutely we will have the continued downdraft on legacy voice, and that, a level of margin erosion in terms of migration over from ADSL, but we have good plans in place on cost management, and I think the overall consumer business will be relatively - will be able to absorb those downdrafts with cost savings during the course of the year.

The final question?

Mark Wratten: Mobile.

Kevin Russell: Was on mobile.

Mark Wratten: Yes, longer term.

Kevin Russell: Longer term. Mobile for us is quite striking how bluntly - irrelevant's too strong a word, but we just don't make any money out of mobile, and it's a small base just now. I think it is - we would like to have a more compelling proposition in mobile in the marketplace going forward. I think it would absolutely be relevant in certain segments, in particular in relation to how we strengthen our capability in the small business market where mobile is increasingly important. Our [unclear] MVNO arrangements are with Optus. We are in discussions to review where our long-term MVNO arrangements will be, and those discussions are ongoing, but strategically, I believe mobile is important to us, and it would be good to get to a strong MVNO arrangement that aligns with our strategic objectives.

Kane Hannan: (Goldman Sachs, Analyst) Thanks very much.

Operator: Thank you. The next question comes from Eric Pan of JPMorgan. Go ahead, please.

Eric Pan: (JPMorgan, Analyst) Good morning, guys. Thanks for taking my questions. Just two from me. I don't see any mention of the $70 million cost-out program that was first put up last October. Is that still in place? And then secondly, on the ASC, what's behind the delay for the ASC commercial go-live date from July to September, and when will we see the revenues come in on the 2.5 terabits of capacity sold, and if there's any more capacity that's remaining in the sales pipeline? Thanks.

Mark Wratten: Yes, sorry, Eric. It's Mark here. It was actually a $90 million, a net $90 million cost-out program that we took to the market in October last year, and that was made up of a number of towers. It was actually $120 million of three towers which was cost reductions, efficiency gains, and then the third tower was revenue growth, and then offset by the impact of the lower AMPUs associated as we migrate customers from copper to the NBN.

So the reality is, as Kevin mentioned, that those targets are actually still well within our thinking. Those towers, absolutely all of the towers that we'll be focussing on in terms of cost out, cost efficiencies and revenue growth. I think the focus, however, will be much stronger, as Kevin mentioned, around the revenue growth opportunities through new products, better sales force, et cetera. But cost out absolutely will remain a big focus, and we still have great opportunity.

We have been delivering that. It's hard to see in our numbers, I know, but we actually have started cost out and Sandra and her consumer team, we've been investing part of our CapEx this year and in the early part of next year, or sorry, FY19 will be around putting - making her business more digital, which will allow her to have a lower cost to acquire and a lower cost to serve. So we haven't given up on those targets at all, and certainly they do remain in our three to five-year plans.

In terms of ASC, I might pass that one to Mark Callander.

Mark Callander: Sure. Obviously, these projects are very large and complex. We had the component we actually had to also get our terrestrial network in place, but we have obviously since then successfully transferred data across the system. We're only a few weeks away from [RSS] now, so again, it's just the complex nature of these very large builds.

Eric Pan: (JPMorgan, Analyst) Sorry, just the other couple of questions on ASC, the 2.5 terabits, when will we see the revenues come in on that?

Mark Callander: Yes, so when we talk about [RSS] of 14 September, that's especially when customers will be live and billed, so we will see revenues flow in this financial year.

Kevin Russell: And maybe the only other point on the [SGN], the first point on just execution. Building this cable through Indonesia is complex from a permitting standpoint, and approval standpoint. I think it's really important and really pleasing as to where we've got ourselves from our approval and permitting standpoint, and that's one of the big gating factors in execution and timeline, so that's something that our competitors will need to demonstrate and prove going forward, the ability to get the permitting lined up as well.

Eric Pan: (JPMorgan, Analyst) Got it. Thank you.

Operator: Thank you. The next question comes from Eric Choi of UBS. Go ahead, please.

Eric Choi: (UBS, Analyst) Hey, guys. Thanks for the questions. Just had three. First one, just on free cash flow conversion, and great job on getting that 88%, that implies you did 110% free cash flow conversion in the second half, though, so just wondering if you can give us a bit more colour on what the big cash amounts in that half were. Second question, just around enterprise, obviously, you've made some pretty big hires recently.

In the past, Vocus has given us some comments around I guess the size of the potential pipeline and where Vocus's competitive advantage versus, say, a Telstra or Optus or a TPG were. Maybe if you could just give us a refresh on that.

And then just lastly, just following up on Kane's question around today's announcement around Vodafone and TPG again. I guess that probably leaves you as the last major fixed broadband provider without ownership over their own mobile network. If I look at Telstra and Optus, it doesn't really seem like they're generating that much margin on the fixed product, but I guess they're increasingly bundling mobile products to generate a return. So thinking about the long-term prospects of your business, does that suggest minimal profitability for your consumer business without any mobile network to bundle it with? Where am I going wrong?

Mark Wratten: Thanks, Eric. I'll take the first question, free cash flow. You're right, good math, it was around 110% in the second half. That was predominantly driven by just the working capital movements, and we also had lower impact of deferred revenues per SAC, but certainly our working capital swung around favourably in the second half. You would have seen the last couple of reporting periods, we actually - apart from having those known items that were flushing their way through, we did still experience working capital degradation, but it swung back favourably in the second half, so that was driving that 110% in the second half.

Kevin Russell: In terms of enterprise, it's probably hard for me to make too many informed comments going backwards. I just do think the enterprise market is one that you need quality to get it right. It's not an easy marketplace without really committing to it. Commitment means calibre of executives as well as commitment to invest in product and reach and channel. There's no question we are bringing across and bringing in the calibre of executives, not just one, but there are - there obviously will be ongoing strengthening within that team, that I think puts us in a very different place, as well as a clearer understanding of what we need to get right from a product standpoint.

So I do think the opportunity in enterprise is as simple as just executing well and gaining market share on the back of some key products and some key relationships. On TPG and Voda and the impact it has on consumer, in the consumer business, obviously, the profitability from mobile in the consumer business is now - it's pretty much zero. It's negligible, so obviously that business is profitable and strong in terms of its ability to leverage broadband.

I think going forward, the ability to bundle additional products, the [energy] will be other elements of the whole be a solid growth opportunity for us in consumer. I do want us to have our eyes open, though. If you look back, if you look at the structure within Vocus today, 70% of our EBITDA at a business unit level comes out of enterprise, government, wholesale and New Zealand, and that is where we have core infrastructure assets already.

I think it will be critical for us to grow those segments and increase that mix of profitability, so I don't see consumer as - I see it as a growth opportunity, but I don't see it as the core growth engine for the business going forward. I see mobile as an opportunity to open up additional growth rather than frankly a fundamental weakness in the portfolio just now. So I would like to absolutely have a compelling mobile play. But because of the focus on the scale of growth we can have in the business market, I just feel as if that is the core piece we have to get right rather than being too perturbed about that other piece of the puzzle we may be missing. Did that help, Eric?

Eric Choi: (UBS, Analyst) Very helpful. Thanks, gentlemen, and congrats on the new roles.

Mark Callander: Thanks.

Operator: Thank you. Once again, if you would like to ask a question, please press star, then one, on your phone, and wait for your name to be announced. The next question comes from Brian Han of Morningstar. Go ahead, please.

Brian Han: (Morningstar, Analyst) Good morning, Kevin. There has been a lot of work done on the finance and reporting system side of things before you arrived. Did you think there's more work to be done in that area, or are you happy with the way the numbers are coming through to you?

Kevin Russell: My comments would be as follows. I think my observation would be that Mark inherited one heck of a challenge coming in in terms of reporting systems, and that's been clear in terms of some of the changes we've had to make and clarifications we've had to make. I think we've done a lot of great progress in moving onto one ERP system, and the last few days has been exciting, but I think there's probably still marked improvements to make. We're not finished in terms of tidying things up, but I'll hand over to Mark in that respect.

Mark Callander: Yes, hi, Brian. Yes, I'm certainly - we've certainly made great progress and within Australia, on 1 August, we went live across whole Australia with a new single ERP, which is a great project to get to that stage, so we'll have a single [JL] link with purchase orders, accounts payable, fixed asset register, so a single fixed asset register for the first time, project management, et cetera. So the team has done an outstanding job of getting us to that point. We'll now move that project across to New Zealand and roll it out there.

So great progress, but we've still got a long way to go. I think that there's another six to 12 months of hard work to get the financial reporting and the quality, the timeliness, to a level that I'd like.

Kevin Russell: My final comment would be, I think how we think about our business commercially and how we understand our cost allocation will be something we will get better at as the months go by.

Brian Han: (Morningstar, Analyst) Okay, thanks, and also just in terms of overall complexity in the Group, do you think there's more work to be done there in terms of simplifying things, or judging by your comments today, is it all about chasing sales going forward?

Kevin Russell: No, there's - the business absolutely has to be simplified and activity needs to be simplified. As we get crystal clear - as we get increasingly crystal clear on the strategic objectives within the business units and then we line that up all the way through to technology and where we spend the money, the business will simplify. The reality of our complexity comes from a lack of priority and strategy and doing a whole lot of stuff.

The simpler you get, the clearer you get around what's important and the sharper you drive that into the business and evidence starts to line up behind it, the simpler the business gets and things will be identified or areas will be identified to stop, to improve, so simplification will be an ongoing process. When I talked a bit earlier about cost and CapEx have been improved, it will come from being simpler and clearer and better aligned as an organisation.

I've seen improvements just in the last couple of months, but there'll be significant improvements ongoing as we simplify ourselves.

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

Operator: Thank you. The next question comes from Nick Harris of Morgans. Go ahead, please.

Nick Harris: (Morgans, Analyst) Good morning, guys. I'm just trying to understand in your FY19 guidance, ex-ASC, the CapEx, $160 million to $170 million, are you able to give us an idea of what's business as usual CapEx versus expansionary CapEx in the business.

Mark Wratten: Yes, so in the OFR, we've given you a bit of a split of our FY18 CapEx. The $166 million in terms of what we reported growth versus sustaining versus maintenance, I think you can probably apply the same percentage across our guidance, number of business as usual CapEx of $160 million to $170 million for FY19, but the big - a large amount of money, it does get spent on, in consumer, for example, on modems, which is all around new customers and getting new modems for the NBN.

There's still an element of fibre build, although we've been really good at pulling that back. A lot more investment you'll see in FY19 around these strategic projects around the digitisation across all of the business. All of those leads to less complexity, lower costs, new products as well. So I'd say it probably is a similar sort of mix as what we've got in FY18. That will be probably close enough for you.

Nick Harris: (Morgans, Analyst) Thanks, Mark, and I'm not sure if anyone asked this question. I may have missed the answer, but just the FY19 operating cash flow and the conversion rates. Obviously, you did a great job in the second half of improving that working capital. Is that a sustainable level, or is that one off…

Mark Wratten: No, no, it's very sustainable. I expect it will move into the low 90s in FY19. It could even be better, depending on obviously - a large part of that being better will be driven by ASC and if we can obtain a number of large maybe IOU deals, but certainly ignoring that, we should be in the low 90s.

Nick Harris: (Morgans, Analyst) Great, thank you very much.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Mr Russell for closing remarks.

Kevin Russell: Sorry, I was expecting a few more questions coming through. Thank you very much for attending. This, as I said earlier, has been - it's an important set of results for us, but we are really pleased with how the cash conversion has gone. We're really pleased with how the core business is performing, and we're very, very clear with where we're going in terms of growth going forward, so looking forward to updating as the months go by and some other key people land into roles. But thank you very much for attending.

End of Transcript