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Half Year 2020 Vocus Group Ltd Earnings Presentation

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the H1 FY '20 Results for Vocus Group Conference Call. (Operator Instructions) 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. Thank you. Please go ahead.

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

Thank you, Edison, and good morning, everyone, and thank you for joining today, and welcome to our first half results for financial year '20. With me in the room, I have Nitesh Naidoo, our new CFO, 4 weeks into the role, has been a fairly busy start. I'm personally delighted that Nitesh has joined the team at Vocus. He has an excellent background in telco in Australia and Europe and is very much a hands-on operational CFO, which is critical in a turnaround environment like Vocus. We also have Andrew Wildblood here, heading up -- who heads up Enterprise and Government, and who's a veteran, taken over a year at Vocus. And Ellie Sweeney, our COO, Head of Infrastructure and Operations who's now 10 months in.

So today represents the midway point of our 3-year turnaround plan at Vocus. Organic turnaround, there are twists and turns, distractions and noise, but overall, we are progressing well. The new team has settled. We are clear in our opportunity and aware of and dealing with our challenges. We have a tight strategy. And as a team, we are executing. So it is good to get the opportunity to update you all today.

If I can move us to Slide 2 and just frame up some of the key financial points for this half year. There are a number of good financial highlights in these results. Overall, it has been another steady half during a period of significant change, NBN transition and investment. Our group numbers show underlying EBITDA up 2%, and our balance sheet continues to delever. As expected, Vocus Networks has generated strong EBITDA growth, up 11% to $111 million. Vocus Networks now represents over 60% of our group EBITDA. New Zealand continues to grow strongly with EBITDA growth of 6%. This business has market and operational momentum. And in our Australian Retail business, there are very encouraging revenue trends in the Consumer business. Antony De Jong and his team have also done an excellent job of resizing the cost base consistent with a tighter NBN environment. On the lowlights, we continue to transition through the significant erosion of legacy copper, voice and ADSL revenues and the impact of reduced NBN margins for both our retail segments.

If you can move to Slide 3 and just pick out some key business highlights in the half. It does all start with people. As I mentioned earlier, I am delighted with how our new teams in Vocus Network Services and Retail have settled. We made a lot of senior executive changes during the last financial year, but critically, we are noticing a very good operational rhythm and alignment. On the execution side, there are a number of standard highlights. At Vocus Network Services, we are seeing good sales traction in our target segments and a growing pipeline of quality opportunities. The completion of the Coral Sea Cable in December, on budget and ahead of schedule, was an important delivery milestone for the company. We have momentum in our program of what to simplify and modernize of technology platforms. Our key products of Telco and Energy in New Zealand are growing well. And our Retail business has seen our core Dodo consumer brand return to growth as well as delivering improving service levels.

I have said before, the cost management needs to be a core part of our challenge of DNA. We now better understand our cost structure and productivity opportunities and it is very positive to see cost improvement in this half across all 3 business units. Strong operational leverage is integral to our future business model. If I can move us on to Slide 5, I want to share a bit more detail on the progress in each business unit.

18 months ago, my first results briefing, I outlined that as a group, our primary focus was in growth in Vocus Network Services, grew our market shares at subscale relative to the quality and value of our network assets. It has taken time to have the right team, build the right go-to-market capability and reorient it towards the most relevant market segments. There are also long sales and delivery time lines in the Enterprise and Government markets. However, these last few months have seen a momentum in market build. We are prioritizing key markets for our submarine cables and/or our high capacity and low latency infrastructure differentiates us. Oil and gas is one such market. In December, saw Vocus contract with ConocoPhillips to build, operate and own a high-capacity submarine fiber optic network for the proposed Barossa Offshore Gas project in the Bonaparte Basin to the north of Darwin. Following a 3-year design and construction phase, Vocus will hold a minimum 15-year service term for the operation and maintenance of this network. This is a material flagship opportunity for Vocus with a contract value of over $100 million and is consistent with our direction to build Australia's specialist fiber and network solutions provider. This is the first of a number of fiber build opportunities we are actively looking at in the Northwest region.

Beyond oil and gas, we have good traction in our other key verticals. Andrew has been directionally clear over the past 12 months that Vocus needs to move up into mid-sized enterprise market and to partner well with NBN. We've made good progress in both these areas with average monthly revenue, new sales already up 30%, excluding ConocoPhillips and key wins with NBN in federal and state government departments. ASC also continues to sell well with close to 5 terabits now sold. Maybe more significantly, we are seeing a marked increase in the number and the quality of large contract opportunities that we invited -- that we have been invited to tender on. Our target markets are opening up.

Moving to Slide 6. Key to opening up these opportunities has been our growing market credentials as Australia's specialist fiber network solutions provider. We have great assets, but we are less well-known than the more established industry incumbents. This is a barrier that we are steadily breaking down. We are making good inroads reputationally in the key verticals of oil and gas, mining and financial services. Similarly, last week's announcement of Terabit Territory for the Chief Minister of the Northern Territory has been noted by a number of state governments. Vocus is committed to the development of regional Australia. And Terabit Territory is a great example of how public and private funding can help develop underserved areas.

Going forward, this approach to disruptive pricing, combined with high-capacity fiber connectivity, will enable regional areas to take advantage of exciting new technologies like edge computing. For federal government, we have delivered on DFAT's flagship Coral Sea Cable build. We handed over the cable only 18 months after contract signing, on budget and ahead of schedule. We've also now been entrusted by DFAT with the design of the new cable up from Darwin to Timor Leste. Similarly, our wholesale credentials continue to grow with almost all of Australia's Tier III and Tier IV data centers now connected by our network and our international reputation is growing on the back of the successful ASC launch.

To Slide 7. Another very positive strategic development in recent weeks has been NBN's clarification of its future in the NBN -- enterprise market. Vocus proactively led the industry debate here. Why? Because our core business lies in fiber infrastructure investment, and we saw NBN overstepping the wholesale mandate in a manner that would damage the longer-term fiber investment environment in Australia. We welcome NBN's announcements and view them as a key partner who can help completion and enable Vocus' future growth.

Our recently announced new contract with the Bureau of Meteorology brings us partnership opportunities to life. Bureau of Meteorology is an existing Vocus customer with Vocus Fiber connect into 115 sites at a contract price of $7 million over 3 years. In partnership, primarily with NBN but also Telstra wholesale, this contract has been re-signed and upsized to a $15.7 million contract over 4 years and with an expanded reach to 200 sites. With NBN acting as a wholesaler, Vocus is better able to select the right technology solution and commercial outcome for our current and future customers.

To Slide 8. Finally, for Vocus Network Services. As our teams have settled, we have also been making inroads in to strengthening our operational capability. As I summarized here, we are making a lot of improvement across the business. But today, I will focus on technology platforms, how we're dealing with legacy and touch on how we are building our Future State environment.

As we outlined 18 months ago, it is critical as a challenger of technology is an enabler of the business and a differentiator in market through easier and simple customer interactions. To achieve that, we have to deal with legacy, which means improved integration and decommissioning. This half, we have shut down 1 BSS environment with 4 additional closures -- BSS closures underway. We are halfway through shutting down 2 legacy networks. We have shut down 10 legacy copper exchanges with another 90-plus targeted, 35 lease will shut down in a month or so. We have discontinued a number of legacy products, which did not align with Vocus' product road map across all business units.

In summary, we are switching things off and managing the short-term pain. At the same time, we are well underway with our Future State program. This program will consolidate and simplify a multiple edge networks, build programmable network capability and modernize our BSS systems. Most critically, it will enable simpler and easier interactions for our customers with the products and services and significantly reduce cost and efficiencies in the medium term. Our key vendors, Arista, Ciena and DGIT was selected back in October, and our program is gaining pace. We will update on our progress in detail on our strategy date prior to our next results announcement.

Now moving to New Zealand on Slide 9. Once again, a strong performer. Our New Zealand business continues to focus on improving operating leverage, delivering increased revenue with lower head count and overhead costs. This is in large part due to the investment in business process automation and digital platforms as well as tight discipline on (inaudible) and how to compete in market. In the Consumer business, this Vocus has led to improved ARPUs and AMPUs, along with better customer outcomes. And the broadband bundling led strategy is delivering results with a 50% increase in mobile subscribers and a 32% increase in energy subscribers in the half. Ongoing digital investment has enabled productivity for employees to increase over 20%. This has been combined with the new work-from-home initiatives that has resulted in more than 70 customer service staff working from home.

The Enterprise and Wholesale business has been navigating through change over the last 6 months, which has required an investment in people and leadership. We have put more focus on direct selling to provide better control of outcomes. The Wholesale business performed well on the back of the streaming of the Rugby World Cup and growth of new entrants into the telco market. More recently, the New Zealand Wholesale business has developed new portals and APIs to enable wholesale customers to benefit from full automation and end-to-end provisioning. This, combined with network ownership economics, is a key differentiator for new market entrants to manage world cost operating models to compete in market.

The New Zealand market continues to change and evolve and there will be exciting times ahead. We have been focused on ensuring the business and the team are well placed to capitalize on these opportunities when they arise and to ensure that momentum in this market continues to build. So let's move to Slide 10 in our Retail business.

The key challenge for both our consumer and small business resale businesses is the erosion of revenues from legacy fixed copper products in ADSL broadband and voice. Our commercial strategy in retail is simple: do not chase uneconomic NBN margins in share, leverage 5G as an alternative access technology when available, expand revenues beyond fixed into mobile and energy, taking our cost base and simplify legacy technology. Despite reducing NBN percentage market share, it is pleasing to see signs of revenue stabilizing in our large consumer segment. Within Consumer, we are also now growing subscriber numbers across NBN, mobile and energy products. The transition of consumer subscribers to NBN is now nearing 80% with just over 12% of consumer revenues coming from ADSL.

We continue to implement price increases in Dodo during this half, improving our NBN AMPU and narrowing the gap between copper and NBN margins. While doing this, churn remained flat, and we've seen an improvement in customer service, evidenced by a 44% reduction in customer complaints to the Ombudsman. We still have some way to go in Commander where legacy voice revenue continues to decline. NBN transition remains the key challenge with a lower 54% NBN penetration in the Commander base. Over half of the Commander revenue still relates to legacy products, such as PSTN phone lines. To manage margins, we get through this transition process, we have repriced the voice portfolio. To minimize churn, we are simplifying the proposition for customers, including change of usage to subscription fees and removing pro rata and other one-off fees.

As in the Consumer business, we are diversifying beyond fixed products in Commander. A key focus here is through our distribution model, in particular, new Commander centers, especially in regional areas where our competitors are reducing exposure. Critically, we continue to make good inroads into reducing our overhead costs across both segments and moving towards a sustainable retail business model.

So with that, I'd like to pass over to Nitesh to talk through our financials for the half.

Nitesh Naidoo ***Vocus Group Limited - Group CFO***

Thanks, Kevin. So I'll start on Slide 12. Starting with the Vocus Group results. Overall Vocus recorded a solid set of financial results in the first half of financial year 2020, demonstrating a good foundation for growth in Vocus Network Services in New Zealand and with the Australian retail business, making good progress towards stabilization.

Total revenues declined by 7%, with lower nonrecurring revenues versus the prior comparable period from the construction of the Coral Sea Cable. Direct costs reduced proportionately as a result. However, overall gross margin declined 4% from the legacy revenue declines in our Australian retail business. Strong cost control across all business units saw overheads decline 8% in the first half compared to the first half last year, and this has resulted in underlying EBITDA growth of 2% and stable underlying net profit.

Moving to Slide 13. In terms of makeup of profitability, Vocus Network Services remains the largest contributor to group EBITDA and in the half grew, in absolute terms, $11 million. Retail declined $10 million in the half and is consistent with the shape for our full year guidance. New Zealand remains a strong contributor to the group.

Moving to Slide 14. From a balance sheet perspective, Vocus has continued to make good progress in its balance sheet headroom and has reduced its net leverage ratio to 2.8x at December 2019. This is below its covenant testing threshold, which stood at 3.5x at December and is well positioned to meet the subsequent milestones.

Moving to Slide 15. Operating free cash flow improved significantly versus the prior comparable period, driven by the reduced capital spend following the completion of the Australia Singapore cable build, which was completed in September 2018. CapEx, excluding the ASC build, is higher per comparable period, driven by growth in customer connections, investments in Future State, and commitments it had in IRUS. From a cash conversion perspective, there is continued focus in ensuring EBITDA converts to cash at a rate between 90% to 95%. In the half, cash conversion was 90%, which was at the lower end of the range, driven by ASC cash advances received in the prior year when the international cable was ready for service.

Moving to Slide 16. I'll cover briefly each business unit's results. In Vocus Network Services, revenues grew 5% year-on-year. The high-margin data network revenue grew 2% year-on-year from sales on the Australia Singapore Cable. This growth, when compared to the market, is good. However, overall growth has been impacted in the half by churn related to VHA TPG, which amounted to $8 million year-on-year impact in the half for canceled dark fiber services. The strong NBN growth seen primarily is coming from the Wholesale segment. Gross margins grew 4% year-on-year driven by recurring margins as well as the completion of the Coral Sea Cable build. Overall, EBITDA grew 11% from operating leverage gained through gross margin growth and overhead reduction.

Moving to New Zealand on Slide 17. New Zealand has delivered another half of top line and bottom line growth. In this half, the New Zealand team have delivered 6% revenue and EBITDA growth, making it 6 consecutive halves of revenue growth. New Zealand remains an attractive market for Vocus, and there has been some recent developments of more rational price competition in the broadband market. This will support continued growth in fiber broadband apples and subscribers. The broadband-led bundling strategy mentioned by Kevin is also being executed well and has resulted in growth in mobile and energy products.

Finally, moving to retail on Slide 18. The Australian retail business is showing promising signs of stabilization, led by the consumer Dodo brand. In the half, Dodo started to consistently grow subscribers driven by mobile and energy bundling. Broadband ARPU and margin improved as prices were lifted consistent with a profitable acquisition and bundling strategy. Overall, revenue declined 12%, an improvement from the 15% decline in the previous financial year. The decline was mainly driven by Commander legacy product erosion. Strong cost management has mitigated, in part, the EBITDA, which declined 21% in the half.

On the next slide, 19, we have shown the breakdown of revenue by brand, which demonstrates the improving trend. Here, you can clearly see that in sequential halves, the sharp decline in H2 FY '19, Consumer revenues has stabilized and has started to grow in half 1 FY '20 driven by the turnaround in Dodo. Margin impacts from the migration of ADSL to NBN is also reaching its peak as -- at 78% of the consumer base is now complete. These are positive signs for the stabilization of the consumer base. Vocus now has stabilized the business segment in the Commander brand, which continues to decline.

That concludes the financial update. And I'll hand over to Kevin to conclude.

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

So just moving on to Slide 21, guidance. And as said earlier, it's been a steady half and we are just reconfirming guidance that we articulated back in August today. So just to recap and summarize, our overall view of Vocus Network Services for the whole year is that we expect growth in the range -- underlying EBITDA growth range of $20 million to $30 million, which would be 10% to 15% up. But we do see a similar decline directly offsetting in Retail and you've seen that shift come through at the half. Overall group underlying EBITDA range, $359 million to $379 million. We do expect a better underlying performance within the business in the second half, but we will benefit from the completion of Coral Sea Cable that came through in the first half.

CapEx range, $200 million to $210 million. And as Nitesh called out, we have to spend there on technology Future State as well as some long-term committed IRUs. Overall cash conversion target of 90% to 95%. And obviously, the end result of that is our net leverage ratio will continue to decline.

So with that, that concludes formal presentation. I'd like to open up for questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have our first question from Eric Choi from UBS.

Eric Choi ***UBS Investment Bank, Research Division - Director and Australian Telco and Media Lead Analyst***

Well done on the results and well done on all your efforts around NBN Enterprise in the last 6 months as well. Just a few questions. The first one, you had a comment in the -- around the first half which includes the final payment for Coral Sea. So just wondering if you can just quantify on a dollar gross margin level, what that benefit was? And then just a second question around those one-off Vodafone impacts. Can you just comment on what the residual revenues, you'll still be earning from Vodafone post that one-off impact is? And then just one around the asset portfolio. I guess around New Zealand, we sort of touched on the possibility to crystallize value in these assets in the past. I'm just interested in whether there's been any reason for, I guess, a delay in a potential process? Or is that something that you are looking at? Or do we think maybe external parties might not agree with you on value? Just some color on what's happening there.

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

So a few things, Eric. On Coral Sea Cable, the key point would be we benefited from completion of that cable in the half, which also included some level of contingency releases that we had put aside in case of our cost challenges. We're not going to disclose the numbers involved now. You'd appreciate it from a deeper standpoint, margins in these government contracts are fairly confidential. But we did benefit in the half. And as you said, that will not come through the second half of the year. Vodafone, we were hit last year with a number of services moving away to TPG, a number of wholesale services. Currently, we have a good relationship with Vodafone. We have -- services are contracted through to financial year '22. And just reviewing them with Vodafone in the last few days, we do not anticipate any significant Vodafone churn over the next 12 or 18 months. And we feel that we're in a pretty good place actually as TPG, Vodafone looks to 5G to probably provide some services in relation to 5G backhaul. So that is probably more of an opportunity. So we're not seeing downside on Voda.

On New Zealand, we have a valuable business in New Zealand and it's got very good growth momentum, and our focus just now, Mark's focus, my focus, Board's focus is on building that momentum up. We do see market opportunities for New Zealand to grow, and that could be organically or inorganically. And we will review those opportunities as they come forward. With any valuable business, we've been very, very clear that the core for Vocus is Vocus Network Services, valuable business in New Zealand and emerging retail business model as well. At some point in the future, we will review those businesses and how best they can operate in an environment to operate. But we're not expecting any news on that in the foreseeable future.

Eric Choi ***UBS Investment Bank, Research Division - Director and Australian Telco and Media Lead Analyst***

That's helpful. Just a quick follow-up. I guess, in the past, on those sort of one-off network revenues, we've sort of been thinking there in the maybe like low-teen margins. Can we still assume that that final payment for Coral Sea is around about that level or is it above?

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

No. I think the difference -- you can assume that in a normal year, but there was a -- there was absolutely some contingency that we had held back. I kind of alluded to earlier, we executed really, really well in Coral Sea Cable in terms of budget, in terms of -- actually have been ahead of schedule and managing our cost. So we absolutely did benefit more than the traditional low-teen margins during this period.

Operator

We have our next question from Kane Hannan from Goldman Sachs.

Kane Hannan ***Goldman Sachs Group Inc., Research Division - Research Analyst***

Just 3 for me, please. Firstly, just the Network Services earnings outlook. So you're reiterating expectations for $20 million to $30 million of underlying EBITDA growth there. Just comment on why that's changed to underlying growth and can you confirm whether you're still expecting $20 million to $30 million growth on the prior segment EBITDA?

Secondly, just the FY '21 guidance, I haven't seen any comments on it in the pack or, I suppose, the outlook commentary. Just confirm when you're standing behind those comments of accelerating growth in Network Services and a stabilization in retail in the second half of '21? And then finally, just the Bureau Meteorology case study. So it looks like that contract is going from $2.3 million to $4 million per annum. So given the use of NBN and Telstra sites, can you just comment on how the annual EBITDA contribution has actually changed for that contract?

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

Yes. So VNS, there was no specific [fitness] to underline to the language of underlying or non-underlying EBITDA. The guidance assumptions are consistent with what we articulated back in August in that $20 million to $30 million range. We haven't given any guidance on financial year '21 yet, and we will in due course at the results in August. I will say that the business is performing well, and you can feel, you can probably pick out from my language today that there's good confidence in terms of how we're growing across the key VNS segments as well as critically how we feel we're getting our cost under control. On the Bureau of Metrology, I would summarize it as follows -- and we are fixated on gross margin, not as a percentage, but as an absolute number, and we have disclosed in these results absolute gross margin. And how we look at these blended networks are, we've got an expectation as to the return we would get on our own fiber. We have an increasing focus on how we get right on our own investments. And then we focus on how we can get reasonable incremental EBITDA and margins on those areas where we do not use our own fiber. I would look at those a little bit more in -- not like that the construction contracts, but probably slightly higher than that, but healthy margin. But the thing to think about on a lot of these opportunities where we're using NBN and Telstra also but particularly NBN. We have now been able to bid on opportunities we would not qualify for before. And some of that will be carrying enough fiber and some of it will carry NBN fiber and the overall absolute EBITDA opportunity is very healthy. So that's as much as I would guide on just now, Kane, if that's okay.

Kane Hannan ***Goldman Sachs Group Inc., Research Division - Research Analyst***

Sure. And sorry, just back on the Network Services. So on the old disclosure, I think it's a $2 million EBITDA growth in the half versus $11 million on the new disclosure. So it does seem like a bit of a change in those growth expectations is all.

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

I need to take that one away and have look at it. I'm not aware that there should be any difference in terms of underlying or base EBITDA. It should not change the rate growth in the half K. So I'll need to come back specifically on that question.

Operator

Next question is from Eric Pan from JPMorgan.

Eric Pan ***JP Morgan Chase & Co, Research Division - Analyst***

3 for me as well. Just firstly, on the Network Services, is the recent move by the NBN to seize contracting directly with end users sufficient for you? Or is there more you want to see from them? And does their intention to focus on the SMB space help you or put pressure on your business? And then secondly, margins were better expected this half across the whole group. How much of that $30 million cost out target have you achieved today? And is there upside to that number? And then lastly, just on the Retail business. 10% margin in the period with increases in ARPU and AMPU. Is there upside to margins from here? What kind of incremental margins are you getting on the NBN subs?

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

Thanks, Eric. 3 seems to be the magic number in terms of questions. On NBN, on Enterprise, some comments. I said I think the NBN -- I was really, really pleased with how the NBN responded to industry pressure. And the decisiveness and the speed with which they, in my view, made some very appropriate statements was helpful. The key concern we had, and Bureau of Meteorology was a great example, was our key concern was NBN going directly to customers in the marketplace and signing them up and moving them off existing fiber contracts, which the industry had invested into. That exposure, that concern is now eliminated. And there is, in my view, and Andrew's role -- Andrew's view, a role for NBN's enterprise team because they have been doing a good job of educating the marketplace around opportunities and competition. And we do believe that that is helpful. So overall competition and freeing up the marketplace and awareness of competitors beyond Telstra. So we see an ongoing role for that team. We will have some comments maybe on some of the practices and behaviors that we'd like to see, but we are comfortable with that team continuing in the market. First, I think that NBN's focus in SMB is good for us. We have a Commander brand that is in small business. That will need to perform well on NBN in the years ahead. That does not operate in the room fiber infrastructure. So the opportunity to have increased competition in small business, I think, will be good for Commander in time. On cost out, no changes to that $30 million target. We performed well. I think the key point on this -- on these results is you've seen a level of commercial awareness across every business unit. It's not just an infrastructure and operations, Future State program. It's across New Zealand, across retail, and across VNS, we're managing costs, cost well. So no change to those targets. I will say that we have good visibility just now on how those numbers will be achieved and how we'll get the operational leverage into the business.

On the margin on retail, we've done a good job. Antony has done a really good job, and his team has done a very good job of looking at how we can make NBN a more appropriate margin accretive business. That has obviously come at the expense of market share. And Dodo has historically been a low-value brand in the market, and we've moved price points up and probably was a bit of market share as a result. I don't see margin upside in the second half of the year. I continue to believe it will be a competitive marketplace. So I wouldn't guide to anything, increase in the second half of the year, but I would reassure you that we have a fixation on margin management and that should hopefully get us to even more stable position in retail in the next 18 months.

Operator

We have our next question from Andrew Levy from Macquarie.

Andrew Levy ***Macquarie Research - Analyst***

My first one, I just wanted to ask on the margin story in VNS. So it's a really good margin outcome that 6 percentage points. And I get that the low nonrecurring revenue has an impact there. But if I do a bit of a backout, there's still around 4 percentage points of margin gain. So I just wanted to see if we could get more color on that? Because if I look at your revenue, you're obviously getting all -- most of your growth is on NBN Services, within that. And so I'd assume that they're margin dilutive. And then correct me if I'm wrong, with the $8 million in Vodafone lost revenue would be very high margin as a negative. So I was just wondering if you could give more color as to the extent of any one-offs gain on network sale or anything along those lines? I know you've spoken briefly to the Coral Sea Cable system. But just -- if we could get a scale of any one-offs that are in this period and also potentially if there was anything in the previous half that was holding the margin back. Just so we can better understand it because that margin uplift, even after taking into account the nonrecurring and some of the cost out seems very strong.

And then the second question was just a clarification. When you said stronger second half EBITDA in terms of momentum for Vocus Network Services, can you just clarify what the reference is to. Is that in absolute terms, it will pick up? Is it percentage rate of growth will pick up? Just what periods you sort of benchmark it against when you say that? And the third one, given that that seems to be the popular number is just on the 5G opportunity. So I assume a lot of the 4G towers are fibered up. So how does it work with 5G? Will it require sort of new dedicated fiber even if the 5G equipment is going up at the same side? Or are you expecting a large number of new sites in a 5G world? And if so, sort of on what time horizon do you think we'll see a proliferation of new sites?

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

On NBN margins, so just on VNS margins, there's a couple of things in there that are posted this half. One, we are doing a better job of managing some of those actually NBN wholesale margins. So you're right. They're not high-margin products, but they're actually -- we've definitely done a better job of making a healthier return on them. And we have that fixation understanding on costs that we have in retail, we also apply to wholesale and margins have been improving this half as a result in NBN. Maybe one of the key element in this half has been the weighting of ASC. So obviously, ASC is very margin accretive for us. And we've got a full 6 months of good ASC revenue in this half relative to where we were 12 months ago, where we really just launched -- 2 of us we just do a couple of months. So those would be the 2 elements I'd call out. We are -- we can -- how we manage our costs as well and that we'll share that trend over the next 12 months. The EBITDA point, Andrew, was -- what's the second question, just quickly?

Andrew Levy ***Macquarie Research - Analyst***

Well, just you've sort of spoken to in the guidance. It's consistent with what you said previously, the second half will be better than first half. I'm just not sure what that means...

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

Second half stronger.

Andrew Levy ***Macquarie Research - Analyst***

Yes. But what does stronger mean? Is that like, obviously, you got a bit of a second half SKU. So if you just match last year, it would be stronger. I'm just trying to get if you think the growth rate will be stronger in the second half for EBITDA? Or what stronger does mean...

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

Well, we're really -- we're guiding to the underlying business, the underlying business performing better on EBITDA level. So we are expecting or, I would say, our some level of improved EBITDA performance in the second half of the year, but offset by not having the Coral Sea Cable come out. What does that mean? It means, in absolute terms, we expect the second half of the year to be better than the first half of the year in absolute dollars.

Andrew Levy ***Macquarie Research - Analyst***

Okay, that makes sense...

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

Final point on towers. Look, I think it's going to be interested in this next 3 or 4 years on the impact of 5G. If you look at Telstra, Telstra's towers are all fibered up. So they've got 98%, 90% connected -- 99% of the country is fiber, I think. If you looked at other operators, Voda and Optus, I would guesstimate to probably go up 50% to 60% of the tower is fiber. You'd be -- I think, a lot of the towers in -- outside of core metro areas remain unfibered. And if you're going to have a 5G footprint, you're going to have to have fiber into more towers than are there today. I think there will also be some level of incremental investment in new towers as well. How that will be done? I think Optus, I think, is definitely looking hard at the 5G [fund is now], I'm assuming that there will be some traction around Voda as well. I'd expect both of those organizations to, in the short term, focus on the metro footprint where they have fiber. But if you look out 2 or 3 years, they will need fiber in regional areas. So I don't -- it's not a small number of sites. And it's not a question that's just been driven by new sites. It is just a reality that other existing 4G sites are not fibered up.

Operator

We have our next question from Roger Samuel from Jefferies.

Roger Samuel ***Jefferies LLC, Research Division - Equity Analyst***

I'll keep my questions to 2. First one, can you talk about The Terabit Territory contracts that you won, whether it's similar to the Coral Sea Cable project. My question is you've got to contribute some capital into this cable project? And second question is just a quick one on the underlying EBITDA number. Does it include or exclude the share-based payments? I think it's around $4 million in this half?

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

Thanks, Roger. So second question, excludes the share-based payments. First point on Terabit Territory. So just to map out what we're focused on with Terabit Territory, we have a strong presence, strong market share, strong relationship up in Darwin and good connectivity into Darwin. That's through terrestrial fiber, it's also true of Northwest Cable over on to Port Hedland. The opportunity for Darwin is really its closeness to Asia and its opportunity to get investment into Darwin, particularly in relation to hyperscale data centers, and it needs improved connectivity and low latency to attract that investment in. We have looked at how we upgrade the speeds on that core connectivity in terms of Adelaide and Brisbane up to Darwin. And we've hedging hold some money this year and a little bit next year that will go into that upgrade. The nonterritory government is making a contribution to support us on upgrading those speeds. That is contingent, and I was looking at opportunities to close off the link from Port Hedland over to Australian Singapore Cable, which is a build that we are looking at and have been looking at for a period, but we'll look at actively over the next 12 to 18 months. So it's very different to the Coral Sea Cable, which was the construction of an asset for Department of Foreign Affairs and Trade, handover with some profitability to us. This has been supported to invest in infrastructure that enables new investment to go into the Northern Territory. Is that clear, Roger?

Roger Samuel ***Jefferies LLC, Research Division - Equity Analyst***

Yes. Yes, that's clear.

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

Andrew, is there any other context you'd like to add into that in terms of how you see that opportunity? And how you may view other opportunities in the back of it?

Andrew Wildblood ***Vocus Group Limited - Chief Executive of Enterprise & Government***

No, I think you've covered the practicalities what we've been awarded. But at the same time, it's just like any market, if that's a competitive advantage for us in a market where there's quite of interesting activity happening in the Northern Territory, and we will be part of it and it puts us a sense of it. We have a big contract with a Northern Territory government, had for a decade and strengthens -- further strengthens that relationship is great, and it includes some changing in backhaul pricing, which is favorable for Northern Territory and enables more business coming into the territory. So I think that's a very good kind of piece of business for us that struggles our position and strengthens the territory as it [got for a competitive advantage from an] investment.

Operator

We have our next question from Entcho Raykovski from Crédit Suisse.

Entcho Raykovski ***Crédit Suisse AG, Research Division - Research Analyst***

My question is hopefully fairly straightforward. And sorry to labor the point, but I've got one on the first half, second half split. Just if we look at that Coral Sea Cable payment, was it your expectation when you first gave the FY '20 guidance, that this payment would fall in the first half? Or has there been -- has that brought forward some of those benefits into 1H? Just secondly, in consumer, you've seen pretty good growth in NBN revenues despite not focusing on share. Just interested in what's driven that growth, given you haven't had that focus? And do you expect any benefit from the NBN pricing changes that they put in place late last year, particularly for the lower speed tiers? And just finally, on NBN changing their approach to enterprise, we noticed that they've retained their $1.2 billion revenue target by FY '23. Now I appreciate why that's a question for them. But from your perspective, how do you reconcile that with the changing approach?

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

Okay. So maybe in reverse order. I mean my view with the NBN Enterprises, there's a really -- there is a really good opportunity for NBN to partner with industry and gain market share. So I expect us and Bureau of Meteorology is a great example to use NBN, but to make sure that they do not overbuild fiber. So I think there is a good partner and opportunity, and I think there's a good revenue growth opportunity for NBN. And the other point that is important is that there is -- we made some pretty good inroads already in terms of that $1.2 billion. So I think you'll find we will have, frankly, reasonable level of that revenue already. So I think -- I wasn't surprised that it didn't change the target because I think that's consistent with the opportunity they have. In terms of retail, I'd say it as simple as Antony is now -- Antony is a very good operator. I typically say that most of the success that Telstra has bid belong -- came from strategies Antony De Jong launched 18 months ago, is operating well, is doing solidly in market with tight, probably higher price points, but just good or better execution. On first half, second half, we did expect Coral Sea Cable to come to in the first half. We were confident that that contingency would come in the first half. We just really had a view that the second half of the year, we'll start to see some more momentum coming through. Certainly, at the revenue level in VNS, and we continue to believe that that's the case. I think we're probably -- the language of strong better second half is probably people a little bit excited. I would caution. I think we've got -- we'll have a better second half than first half. But we'll miss Coral Sea Cable.

Entcho Raykovski ***Crédit Suisse AG, Research Division - Research Analyst***

Okay. Great. And sorry, and just a follow-on. In retail, the NBN pricing changes, do you think they'll have a benefit going forward?

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

They have -- there is a degree of benefit going forward. I'm not going to get incredibly excited about them because the NBN margins are our pace, they are better than we're -- better positioned than we were in. But it wouldn't make a material difference in the second half of the year.

Operator

We have our next question from Fraser Mcleish from MST Marquee.

Fraser Mcleish ***MST Marquee - Head of Australian Media, Online and Telecommunications and Telco & Media Analyst***

Just firstly, just one on the numbers. Just the finance charge was down by 6 million, I think your underlying finance charge, yet your debt didn't move. Just if you could explain that, please? Second, Kevin, just on ASC and competing with Indigo? How are you seeing that competition going? Are you seeing much kind of impact on pricing from that competition? And then finally, just be interested, you're talking about sort of making use of 5G as an access technology for your consumer broadband subscribers. Just with your sort of previous mobile [hat on], I guess, what's your view on the capability of mobile networks to cope with sort of large amounts of home broadband traffic? And how easy will it be for you to shift your customers off NBN and on to wireless?

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

So again, maybe in reverse order. I think there is an opportunity on 5G, I think it's a targeted opportunity, which requires monitoring of who are the low usage subscribers currently on the expense of NBN broadband products. So as I say, from our point of view, the opportunity we see with any partner in the marketplace. Probably Optus would be to give a view of what parts of our broadband base are relatively low users are in good high capacity 5G areas and look at migrating those over at a lower cost. I think for many customers, I actually would be a better service at a -- hopefully, a commercially better price for us. So I do see an opportunity there. I'm not going to sit here and say it's 100% of the market or 50% of the market, but I see it as an important part of managing margin in a tougher NBN environment. In terms of ASC, we've done pretty well today against Indigo. We found out we haven't been competing hard on price. Our pricing has held up reasonably well. So we feel quite positive. We've seen some of the consortium members in Indigo be -- feel aggressive in pricing, but we haven't felt that spill over into our service of products, and we'll continue to share that we believe ASC is a better product on numbers, the change -- on finance charge at $6 million change year-on-year.

Nitesh Naidoo ***Vocus Group Limited - Group CFO***

So Fraser, so overall, I think our finance charges are kind of stable year-on-year, but that includes the AASB 16 finance charges. So as you noted, finance charges are down on an underlying basis. And that's largely because we've seen lower interest rates as well as our average debt has come down progressively. So that's the key driver between -- behind the underlying.

Unidentified Company Representative

Fraser, [this is Bill] I'll just add one thing to that. Because of the timing of the AASB payment in the prior period, we're above a leverage ratio of 3x for the entire 2 prior periods. This time, we've been below 3x. So it is in a different interest rate bracket for the period. That's the other key reason.

Operator

We have our next question from Brian Han from Morningstar.

Brian Han ***Morningstar Inc., Research Division - Senior Equity Analyst***

Kevin, I just had 1 question. In the Australian retail business, can you please shed some light on the 17% fall in selling and general costs? Did you cut down a lot in branding and advertising or was it something else?

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

No, it would be -- I'll just say Antony De Jong. So the -- Joking aside, we have had a very, very different strategy in the first 6 months of this year relative to where we were 12 months ago. So if you look back for my first few months coming in and inheriting that retail strategy, we have a strategy within the retail business, which was about gaining share. We have an extensive rebranding program. We also had reasonably significant marketing dollars committed and our push to get market share. What you're seeing this year is a very different strategy. You've seen it since January 4, which is not chasing share, managing margin, managing the cost down. We're very targeted in terms of our marketing. So it's as simple as the difference in approach to chasing share in the marketplace as well as some expensive rebranding that was done 12 months ago. [We were at this now] is more of our consistent targeted run rate. And I do -- I've said it twice already, but I view Antony as a really tight operator, which is fundamental to a resale environment in this day and age because the margins are tight.

Nitesh Naidoo ***Vocus Group Limited - Group CFO***

Brian, it's Nitesh. I'll just add that those cost savings happen in several areas, including call center costs, kind of management of bad debt and a few other areas. So it's not just marketing. And this kind of further emphasize with the customer growth that we saw in the half. So it is a balanced -- an overall reduction in operating costs, as Kevin mentioned.

Operator

We have our next question from Craig Wong-Pan from CLSA.

Craig Wong-Pan ***CLSA Limited, Research Division - Research Analyst***

First question, just on Page 4 of your financial year results, there's a $4.5 million other significant item. Just wanted to understand what that related to? Next question was then on corporate costs. That's come down $6 million to $24 million. I'm was just wondering whether we could expect a similar reduction in the second half. So if we look at second half '19, will there be a $6 million reduction from that? And what's kind of really driven that cost reduction? And then lastly, just to clarify, the $30 million of cost out for infrastructure and OpEx from Future State, that Future State program. Just to clarify, that doesn't include any reduction in your corporate costs. So that $6 million reduction I talked about before, that isn't part of that $30 million cost-saving target.

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

Yes. Sorry, Craig, just on the last question, and I'll pass it to Nitesh. That $30 million is just infrastructure notes. So corporate improvements over and above that.

Nitesh Naidoo ***Vocus Group Limited - Group CFO***

So Craig, I'll just touch on the significant items. The largest item in there was the settlement of the class action in the other significant items.

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

And then corporate costs, what was the second question? Was it on the $6 million?

Craig Wong-Pan ***CLSA Limited, Research Division - Research Analyst***

Yes, you've seen the corporate cost reduction. What sort of had driven that? And should we expect a similar $6 million reduction in second half '20?

Nitesh Naidoo ***Vocus Group Limited - Group CFO***

So I'll just talk to that. So the corporate cost reduction, these, obviously, costs that relate to finance, HR and the rest of corporate costs. That is a combination of staff savings and head count reductions that have happened. That happened in the second half of last year. So we saw some of the benefits last year and in H1. Some of that benefit would obviously be incorporated in our run rate into the second half.

Operator

(Operator Instructions) We don't have any other questions as of the moment. Presenters, please continue.

Kevin Steven Russell ***Vocus Group Limited - Group MD, CEO & Director***

Okay. So thank you very much for joining. I think just in terms of summary comments, I think, for us, just having a good, steady, stable set of results is pleasing. We've got some good traction in our business units, good traction in terms of cost management. I do feel, as a team, we are now settling into our roles and critically getting a better and better handle around where we are and where we're going. We look forward to updating in the months ahead. So thank you very much.

Operator

Ladies and gentlemen, that does conclude our call for today. Thank you for participating. You may all disconnect.