

14 June 2017

The Manager  
Market Announcements Office  
Australian Securities Exchange Limited  
20 Bridge St  
Sydney NSW 2000

## **ELECTRONIC LODGEMENT**

Dear Sir or Madam,

### ***Strategy Day Presentation and Confirmation of FY17 Guidance***

In accordance with the Listing Rules, please find attached a presentation to be delivered at the Vocus Group investor day being held today commencing at 10am. Key areas covered in the presentation include:

- Confirmation of FY17 guidance (announced 2 May 2017) - refer to slide 124
- An overview and update on the strategic direction of the Group by the CEO - refer to slides 4 - 16
- Further detail on the restructure of the Technology Division including the establishment of the Transformation office. The presentation includes the key transformation projects identified across the Group. Refer to slides 42 - 50
- An update from the CFO including deep dives on a number of issues including:
  - An update on capital expenditure - refer to slide 35
  - An update on various balance sheet items including subscriber acquisition costs - refer to slides 24 - 30
  - An update on working capital and cash flow conversion - refer slides 31 - 34
- Business updates from the three business divisions:
  - New Zealand - refer to slides 61 - 81
  - Enterprise & Wholesale - refer to slides 85 - 102
  - Consumer - refer to slides 106 - 121

The investor day presentations are being webcast from 10am today and a question and answer facility will be available online. The webcast will be available through the Company's website [www.vocusgroup.com.au](http://www.vocusgroup.com.au)

Yours sincerely,  
Vocus Group Limited



Ashe-lee Jegathesan  
**Company Secretary**

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Level 10, 452 Flinders Street  
MELBOURNE VIC 3000 Australia

T. 1300 88 99 88

E. [investor@vocus.com.au](mailto:investor@vocus.com.au)

W: [www.vocusgroup.com.au](http://www.vocusgroup.com.au)



# Strategy Day 2017

14 June 2017



# Agenda

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	TIME	TOPIC	SPEAKER
1.	10-10.45am	Introduction and overview	CEO - Geoff Horth
2.	10.45-11.30am	Finance Update	CFO- Mark Wratten
3.	11.30-12pm	Technology & Transformation	CEO – Geoff Horth NED – Rhoda Phillippo Commercial Director - John Allerton
4.	12-12.45pm	New Zealand	Divisional Chief Executive Mark Callander
5.	12.45-1.30pm	Lunch	
6	1.30-2.15pm	Enterprise & Wholesale	Divisional Chief Executive Mick Simmons
7	2.15-3.00pm	Consumer	Divisional Chief Executive Scott Carter
8	3.00pm	Final Wrap Up and Questions	CEO - Geoff Horth



# Overview and Strategic Direction

Group CEO Geoff Horth



# Strategic Rationale

21st century fibre network spanning Australia and New Zealand with capacity to support rapid growth in demand for secure, reliable, connectivity

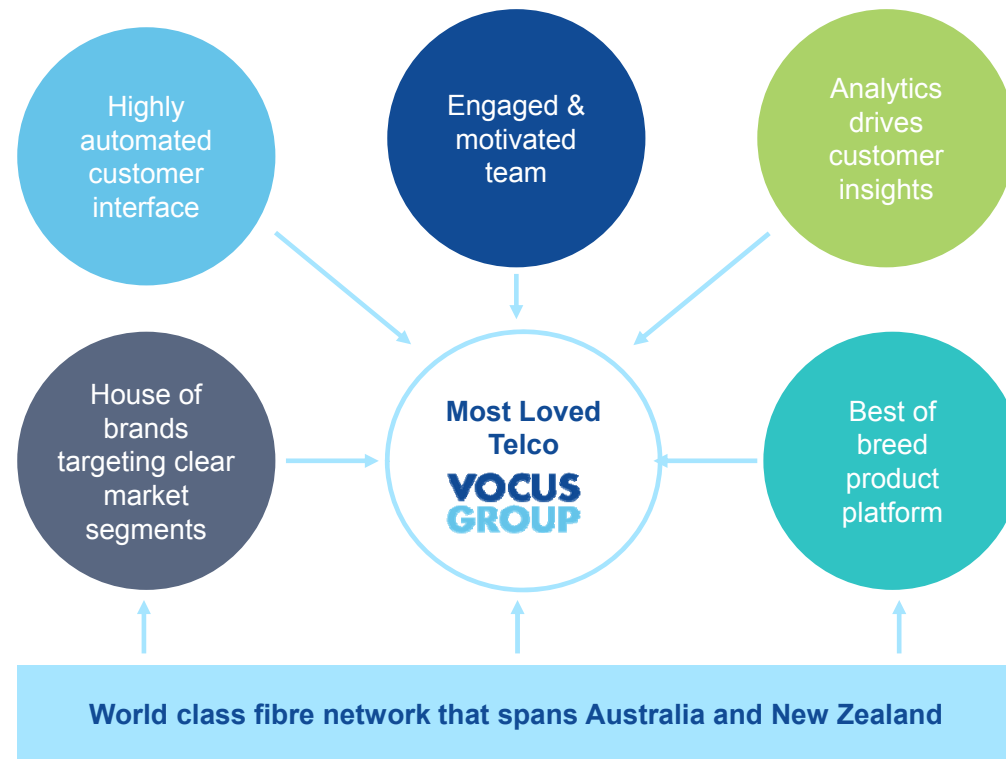


- ✓ 30,000km fibre network spanning Australia and New Zealand
- ✓ More than 5,500 buildings on-net
- ✓ More than 70 data centres on-net
- ✓ Portfolio of 23 owned data centres
- ✓ Strong Enterprise & Wholesale brand and growing share in Australia and New Zealand
- ✓ Established consumer brands in Australia and New Zealand with opportunity to take share in NBN/UFB fibre rollouts

1 Regional Backbone Blackspots Program ("RBBP") was a 2009 Commonwealth initiative to provide competitive wholesale backbone services in regional markets.

# Strategic Rationale

Recent M&A combines the strongest elements of challenger telcos across Australia and New Zealand to create a vertically integrated infrastructure platform to rival the majors

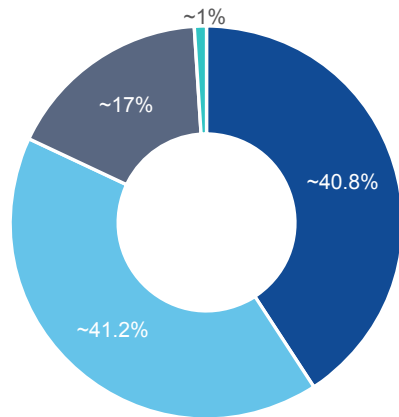


**VOCUSGROUP**

# Diversified Portfolio

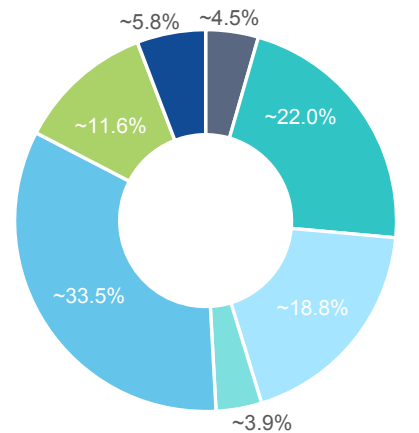
~98% of all revenues are recurring

Proforma<sup>1</sup> FY17F Divisional Revenue Split



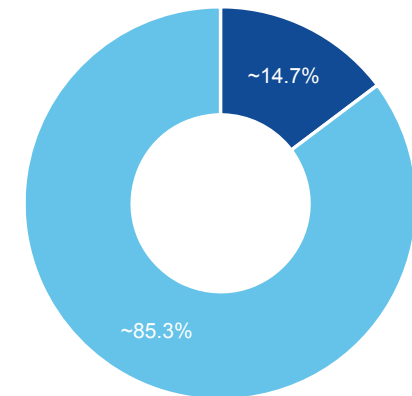
- Enterprise & Wholesale<sup>3</sup> Aust.
- Consumer Australia
- New Zealand
- Group

Proforma<sup>1</sup> FY17F Revenue Split by Product



- Internet
- Fibre & Ethernet
- Broadband
- Data Centres & Other
- Voice
- Mobile
- Energy

Proforma<sup>1</sup> FY17F Geographic EBITDA Split<sup>2</sup>



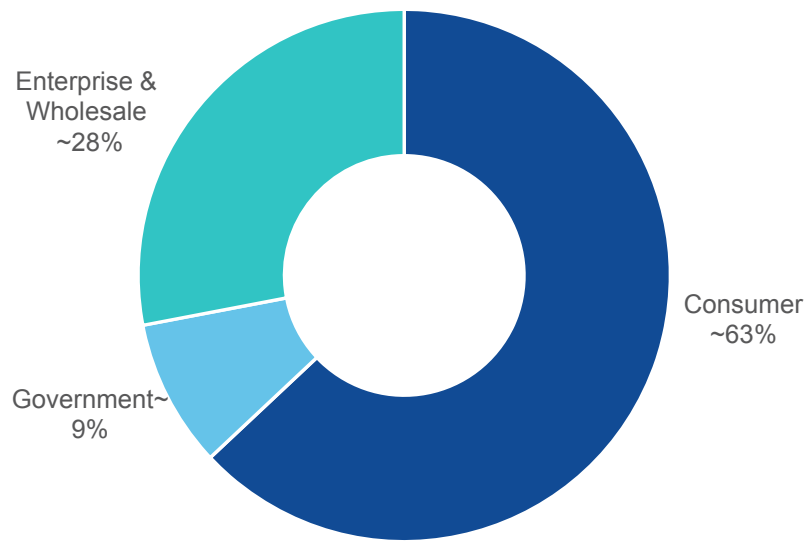
- New Zealand
- Australia

1. Proforma assuming a full 12 month ownership of Nextgen
2. Australia includes all Group Overheads and Australian Network Costs
3. Enterprise & Wholesale includes the Commander SMB business

# Market Share

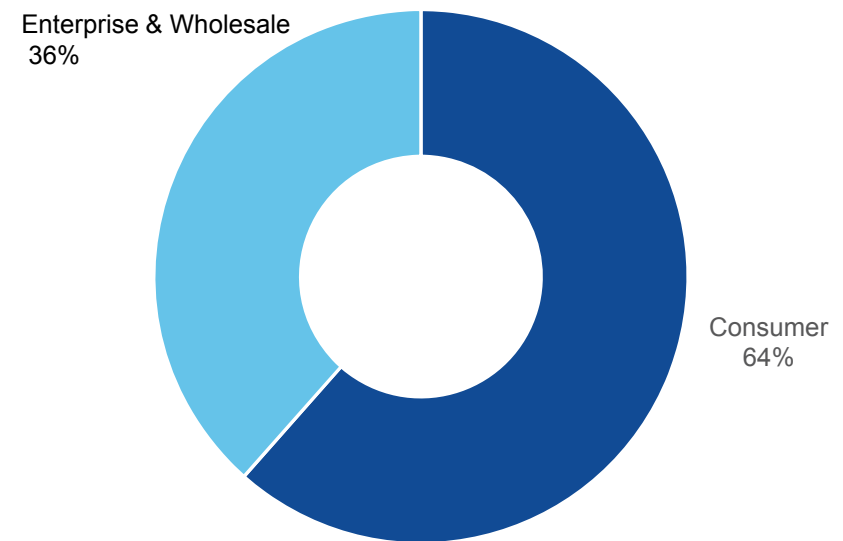
Low market share in all segments presents significant growth opportunity

Australian Telecommunications Services Market  
worth ~\$42bn, mobiles ~50% of market<sup>1</sup>



Vocus market share ~ 3.5%

New Zealand Telecommunications Market worth  
~NZ\$5.2bn , ~50% mobiles<sup>1</sup>



Vocus market share ~ 6.7%

1. Industry data

# Strategy

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- ✓ Connectivity is the core, disciplined investment in our fibre network
- ✓ Complement with products that leverage that connectivity (internet, voice, cloud, content)
- ✓ House of brands talk very clearly to our target markets
- ✓ Most Loved Telco
  - Automate everything
  - Put the customer in control
  - Leverage data to improve insight
- ✓ Create a great place to work

# Driving Shareholder Value

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## Top Line Growth

- Leverage increased scale to drive growth in new segments (Enterprise/Government/Carrier)
- Take share in NBN and UFB
- Increase share of wallet with expanded product portfolio

## Reduce Costs

- Execute on transformation to remove complexity and duplication - singular scale
- Automate everything
- Give the customer control

## Improve Returns

- Grow margin pool
- Cost focus to improve earnings efficiency
- Discipline around capital allocation to improve cash returns

# Progress on restructuring and integration

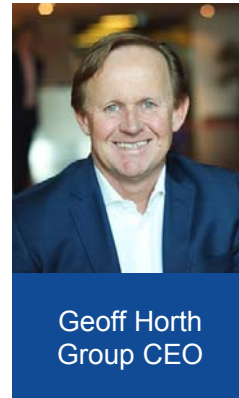
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## Integration and restructuring work streams well progressed to realise benefits and support top line growth

- ✓ **Finalised Nextgen acquisition, functional integration complete, billing integration a priority**
- ✓ **Key executive team appointments completed**
  - New CFO Mark Wratten in place and key appointments in finance made encompassing internal and external recruits to bolster experience
  - Chief Executive Enterprise & Wholesale Mick Simmons appointed, integration of Commander into E&W underway to create a best of breed telco for all Australian businesses
  - Simon Smith appointed as Chief Technology Officer – commencing 3<sup>rd</sup> July 2017
  - Head of Transformation appointment down to short list interviews
- ✓ **Transformation steering committee established**
  - Priority projects identified, project scope and business case work underway
  - Technology team restructure announced, consultation process commenced
  - Three year journey to realise all benefits but there will be early wins
- ✓ **Finance function review in progress significant steps already implemented**
  - Restructure completed aligning finance with business segments, improving accountability and control
  - Consolidation and reporting tool selected, targeting implementation 1<sup>st</sup> July 2017
  - Delegation review concluded, significant focus on improving operating cash and capital efficiency
- ✓ **Progress made on Board renewal with appointment of Bob Mansfield; further Board renewal suspended until KKR bid assessed**
- ✓ **3 year operating plans advanced for each division**
  - Business growth opportunities intact and being delivered

# The Team

## Executive Team now in place



# Values led



## **CLEVER COMPANY NO MUPPETS.**

We are awesome people with a great attitude, unleashed and empowered to do our job.



## **HAVE A CRACK.**

We detest bureaucracy, we collaborate to find a smarter way, we take risks, we act decisively and we celebrate our wins.



## **DON'T SCREW THE CUSTOMER.**

We put ourselves in the customers' shoes, we make it easy to buy and easy to use.



## **DON'T BE A D!@KHEAD.**

We respect each other, we value relationships and we have the hard conversations.

*"Scott - Well done.  
Vocus Values are my  
new favourite things".*

*"Catherine- core  
values I'm on  
board with!"*

*"Raj - I like this! Some companies are  
way too corporate and boring. Love  
how this is illustrated! Well done"*

*"Raelee - how cool  
is this for company  
values"*

*"Hayley - Breath of  
fresh air and instantly  
understandable !"*

**VOCUSGROUP**

# Inspiring and empowering our people

## Adopting a multi faceted approach to delivering a “Great Place to Work”

### Talent

- ✓ Attracting and hiring – smart and inspired team members
- ✓ Launched online process for recruitment and attraction

### Communication

- ✓ Constant communication
- ✓ Utilise a range of communication channels to engage and inform
- ✓ Collaborative problem solving

### Culture & Engagement

- ✓ System, symbols and behaviours
- ✓ Embedding values into everything we do
- ✓ Extending CSR across the whole organisation



### Performance Motivation

- ✓ “Making clever happen”, motivation portal – not one “mandated” way to review performance
- ✓ Strengths Based Approach – the single most powerful driver of improved performance

### Reward & Recognition

- ✓ High performance rewarded
- ✓ Celebrate success
- ✓ Employee benefits package portal

### Learning

- ✓ ‘Unleash the Potential’ of all our team members

### Leadership

- ✓ Leadership Development Program rolled out for all people leaders

# Engagement

Despite material change over the last twelve months employee engagement levels have steadily improved... it's good, but we aim to be great

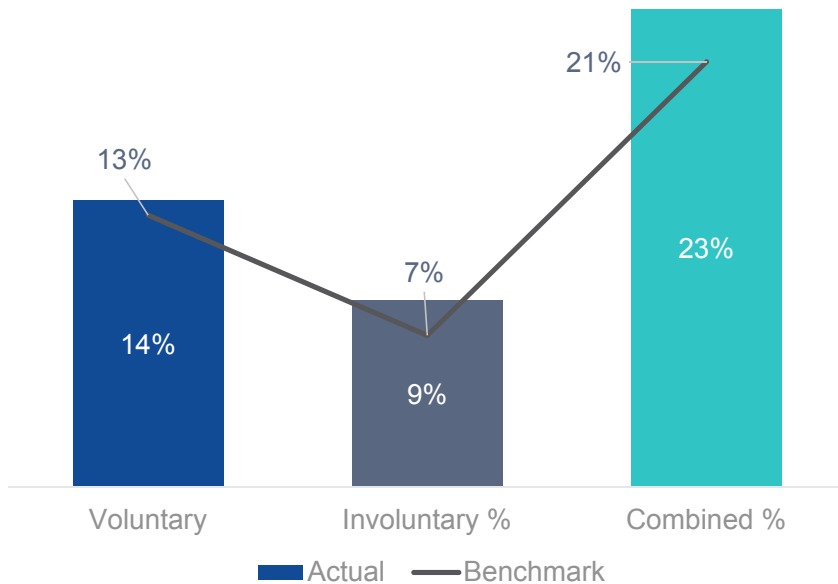
Employee Engagement Score



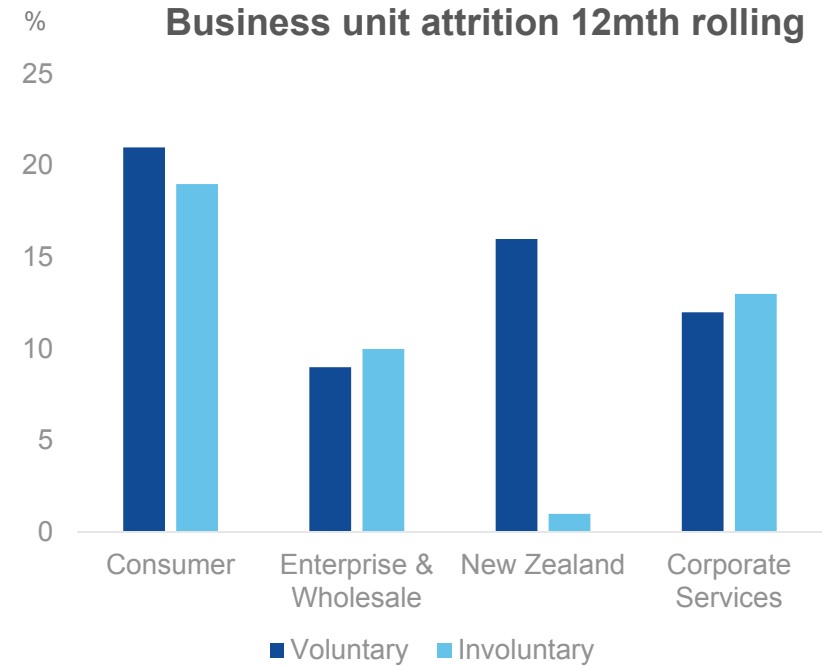
# Turnover

## Rolling 12 month voluntary turnover tracking to industry benchmark

Total Attrition - 12mth Rolling AU/NZ



Business unit attrition 12mth rolling



# Summary

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- ✓ M&A has created a platform that makes the business competitive with the majors and opens up significant growth opportunities
- ✓ Team now largely in place to accelerate transformation and progress the plans to drive top line growth and cost out
- ✓ Strategy in place seeks to leverage the infrastructure platform with a focus on:
  - Unifying our product portfolio and growing our share of market
  - Transforming our technology environment to improve customer experience and create an efficient scalable platform for growth
  - Improving capital management and driving returns for shareholders



# Questions



# Finance Update

CFO – Mark Wratten



# Agenda

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1. Key CFO goals
2. Finance transformation
3. Select balance sheet items
4. Working capital and cash flow conversion
5. Capital expenditure
6. Group Services costs (the “other” in OFR)
7. Energy Risk Management
8. Synergies
9. Strengthening our Balance Sheet

This section includes summary information, historical and pro-forma financials and forward looking statements, and should be read in conjunction with slide 132

# Driving shareholder value

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## Accountability and ownership

- Ensure executive / management are accountable
- Implement low level P&L ownership
- Improved forecasting, reporting and monitoring

## Governance

- Robust controls, processes and disciplines
- Standardise financial system
- Build strong finance teams to support the business

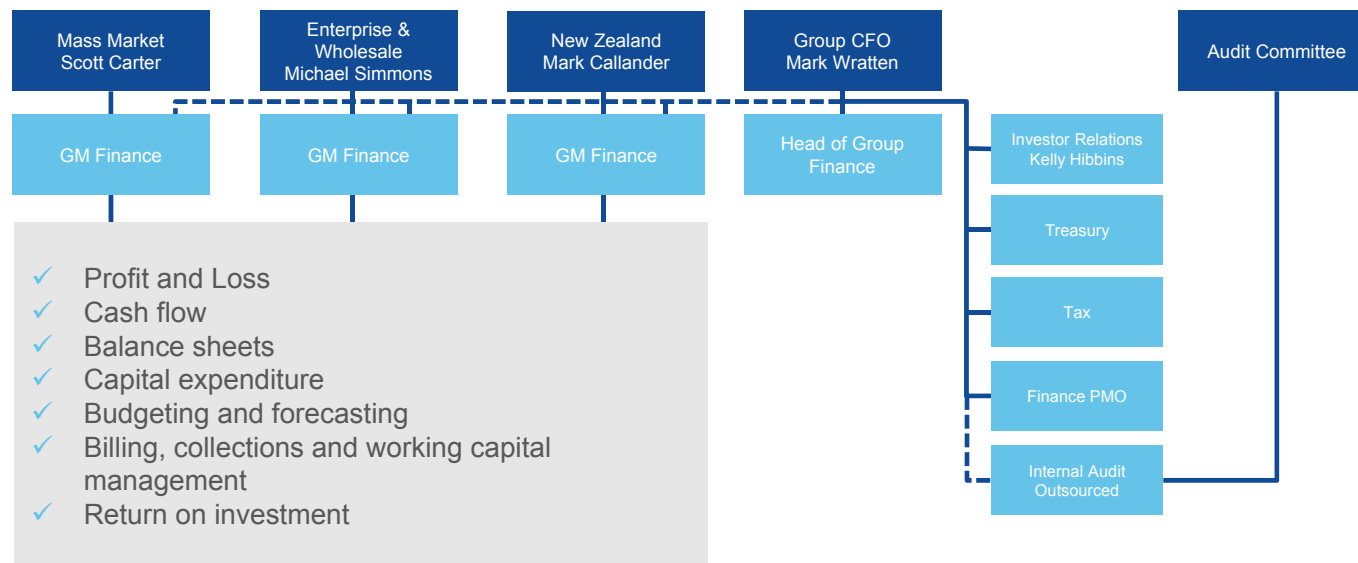
## Balance sheet

- Capital expenditure discipline
- Working capital management and cash conversion
- Drive to reduce leverage

# Finance transformation - structure

## ✓ New finance structure implemented

- Provides strong financial support to the operating divisions, ensuring full ownership and accountability
- Operating under an umbrella of Group oversight, governance, policies, standards, timetables
- Small number of additional key roles required - now in place or about to commence



# Finance transformation - systems

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## Financial systems changes

- ✓ CRP tool selected and in process of implementing (phase 1 set up by July 2017)
  - Group consolidation tool – multi entity, multi currency
  - Reporting – internal and external, financial and operational metrics
  - Budgeting, forecasting and business planning
  - Single source of truth
- ✓ ERP migration plan developed with move to one ERP system by end of calendar 2017
  - Single GL, common chart of accounts
  - Low level P&L's, divisional balance sheets
  - Single asset register, project costing system
- ✓ Other system standardisation under way
  - Purchasing and AP management
  - Account reconciliation and financial task management
  - Expense management
- ✓ The above will not require material investment in Opex or Capex (will drive medium term savings)

# Finance transformation - processes

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## Control and reporting enhancements in progress

- ✓ Balance sheet review
- ✓ Working capital and cash flow review, including enhanced forecasting and reporting
- ✓ Capital expenditure approval, reporting, forecasting and monitoring processes now being implemented
- ✓ Group Services costs deep dive review at final stages.

# Select balance sheet items

		Consolidated	
	Note	31-Dec-16	30-Jun-16
		\$'000	\$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		131,526	128,629
Trade and other receivables	11	178,057	144,379
Prepayments		23,459	16,554
Subscriber acquisition costs		42,391	19,222
Other		48,736	24,899
Total current assets		424,169	333,683
<b>Non-current assets</b>			
Property, plant and equipment	17	1,531,042	522,413
Intangibles	18	3,792,951	3,757,068
Accrued Revenue		2,540	1,279
Subscriber acquisition costs		19,245	14,475
Deferred tax		59,671	57,403
Other		3,211	7,697
Total non-current assets		5,408,660	4,360,335
<b>Total assets</b>		<b>5,832,829</b>	<b>4,694,018</b>

- ✓ Deferred subscriber acquisition costs (SAC) of \$61.6M
  - Refer to slides 26-27 (and appendix slides 128-130)
- ✓ Intangibles include:
  - Acquired customer intangibles of \$322M (amortisation of \$61M per year)
  - Acquired software intangibles of \$83.5M (amortisation of \$26M per year)
  - Amortisation schedule on slide 29

# Select balance sheet items

		Consolidated	
	Note	31-Dec-16 \$'000	30-Jun-16 \$'000
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	12	298,696	288,966
Provisions	15	33,963	25,020
Deferred revenue		61,657	62,202
Income tax		-	2,036
Borrowings	19	14,680	13,729
Other	13	32,026	8,610
Total current liabilities		441,022	400,563
<b>Non-current liabilities</b>			
Provisions	16	67,745	11,310
Deferred revenue		155,485	6,935
Borrowings	20	1,105,078	872,382
Deferred tax		220,104	216,320
Other	14	9,924	12,223
Total non-current liabilities		1,558,336	1,119,170
<b>Total liabilities</b>		<b>1,999,358</b>	<b>1,519,733</b>

- ✓ Provisions includes onerous contracts
  - Current \$11.8M
  - Non current \$19.9M
  - Refer to slide 30
- ✓ Deferred revenue includes \$160.2M for Nextgen (as at acquisition date)
  - Refer to slide 28
- ✓ Current liabilities – “other” includes \$23.4M of deposits held for one off projects. This will move to deferred revenue now contracts are finalised

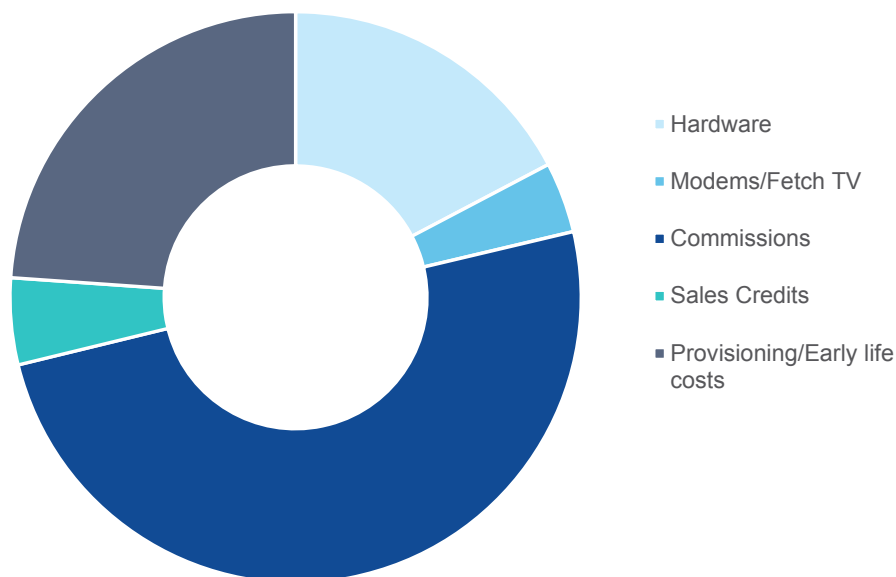
# Subscriber acquisition costs (SAC) – deep dive

DEFERRED SAC (\$M's)	MM	NZ	EW	Total
Deferred SAC balances 30/06/16	23.0	4.3	6.4	33.7
Deferred	33.6	10.6	2.6	46.8
Expensed	(11.9)	(5.0)	(2.0)	(18.9)
<b>Deferred SAC balances 31/12/16</b>	<b>44.7</b>	<b>9.8</b>	<b>7.1</b>	<b>61.6</b>
Deferred	30.8	7.9	4.8	43.5
Expensed	(19.8)	(7.9)	(2.6)	(30.3)
<b>Forecast Deferred SAC balances 30/06/17</b>	<b>55.7</b>	<b>9.8</b>	<b>9.3</b>	<b>74.8</b>
Current Deferred SAC	41.7	8.5	5.1	55.3
Non Current Deferred SAC	14.0	1.3	4.2	19.5
<b>Forecast Deferred SAC balances 30/06/17</b>	<b>55.7</b>	<b>9.8</b>	<b>9.3</b>	<b>74.8</b>
YTD Movements	MM	NZ	EW	Total
Deferred	64.4	18.5	7.4	90.3
Expensed	(31.7)	(12.9)	(4.6)	(49.2)
Delta	32.7	5.5	2.8	41.1

- ✓ Deferred SAC balances for M2 were reset post merger in February 2016 as required by PPA
- ✓ Customer contract / relationships intangibles independently valued at that time, amortisation commenced and recorded “below the line”
- ✓ The difference between deferred and expensed SACs
  - in H2 FY16 was ~\$27M
  - in H1 FY17 was ~\$28M
  - in H2 FY17 is forecast to be ~\$13-14M
- ✓ Normalisation of SAC balances expected around the end of Q2 FY18. Based on current forecasts for SIO growth in FY18 there will be no material differential between deferred and expensed costs in FY18
- ✓ Deferred SACs in FY18/19 will be dependent on the rate at which SIOs are signed in the face of copper to fibre migration

# Subscriber Acquisition Costs – expense breakdown FY17

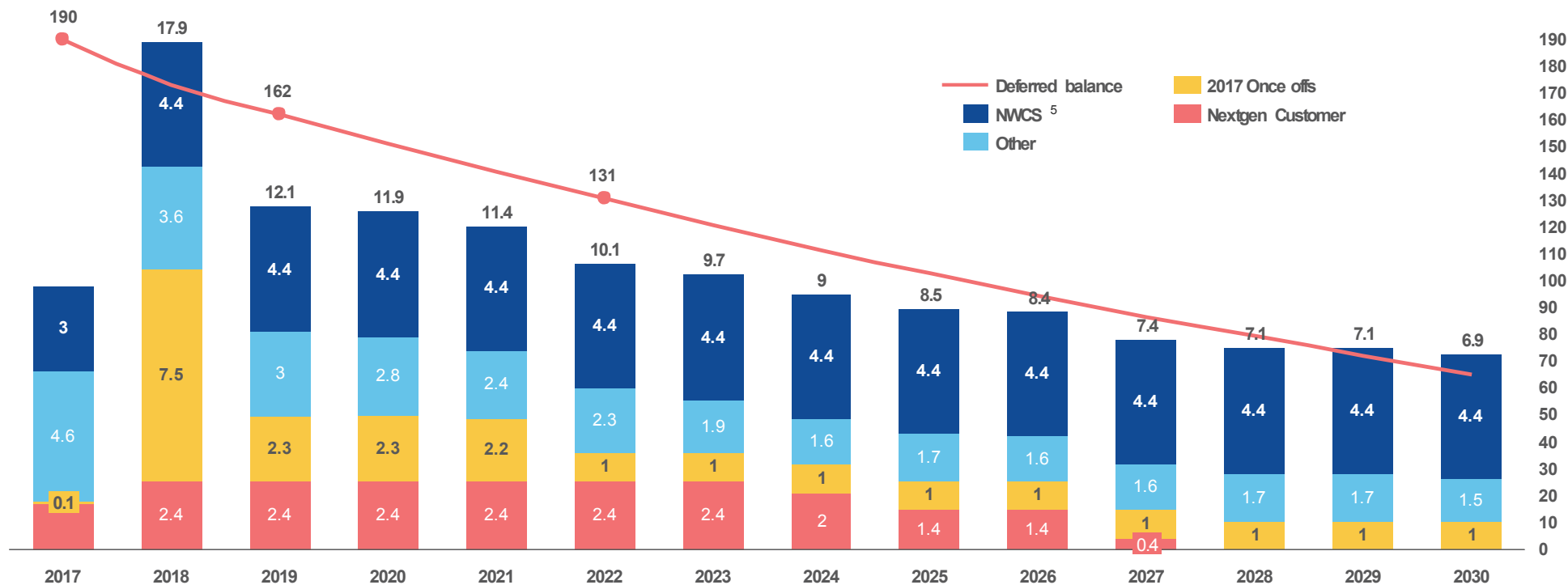
SACs by type – Consumer Australia



- ✓ Average Deferred SAC per SIO FY17 YTD
  - Australia Consumer is \$107
- ✓ NBN modems ~\$70 capitalised to fixed assets
- ✓ In FY19 a change in accounting standards (detailed in appendices) will reduce the type and amount of SACs we can defer. Initial analysis indicates it would be circa 40% of current levels. Further work is required on this, and options being assessed
  - Further detail in the appendix

- ✓ Various hardware is provided under contract, either as a “bonus” promotional Pendo item, or with monthly repayments or the handset cost recovered in the plan fee
- ✓ Modems & Fetch TV boxes now leased to customers from \$0 p.m. with the ownership of the modem remaining with Vocus. In this case, AASB 1042 does not apply and the modems remain as Fixed Assets of Vocus and are depreciated over an appropriate period

# Deferred revenue profile 2017 - 2030

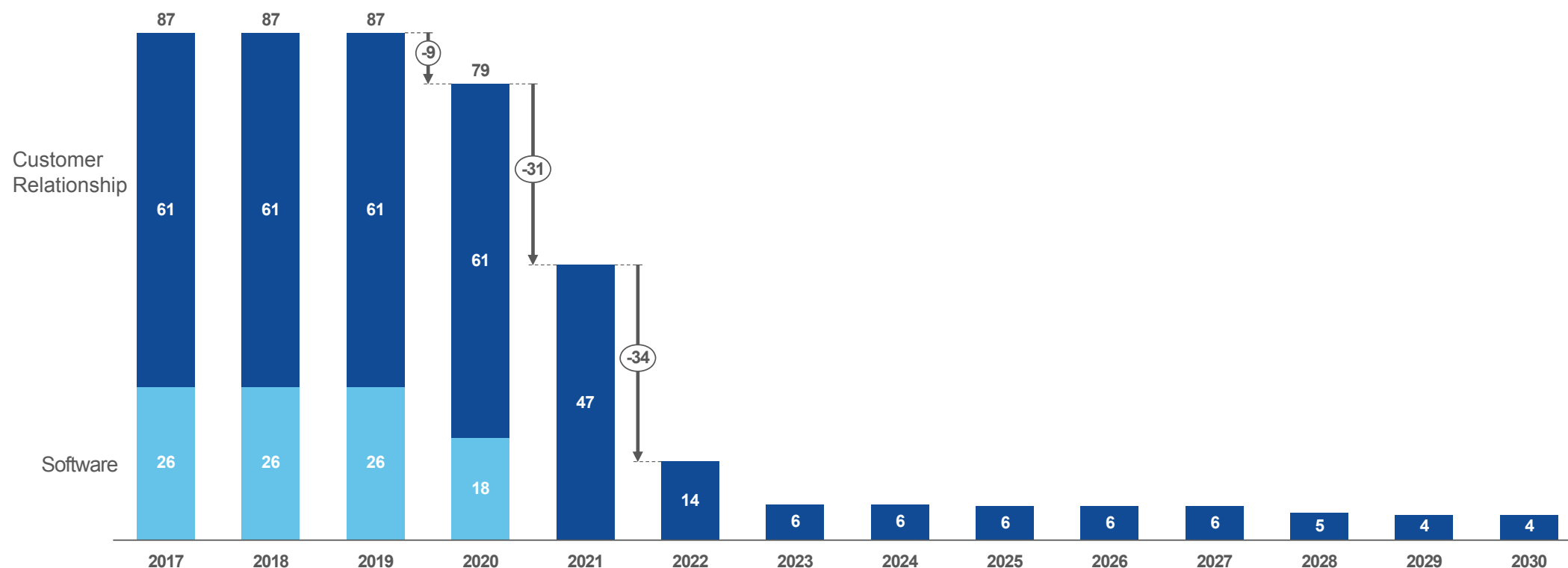


## Notes:

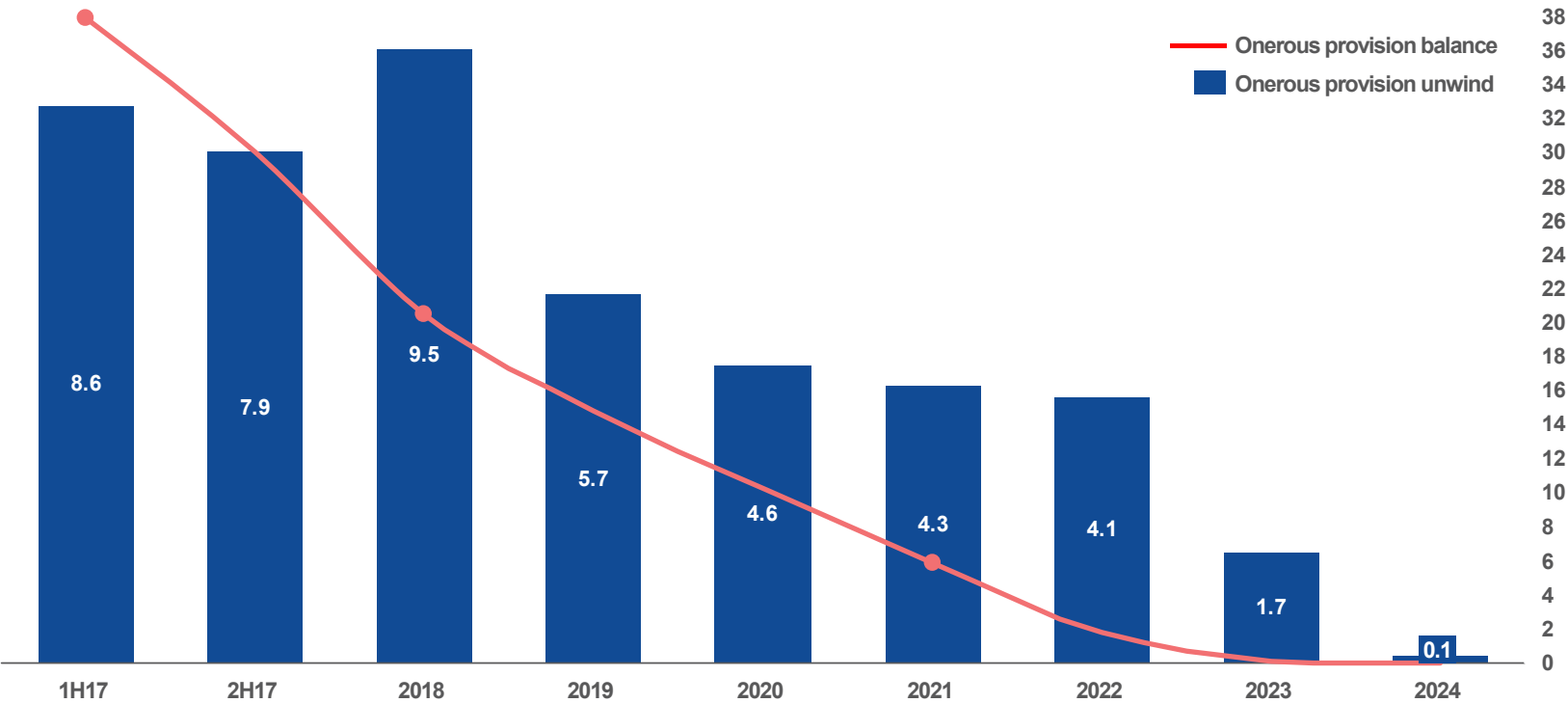
1. All long term deferred revenue sits within Enterprise & Wholesale & NZ.
2. Short term (monthly in advance) revenue is excluded from the above
3. NZD to AUD rate forecast at 0.96
4. Includes only long-term deferred revenue (Deferral period 2+ years from receipt)
5. NWCS North West Cable System

# Below the line amortisation - intangibles

## Acquired Customer Relationship & Software (\$M)



# Onerous provisions cash release profile



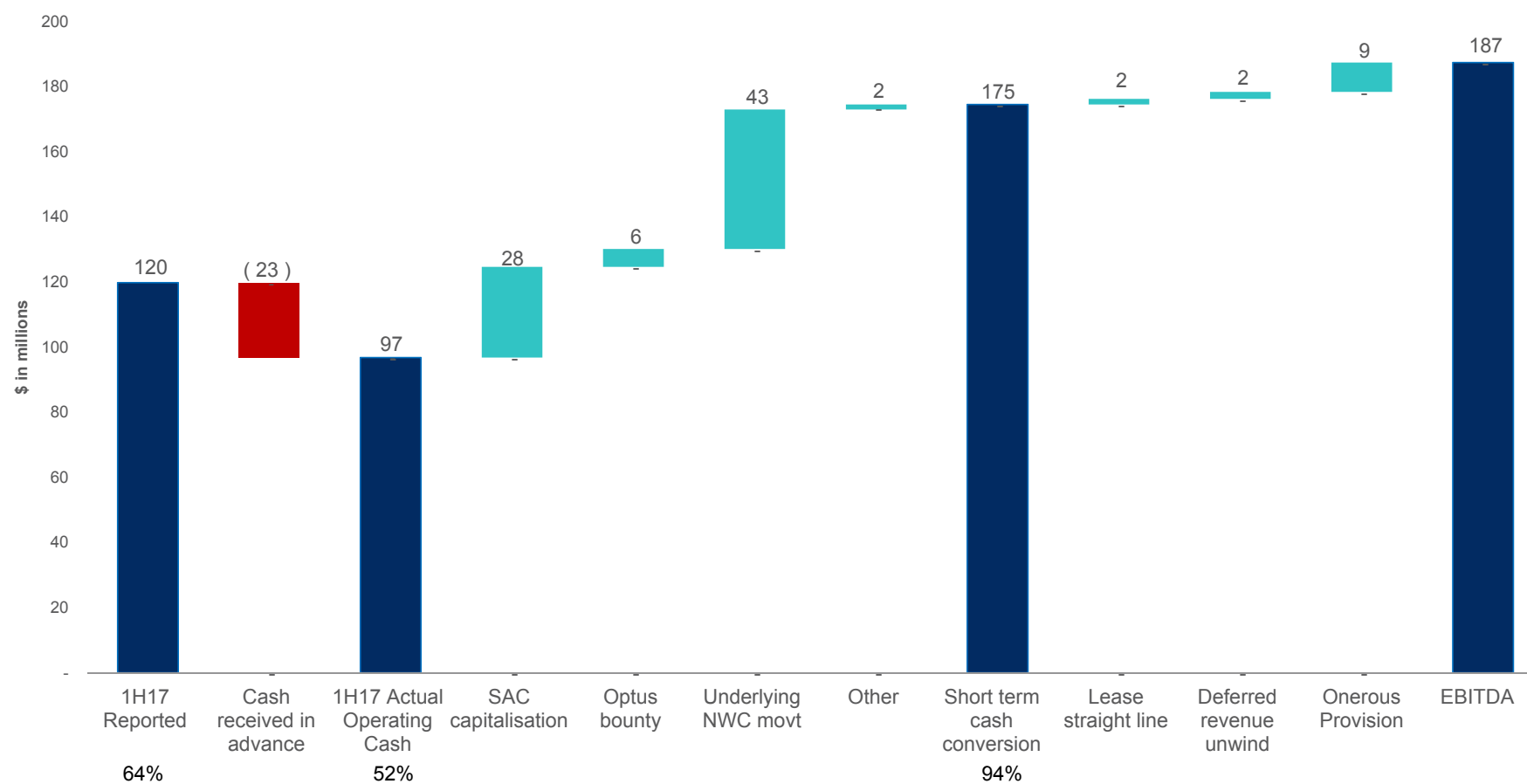
**Notes:**  
1. Onerous contract provisions created on acquisitions  
2. Include property leases and Metronode contract

# Working capital / cash conversion review

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- ✓ Engaged PwC to assist in a deeper dive into our cash flows
- ✓ Whilst the review is ongoing I do have some further insights:
  - A number of items impacted H1 cash conversion, most of which will also flow into H2 of FY17
  - The negative cash flow impact of these items in FY18 and FY19 will reduce substantially
  - Working capital balances will be mostly normalised by June 2017
  - Cash conversion % moving into FY18 should be at or above 90%, and improve in the outer years due to deferred revenue and onerous provision unwind amounts reducing, and increasing EBITDA
  - Further work required, particularly on opportunities to improve working capital

# 1H FY17 EBITDA to operating cash H1



# Net working capital and non cash earnings

\$ in millions	1H17	2H17	FY17	FY18	FY19	FY20	FY21	FY22
Onerous provision - cash release	(8.6)	(7.9)	(16.5)	(9.5)	(5.7)	(4.6)	(4.3)	(4.1)
<b>Deferred revenue unwind</b>								
Enterprise and Wholesale contracts	(2.2)	(6.8)	(9.0)	(17.9)	(12.0)	(11.8)	(11.3)	(10.0)
Other	(0.6)	(0.6)	(1.2)	(1.1)	(1.1)	(1.1)	(1.1)	(0.3)
<b>Other items (inc. SAC)</b>								
Optus bounty unwind	(5.5)	(6.0)	(11.5)	-	-	-	-	-
Lease straight-lining	(1.7)	(1.7)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
Subscriber acquisition cost normalisation	(27.9)	(13.7)	(41.6)	(3.2)	-	-	-	-
Other	(1.6)	(1.6)	(3.2)	(2.0)	(2.0)	(2.0)	(2.0)	
Sub total other items	<b>(36.7)</b>	<b>(23.0)</b>	<b>(59.7)</b>	<b>(8.6)</b>	<b>(5.4)</b>	<b>(5.4)</b>	<b>(5.4)</b>	<b>(3.4)</b>
<b>Total for Specified Items Above</b>	<b>(48.1)</b>	<b>(38.3)</b>	<b>(86.4)</b>	<b>(37.1)</b>	<b>(24.2)</b>	<b>(22.9)</b>	<b>(22.1)</b>	<b>(17.8)</b>
Advance payments - "one off" contracts	23.0	-	23.0	-	-	-	-	-
Other change in NWC (H2 is estimate)	(42.5)	(38.0)	(80.5)	-	-	-	-	-
<b>Total NWC movements and non cash earnings</b>	<b>(67.6)</b>	<b>(76.3)</b>	<b>(143.9)</b>	<b>(37.1)</b>	<b>(24.2)</b>	<b>(22.9)</b>	<b>(22.1)</b>	<b>(17.8)</b>

# H1 FY17 - other changes in net working capital

## Other change in NWC

\$ in millions

FY17

### *NWC movement*

Trade debtors	(0.6)
Other receivables	(2.7)
Inventory	(3.9)
Trade payables	(23.1)
Payables relating to acquisition & integration	(3.6)
Accrued capex	(5.8)
Energy advance receipts	(2.3)
Employee liabilities	(0.5)

### **Total Other change in NWC**

**(42.6)**

- ✓ Large payables and accruals unwind in H1 FY17
- ✓ Further material unwind in Q3 (circa ~\$38m)
- ✓ Will end FY17 year with “new” normalised net working capital position
- ✓ FY18 should be clean except for items highlighted on prior page

# Capital expenditure

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- ✓ Establishing rigorous new processes for development, review and approval of capex requests
- ✓ Capital allocation, timing and assessing returns on investment is an absolute priority
- ✓ Implementing new capex forecasting and reporting tools
- ✓ FY18 capex levels to be driven by:
  - Opportunities to pull back capex in E&W through focusing on existing “on net” buildings
  - Focusing on a smaller number of strategic (transformation) projects should help offset the cost of these programs of work, as other projects are stopped and capex saved
  - Further IRU capacity investments will be needed in line with business growth (an ongoing need beyond FY18)
  - Network investment needs are being assessed in light of integration plans and changing technologies
  - Consumer capex likely to slightly increase in FY18/19 as we migrate to NBN and UFB, and grow share (capex mainly hardware i.e. modems)

# Breakdown of “Other”

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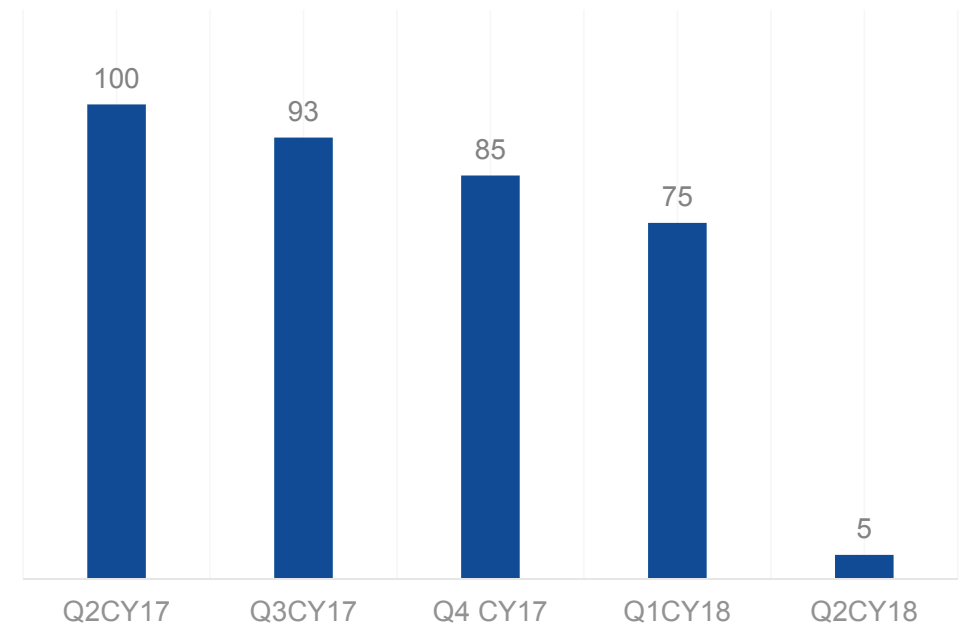
- ✓ The \$80.3M “other” in H1 FY17 OFR refers to Group Services
- ✓ Costs include:
  - Australian network (Inc. CVC), and technology (IT) costs
  - Shared services functions such as:
    - Executive, Group finance (Inc. Tax, Treasury, IR and Internal Audit)
    - Legal and Board (Inc. Risk, Insurance and ASX)
    - HR and Commercial (Inc. Facilities, Billing, Regulatory, Energy Risk Management)
  - Costs are net of call termination revenues and re-allocations of acquisition and integration costs
- ✓ Will include Transformation team costs from July 2017
- ✓ Nextgen network, IT and shared services costs will transfer to Group Services from July 2017
- ✓ We will allocate certain costs to the divisions in FY18 i.e. CVC (under review)
- ✓ We expect nominal acquisition and integration costs in FY18
- ✓ Will provide greater detail as we move in FY18

# Energy risk management

## ✓ Balanced risk management policy provides for tiered buying over time

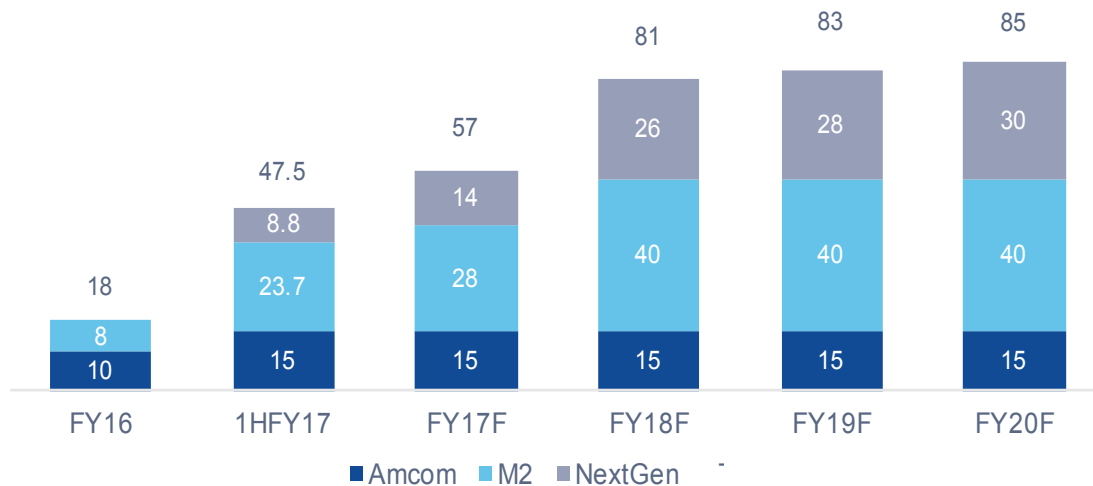
- Tiered buying means we progressively top up our hedge position to average out our costs
- Forward risk is thus managed with 1Q CY17 hedge prices significantly lower than spot prices
- Effective hedging helps to protect our gross profit from the severe impacts of the volatility in energy prices
- Geographic spread of customers across the portfolio means risk spread
- No long term customer contracts means we have the ability to vary retail prices and can rebalance margins over time

Percentage of Book Hedged (Ave Peak)



# Synergies

## Forecast run rate of cumulative acquisition synergies



- ✓ Run rate synergies on track for June 2017
- ✓ Allocating savings against the 3 acquired businesses increasingly difficult due to the level of integration we have achieved, and our evolving business structure
- ✓ Will likely move to more focused disclosure of business improvement / efficiency opportunities, predominantly around our transformation program, as we move into FY18

# Balance sheet

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- ✓ Still guiding to June 2017 net debt balance between \$1.0B to \$1.1B
- ✓ Vocus is very aware of our leverage position, and the need to strengthen our balance sheet through a disciplined approach to capital management and capital expenditure
- ✓ Detailed financial forecasting is well advanced for FY18-20
- ✓ Other cash improvement levers we have:
  - Drive sustained working capital improvements
  - Stronger control over capex spend and timing
  - Tighter cost management
  - Dividends (Board decision)
  - Asset sales (Board decision)



# Questions



# Technology & Transformation

NED - Rhoda Phillippo and CEO - Geoff Horth



# Technology & Transformation

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- ✓ **Vocus has a significant transformation program of work to execute requiring capital investment and prioritisation to drive top line growth, cost reduction and simplification, and improve shareholder returns**
  - The Vocus Technology team now comprises an enviable combination of skills from Vocus, Amcom, Nextgen, M2 and those that have joined from other businesses
  - Harnessing this capability, streamlining our technology teams and prioritising our transformation projects to deliver our 3 year plan requires unique skill sets and experience
- ✓ **A review of our readiness to execute Technology and Transformation work streams commenced in late 2016 and we have just completed the first quarter of our implementation plan**
  - Newly created Vocus-wide Transformation Office which:
    - Enables identification and implementation of a clear set of enterprise wide priority projects
    - Ensures that all projects are resourced, funded and progress reported in a consistent way and
    - Manages strategic change communications, agile and lean education and resolution of cross-business contention
  - Technology team focused on delivering today's services and building the future network strategy and architecture
    - Providing the architectural roadmap for Vocus' for technology and a consistent technology "front door" for our sales teams and suppliers
    - Developing and delivering streamlined business support systems to enable seamless delivery to customers
    - Running Network and IT services efficiently and effectively

# Technology And Transformation

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## ✓ Over the last quarter we have made significant progress and can announce our new CTO

- We have chosen our new Chief Technology Officer - Simon Smith will join Vocus on 3 July, 2017. Simon brings a wealth of experience in telco, energy, digital and online business technology leadership roles
- Over the past 15 years, Simon has held roles leading technology for Lumo Energy, Sydney Airport, News Digital Media, OmniLab Media, Vivid Wireless, Melbourne IT, AAPT and Web Central as well as a period running his own digital transformation and Agile IT company

## ✓ And we are close to announcing our new Head of Transformation

- Head of Transformation is expected to be a ~18 to 24 month contract role to establish office, systems and key priorities. Recruitment process well progressed with final credentialed candidate interviews underway. Program leads for the business units have been selected and a Head of Strategic Change Communications appointed

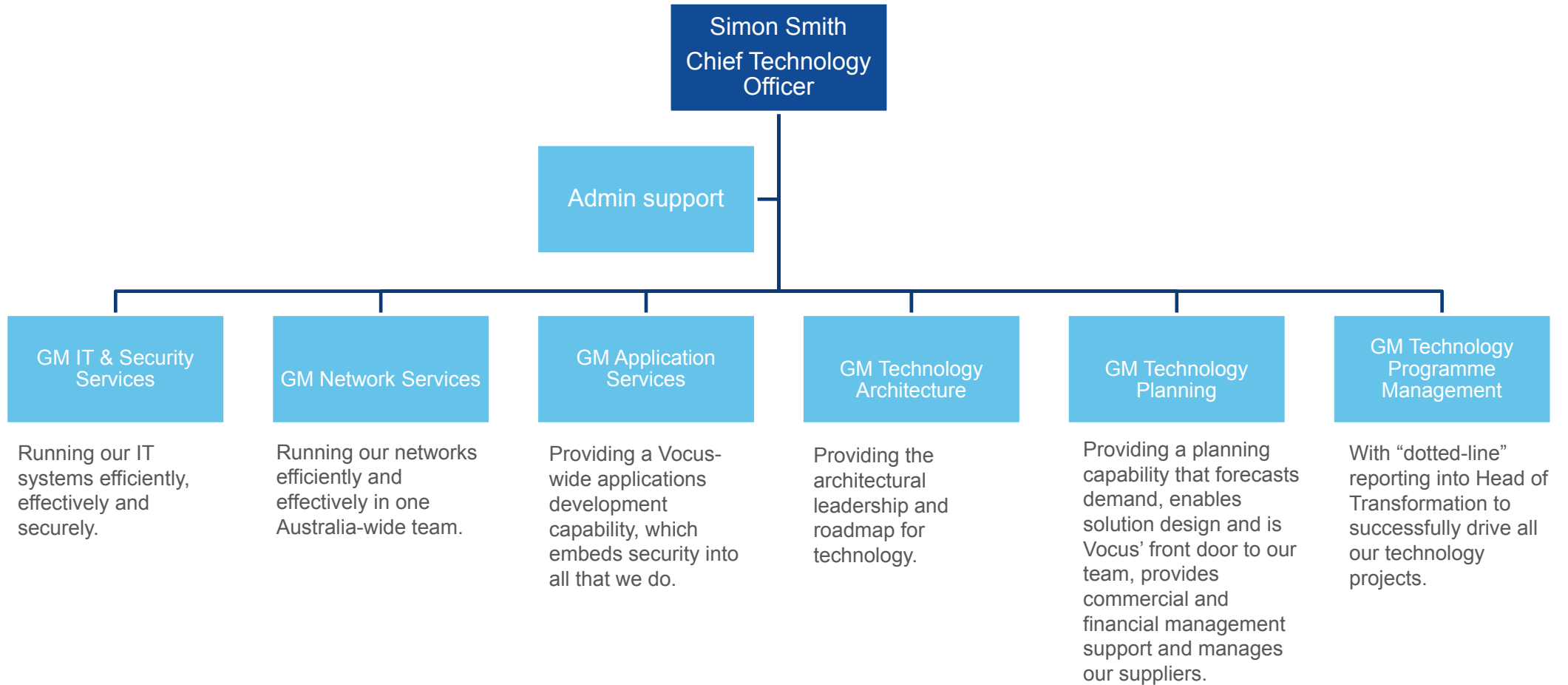
# Simplified technology design

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✓ **As a result of a major organisation review of our Technology teams a new design is now finalised with staged implementation from now until December 2017**

- The new design simplifies our team structure and delivers a significant cost saving, removing duplication and simplifying our support for the market facing business units
- It pulls together our architecture roles and creates a leading architecture team to develop one seamless future architecture roadmap, optimising the combined strategic strengths of the assets we have
- It streamlines our customer network sales responses and puts professional management around our simplified suppliers
- It assumes that we will focus on our core technology functions and outsource or right-source non-core areas (e.g. logistics)
- And it is based on doing activities once in the place that makes the most sense (e.g. one Network Operations Centre)
- It creates one team of technology project expertise

# Technology Leadership



# Transformation Agenda

---

## ✓ We are moving quickly to establish our Transformation agenda and approach

- A Board Sub-Committee has been formed to oversee the technology and transformation agenda comprising Rhoda Phillippo (chair), Craig Farrow and Bob Mansfield.
- An Executive Transformation Steering Group has been formed, with Terms of Reference, project prioritisation approach, top strategic projects and the projects which will stop identified to date – a clear focus on the vital few
- The process to manage the rest – prioritising our projects in the “middle” - will be developed during June 2017
- A skills analysis of our Programme, Project and BA resources has been completed and Agile and Lean training is in the pipeline
- We have moved all project roles into dedicated program teams for each business unit and appointed new leaders with significant transformation and program management experience.

## ✓ We've assessed and prioritised our projects against our key drivers

- Driving top line growth by delighting customers
- Improving shareholder returns
- Simplification of our business and reducing costs

# Transformation Governance



# Top Strategic Projects

	Drive Top Line Growth and delight customers	Improve Shareholder returns	Simplification and cost reduction
Simplifying our MPLS core network	✓		✓
Integrating and Consolidating our Operation Support Systems (OSS)	✓		✓
One Network Ops Centre	✓		✓
Simplified and streamlined voice products/architecture for Enterprise & Wholesale customers	✓	✓	✓

# Top Strategic Projects

	Drive Top Line Growth and delight customers	Improve Shareholder returns	Simplification and cost reduction
Genesys & Salesforce	✓	✓	✓
iPrimus relaunch, shopping cart and rapid sign-up	✓	✓	
Contract to Cash	✓	✓	✓
NBN Automation	✓	✓	✓
Data and Analytics excellence	✓	✓	
CRP for improved financial visibility	✓	✓	

# The secret to success is agility and focus

---

## ✓ **We will continue to progressively deliver short focussed change to deliver returns**

- First strategic project delivered this weekend
- Fortnightly sprints keep momentum
- High visibility of change and progress through communications and reporting
- Benefits analysis clear at front of projects and tracked progressively, change of course where appropriate
- Business drivers determine project priorities – top line growth, customers, shareholder returns, cost and simplification

## ✓ **Significant investment over the next three years**

- Transforming Vocus to optimise our assets, people, systems and processes
- Careful investment of strategic capex to drive change quickly with early returns
- With continuous review of priorities and progress



# Questions

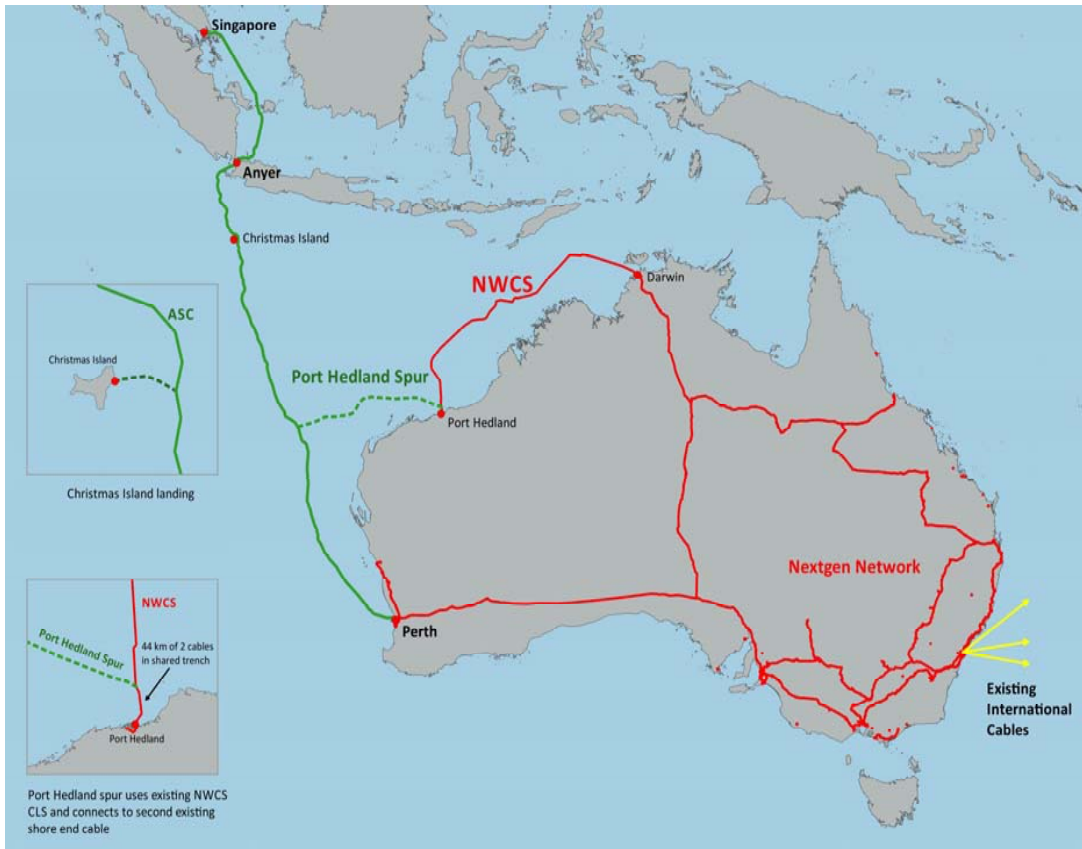


# Australia Singapore Cable

Commercial Director - John Allerton



# Australia - Singapore Cable

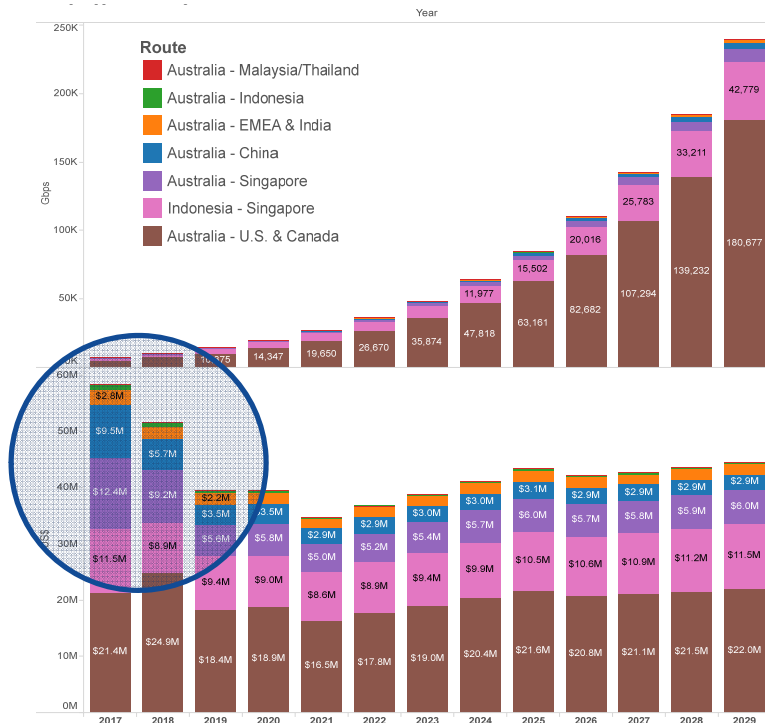


- ✓ **4,600km submarine cable system linking Australia to Singapore and Indonesia**
  - Four fibre pairs providing a minimum of 40Tbps capacity
  - Manufacture commenced in April in France
  - Design allows for branching units (BU) for future connection, accessing additional customers:
- ✓ **Project remains on budget and on track to be ready for service mid 2018**
  - Capex profile remains in-line with the cash flow profile outlined at the interim result
- ✓ **Discussions with potential customers progressing**
  - Interested parties include a range of OTT players, a number of international carriers, domestic carriers and government agencies
  - A number of potential customers have confirmed desire to see two systems built to secure redundancy
- ✓ **Vocus International established**
  - Created to expand and exploit international capacity inventory through construction, purchases, sales, swaps and partnerships
  - Focus on global peering relationships

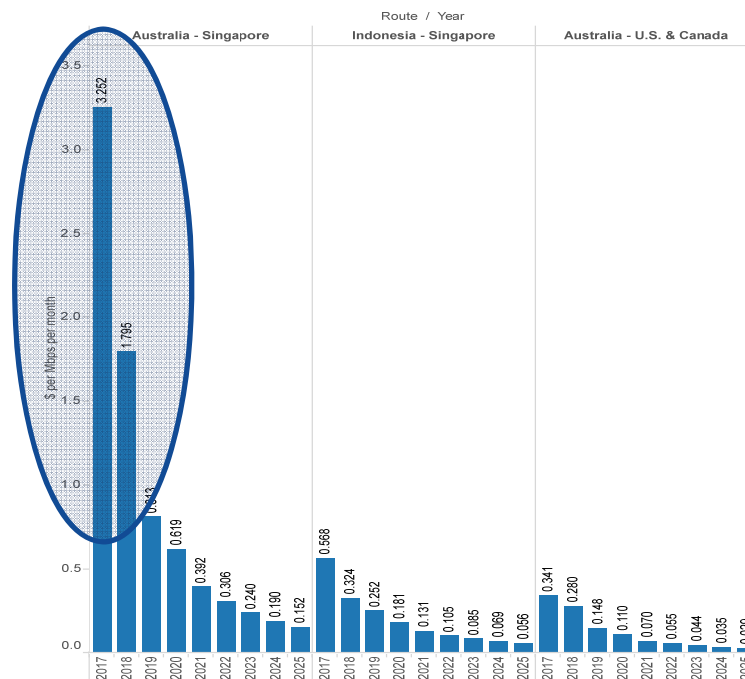
# Maximise the first to market “window of opportunity”

Vocus International will seek to capture burgeoning demand by being the first to market with a focus on the key markets of Transit-US, Indonesia-Singapore and Australia-Singapore

- ✓ Being first to market expected to allow ASC to realise the pent-up contestable demand on the route before Indigo is



- ✓ Opportunity with \$ per mbps pricing values higher in early years particularly on the Australia-Singapore route

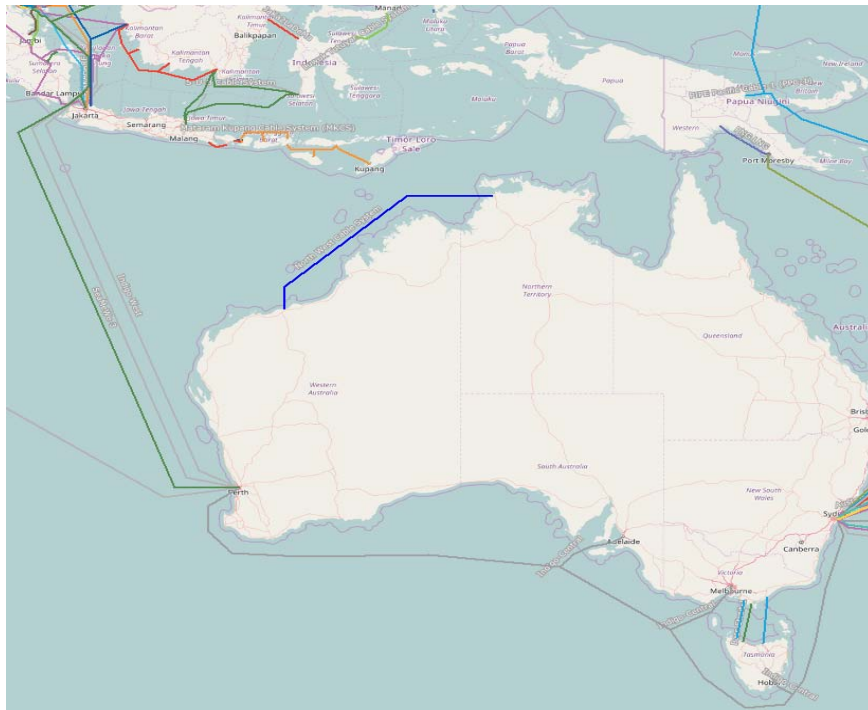


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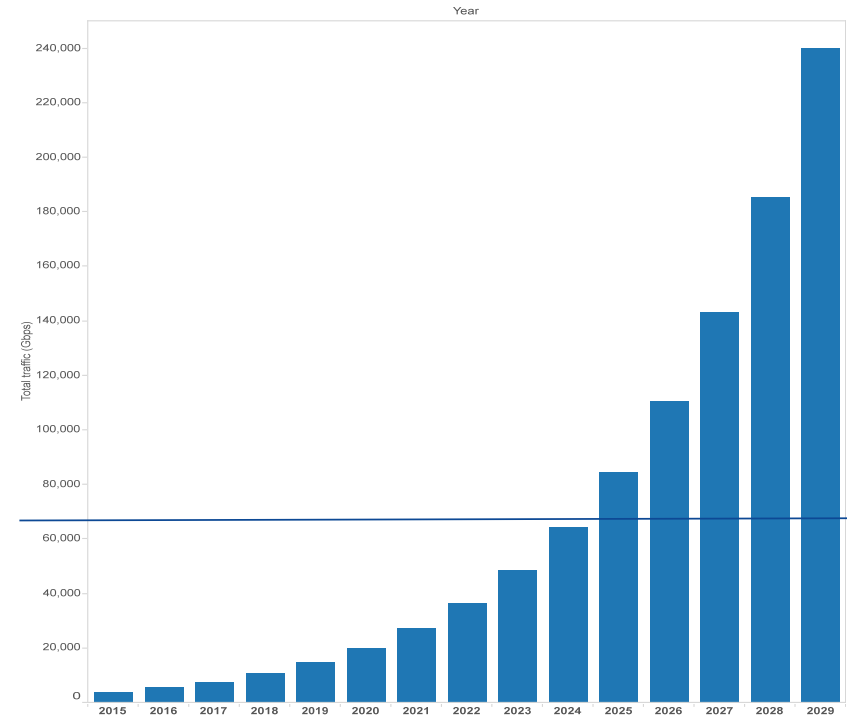
# The market for international capacity in Australia is set to change

With the deployment of two new cable systems a legitimate path will be established as an alternate to existing international IP transit options

- ✓ ASC is expected to replace capacity on the SeaMeWe-3 route between Australia and Singapore



- ✓ Strong demand profile forecast for this route; current proposed capacity forecast to be exhausted by 2025

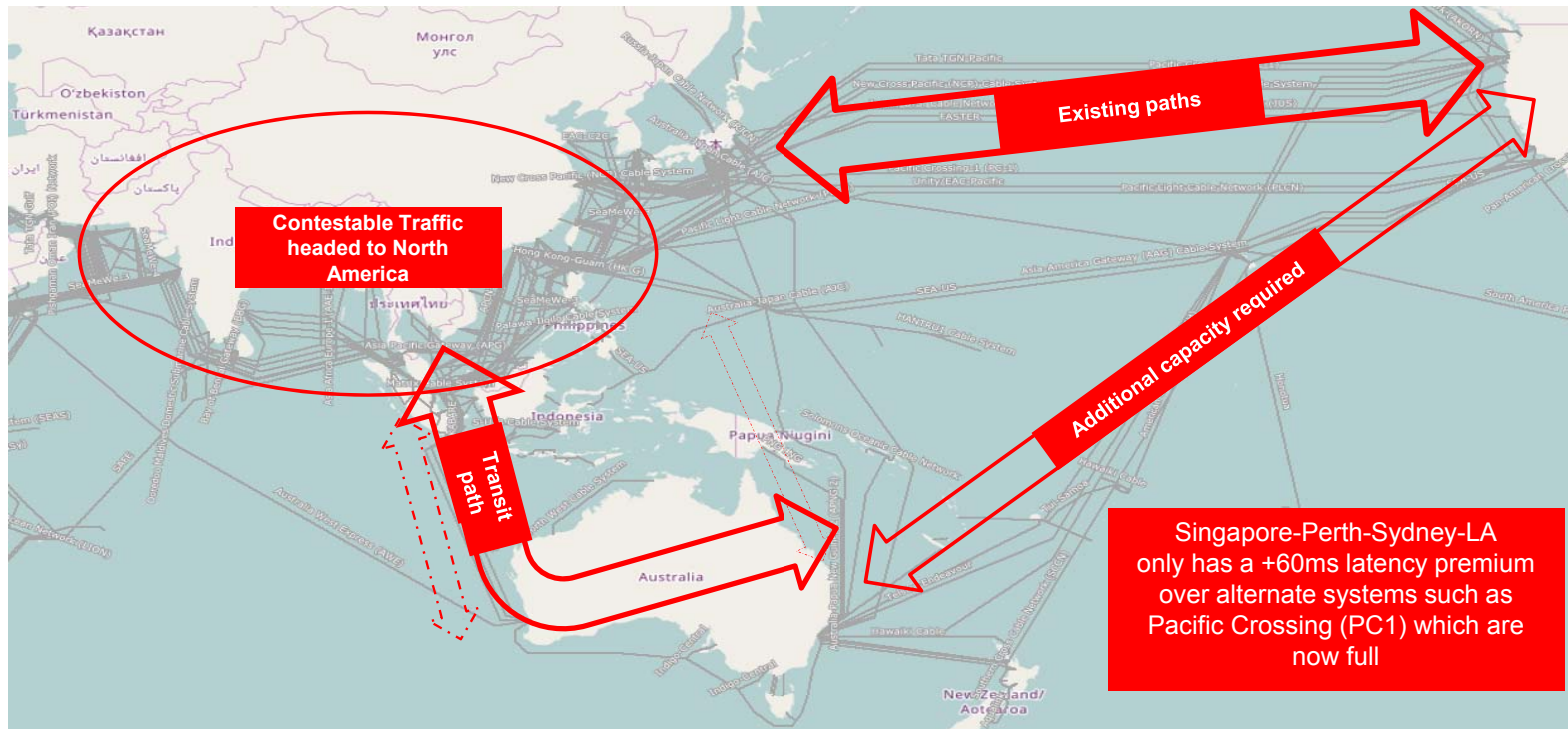


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# ASC has the potential to change Australia into a transit hub

The increase in Australia Singapore capacity will compete with systems operating between Asia and North America, particularly in the South East Asian region.

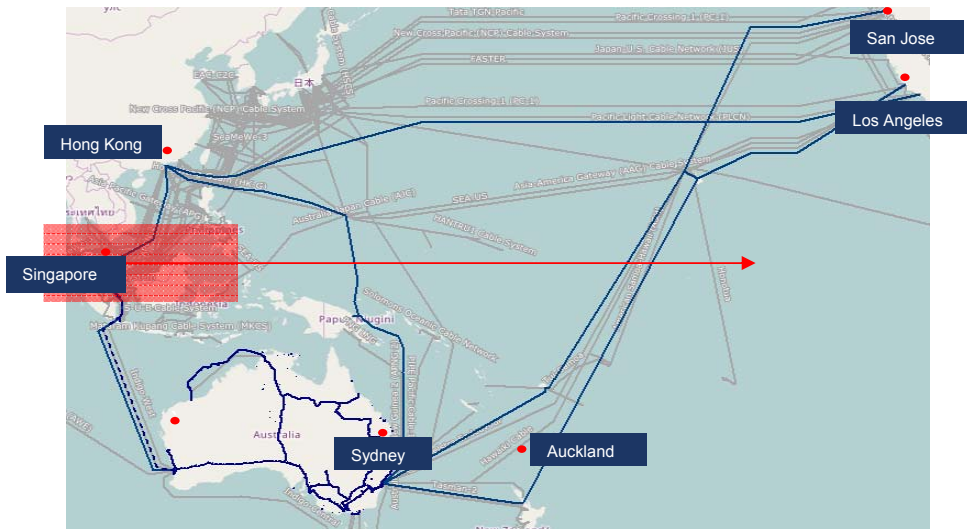
- ✓ The new Australia Singapore capacity will also compete with AJC and PPC1 that are currently taking some capacity on the less efficient route to SE Asia (via Guam) due to SeaMeWe-3 capacity constraints and diversity requirements



# Strengthening peering

## Vocus will enhance its global peering through swaps to new routes to drive capacity onto ASC

- ✓ Vocus created its IP network off the back of purchased capacity on the Southern Cross Cable Network (SCCN), creating an IP network
- ✓ Sold transit into the wholesale market in Australia and New Zealand
- ✓ Plan to broaden International Peering with a focus on South East Asia as a leverage point for capacity sales to and from its largest markets
- ✓ Vocus is now a leading ANZ provider of wholesale Internet transit and transmission
- ✓ Additional peering points will lower the Vocus IP Transit cost base and serve as the basis for driving traffic across the Australia Singapore Cable and opening up new Tier 2 and 3 customers for capacity sales in the region
- ✓ It is expected that many of these new routes can be obtained through capacity swaps



# Partnering to access new markets

## Vocus will target a number of strategic partnerships.

### XL Axiata a key partnership in Indonesia

- ✓ Vocus has established a strong relationship with XL Axiata (XL) in Indonesia to manage landing rights and permitting
- ✓ XL are a major player in Indonesia and currently purchase around 1Tbps of capacity between Indonesia and Singapore
- ✓ There are currently 6 other cables systems that compete for the Singapore-Jakarta route, XL will be key to securing new business on this route



### Swapping to partner

In order to gain capacity on new destinations in South-East Asia Vocus will look to first swap ASC capacity

- ✓ Capacity swaps will be targets at key transit points, Chennai, Manila will be initial targets
- ✓ Capacity swaps will target limited terms (restricted use) where
  - Vocus will be limited to using the capacity for a combined service that incorporates ASC. i.e. Vocus will not be able to sell the capacity it has gained from say Singapore to Chennai separately
  - Conversely where ASC capacity is exchanged, the receiving party will only be able to sell ASC capacity in combination with agreed routes



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# Questions



# New Zealand

Chief Executive New Zealand - Mark Callander



# Land of the long white cloud

**Total market ~\$5.2bn**

**Growing for the first time in 4 years**



**Fixed 51%**  
**Mobile 49%**



**4.6m people**  
**1.7m homes**  
**350k businesses**



**1.5m fixed**  
**broadband**  
**connections**



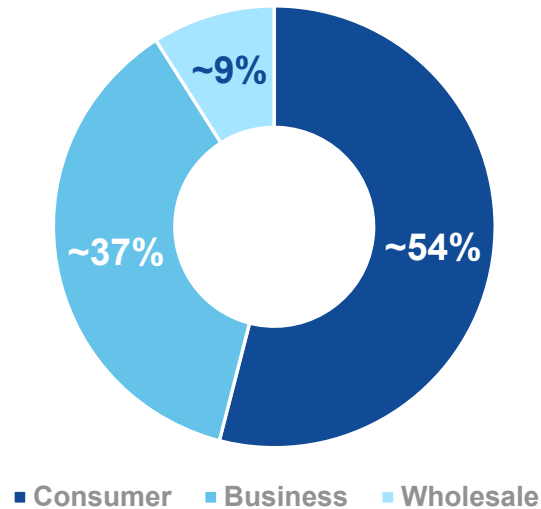
**UFB 900k homes**  
**85% coverage by 2025**



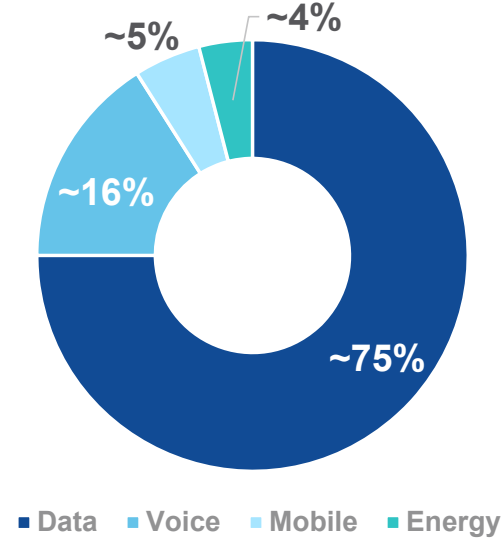
**FWA**  
**emerging**

# NZ Overview

FY17F Revenue by Segment



FY17F Revenue Split by Product



- ✓ Network capacity built for Consumer peak and bandwidth demands
- ✓ Resilience and reliability designed for the Business, Enterprise and Government
- ✓ Scale used to drive wholesale and network utilisation at all times of the day and night

# Key focus and drive

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## **Ongoing network investment in capacity and resiliency**

- ✓ Singular scale to deliver the lowest possible cost without sacrificing quality
- ✓ Enable the business units to succeed in all segments, never slow down

## **Leverage the sales, marketing and service engines**

- ✓ Bundle more, but it must complement the core (and the brand)
- ✓ If it moves, automate it. If it doesn't move, automate it until it does

## **To be the Most Loved Telco**

- ✓ Deliver service on our customers terms
- ✓ Analytics to drive desired outcomes

## **Our people are the difference**

- ✓ Get engagement to drive productivity
- ✓ Don't let great people leave, ever

# Business market



**\$2bn  
Market**

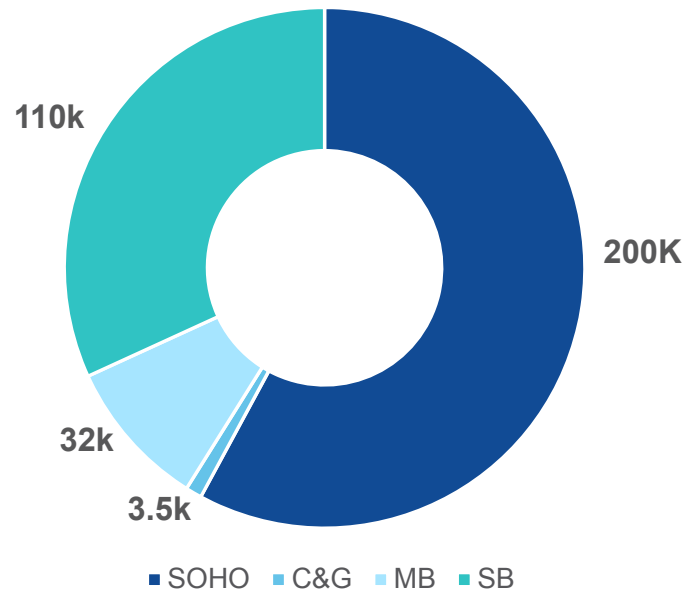


**95%  
Broadband  
Penetration**



**75% Web  
Presence**

## Business Segments



- ✓ 6.5% share of total revenue
- ✓ 10% share of fixed market revenue



**Corporate / Enterprise**

**FTE: 50+  
MRR: 10k+**



**Medium  
Business**

**FTE: 10-49  
MRR: 2-10k**



**Small  
Business**

**FTE: <10  
MRR: <2k**

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# Unified brand strategy

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## **Leverage the equity in the Vocus Communications brand**

- ✓ Strong reputation as an infrastructure player
- ✓ Maximise marketing investment

## **Single product stack, but fit for purpose across all segments**

- ✓ Solves immediate gaps such as voice and mobile in Enterprise market

## **Singular scale across all business systems**

- ✓ Lowers cost to serve across multiple segments
- ✓ Leverages wider support and delivery teams
- ✓ Provides greater control moving forward

## **Direct and indirect go to market strategies remain the same**

# Government growth - TaaS

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## Vocus well positioned for further Government growth

- ✓ Good reputation and success through One.Govt
- ✓ Merger created the opportunity for direct bid for Connectivity
  - Data, Voice, Mobile and Managed Security
- ✓ Category is estimated at \$130m in total value across 400 agencies
- ✓ Vocus has proven capability and strong partner relationships
- ✓ Confirmation of panel selection later this year
- ✓ Growth expected 2H18, but opportunity will be exploited FY19 and beyond



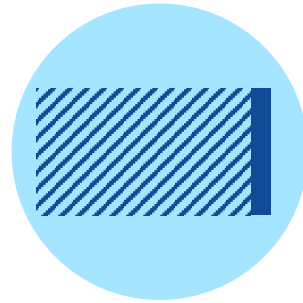
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# Consumer market

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**1.7M Homes**  
**14% market share of**  
**fixed broadband**



**90% broadband**  
**uptake**



**1 million UFB**  
**homes passed**



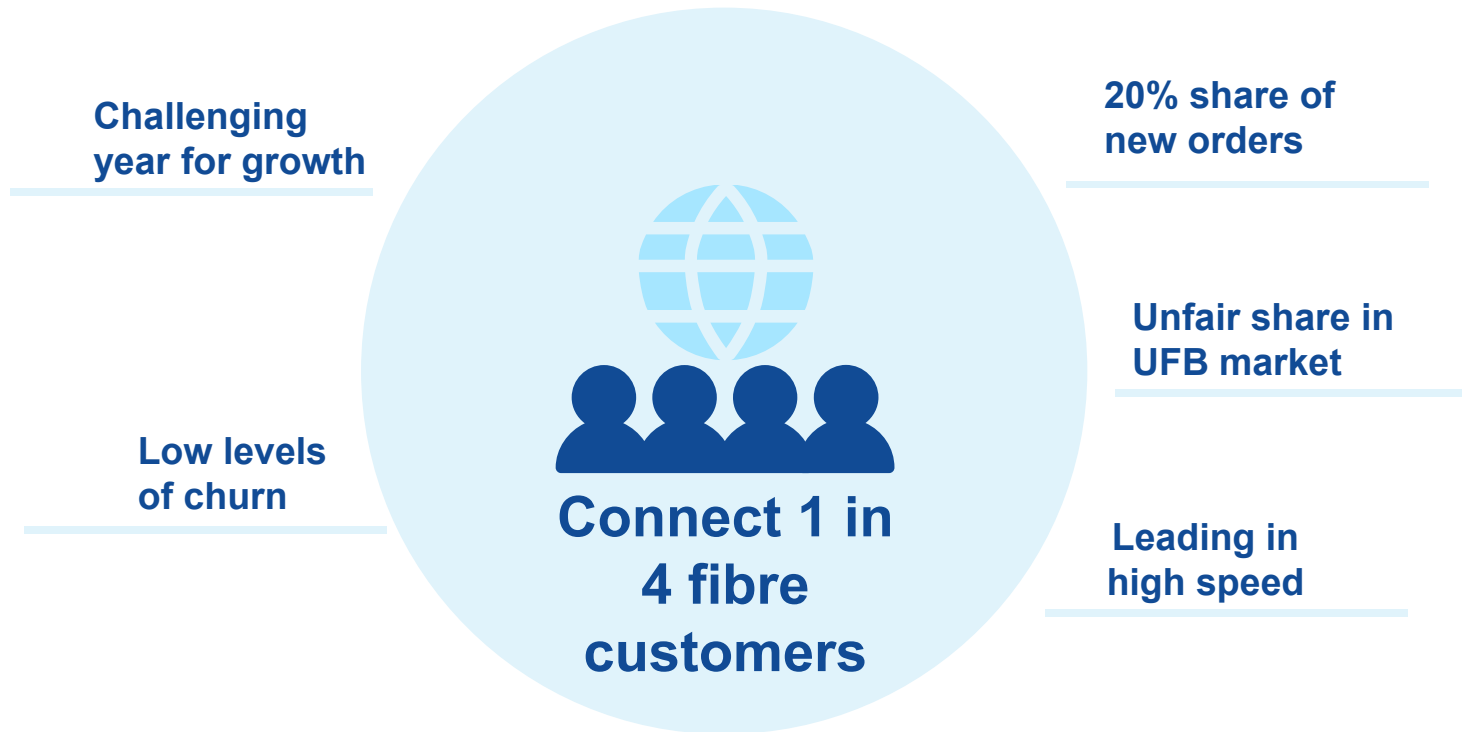
**31% connected**  
**UFB homes**

## **Wide appeal to mass market, but the sweet spot is Data hungry households!**

- ✓ Families with kids, young professionals and digital natives
- ✓ Data usage typically twice the industry average, fixed wireless access has no appeal
- ✓ Represents about 650k homes

# What drives the Team

---



CURRENT OFFER:

**\$59** P/MONTH

FOR THE FIRST 12 MONTHS AND \$89 FOR THE SECOND 12 MONTHS

PREVIOUS OFFER:

**FREE SAMSUNG SMART TV**

ON 24 MONTH FIBRE AND VDSL PLANS (FROM \$99 P/MONTH)



ATL OFFER 1:

**FREE NETFLIX**

FOR A YEAR

ATL OFFER 2:

**FREE BROADBAND**

ALL WINTER/3 MONTHS FREE UNLIMITED BROADBAND

BTL OFFER:

**THREE MONTHS FREE**

BROADBAND, 12 MONTHS FREE NETFLIX, FREE LIGHTBOX  
(24-MONTH CONTRACT)



ATL OFFER:

**\$300** ACCOUNT CREDIT,  
12 MONTHS FREE NEON (24-MONTH CONTRACT)

ATL OFFER WITH SKY:

**\$200** SKY TV ACCOUNT CREDIT  
\$300 VODAFONE ACCOUNT CREDIT,  
\$10 SKY TV MONTHLY DISCOUNT

BTL OFFER:

**\$300**  
ACCOUNT CREDIT



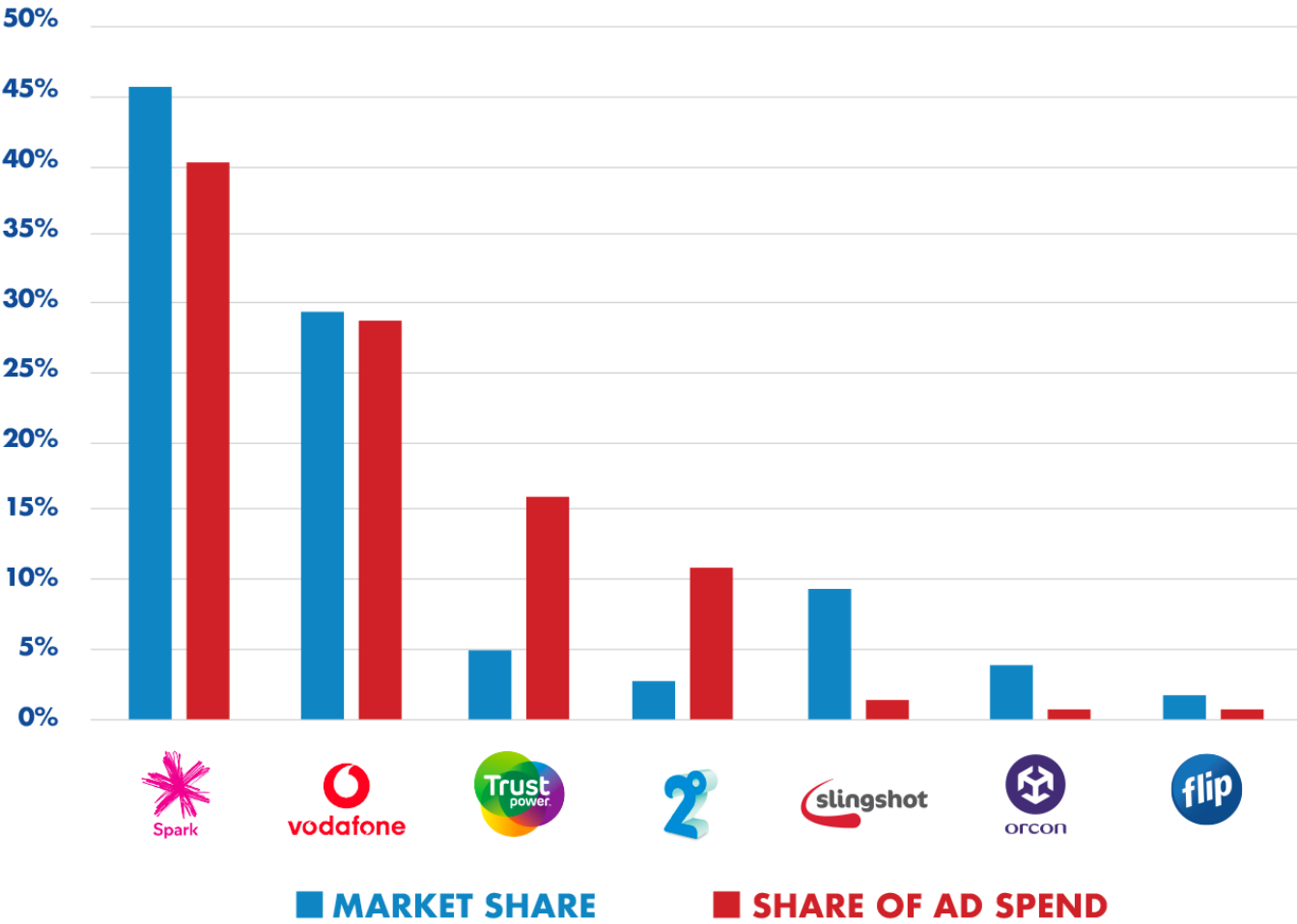
ATL OFFER:

**6 MONTHS FREE**  
BROADBAND ON 24-MONTH CONTRACT

BTL OFFER: N/A

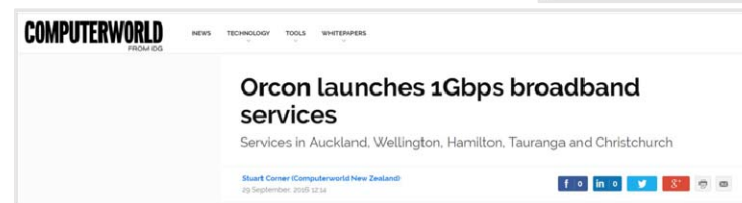
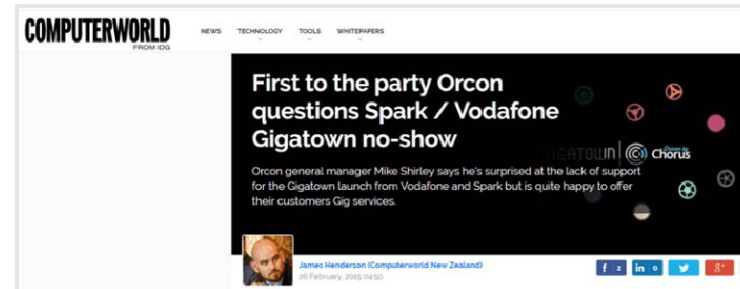


# Share of Voice




















# Orcon brand heritage – a pioneer



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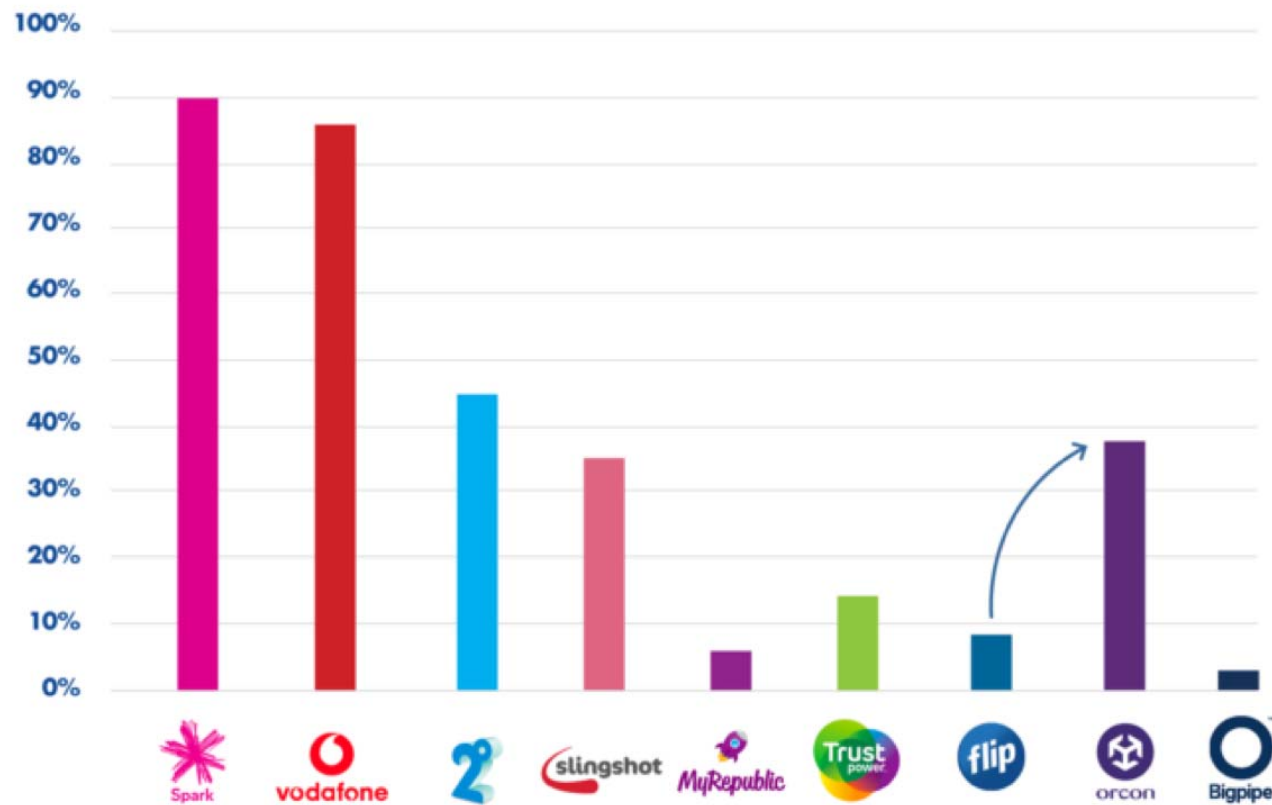
# But, Flip leads in service - why Orcon?

- ✓ Better economics
  - 30% higher ARPU
  - 60% higher AMPU
  - 40% UFB uptake
- ✓ Online engagement
  - 60% online sign-ups
- ✓ And, we have the top 3 spots anyway!

INTERNET SERVICE PROVIDER	OVERALL SATISFACTION
 <sup>A</sup> [31]	 64%
 <sup>A</sup> [96]	 58%
 orcon <sup>A</sup> [55]	 53%
 [61]	 52%
 [60]	 44%
 [369]	 43%
 [313]	 41%
AVERAGE [1069]	 47%

# Brand awareness critical

## Unprompted Awareness



# But, we need change...

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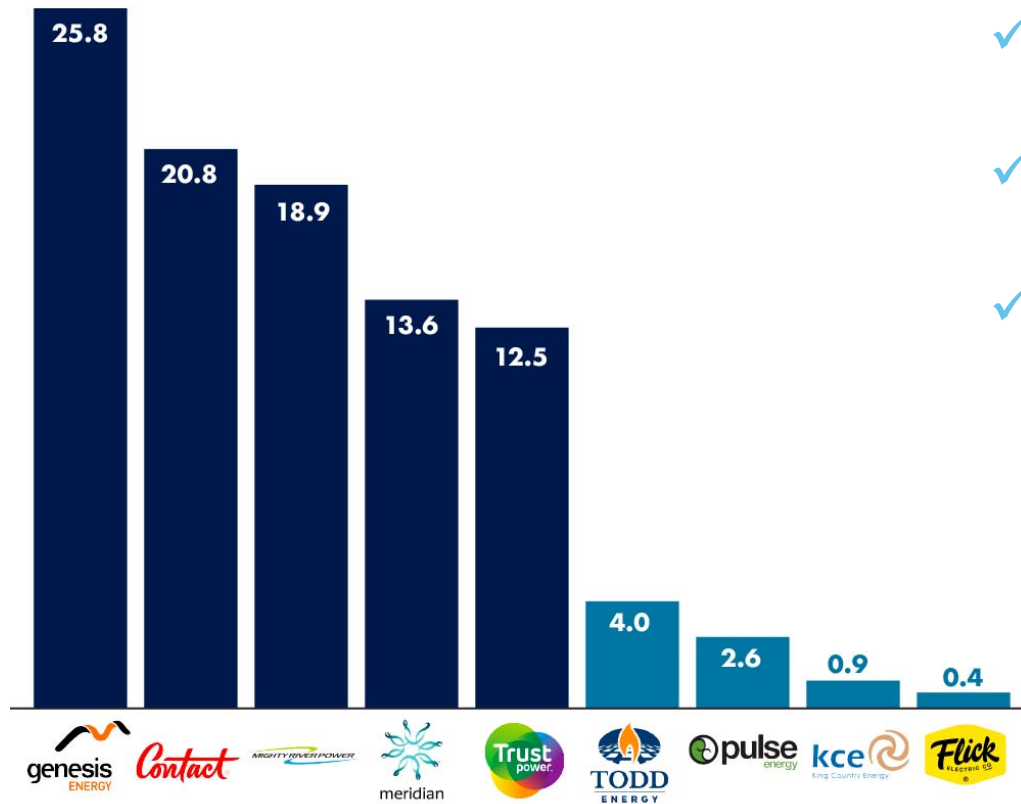
# MOGA

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- ✓ Orcon service model changing – leveraging experience with Flip
  - Online customer service via chat and email
  - Building a highly technical kiwi-based support team
- ✓ More aggressive on pricing and only offering unlimited plans
- ✓ Orcon will continue own the market from performance perspective
- ✓ New product proof points with mobile and power launching

# We've got the power

## MARKET SHARE



- ✓ 93% market share held by top five players
- ✓ Vibrant switching market promoted by the regulator
- ✓ Acquired early stage energy retailer Switch

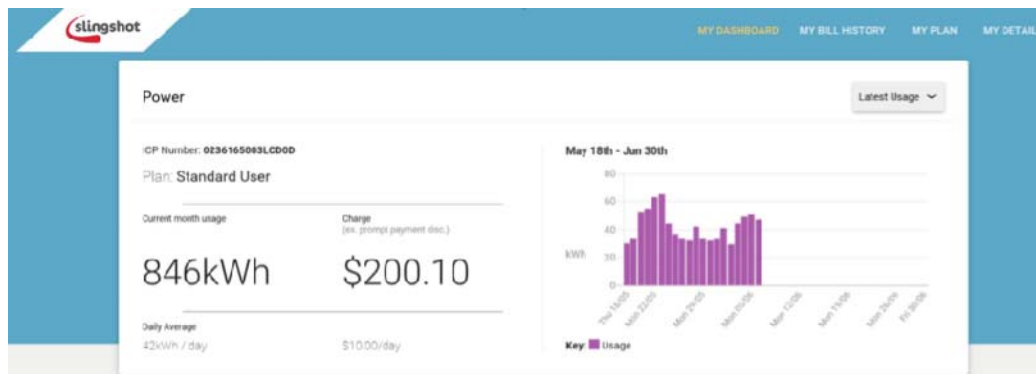


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# Energy strategy and integration

## Why did we embark on the journey?

- ✓ A category with minimal competition and innovation
- ✓ Sales, marketing and service are our core differentiators
- ✓ Systems agility sets us apart from competitors
  - Slingshot launched in 4 months from a standing start
  - And yes, a single bill!



- ✓ It is all about the bundle, not just energy
  - Improved brand appeal to wider market
  - Higher share of household wallet and improved customer tenure
- ✓ We might just be onto something with a 1,000 customers in the first month\*

(\*third fastest growing retailer last month, just saying!)

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**GROWTH**



**TRANSFORMATION**

# IT & Network integration

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## Integration ending, let the fun begin

- ✓ Integration of networks completed in all key areas, synergies delivered
  - Single points of failure removed, capacity delivered and enhanced singular scale
- ✓ 6 years mature agile framework provided the platform for rapid transformation
  - A local success factor and knowledge sharing process with Australia
- ✓ Required a myopic and intense focus on integration and synergies in the last 12 months
- ✓ Ongoing work in delivering a single OSS/BSS in business segments
  - Brand and structure change designed to improve and facilitate this process
- ✓ Resource now focused on driving growth and new initiatives – the fun stuff!

# Driving Shareholder Value

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## Drive Top Line Growth

- Broadband growth and UFB market share
- Leverage size and scale to drive growth in business and wholesale
- Drive product penetration across all market segments

## Reduce Cost to Serve

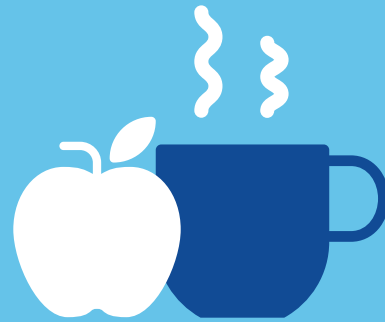
- Automate everything and deliver better customer outcomes
- Reduced complexity through streamlining brands
- Ensure investment improves resiliency while reducing costs

## Reduce Churn

- Deliver service and support on our customers terms
- Bundle more services that complement the core
- Improve business processes that impact customer experience



# Questions



# Lunch Break

# VOCUS GROUP

## Enterprise, Wholesale & Business

Chief Executive - Michael Simmons



# Vocus by name not by business model – why?

A combination of different business models operating within the same sector!

*amcom*

- Amcom Government & Business

**M2**  
GROUP

- M2 Wholesale
- Commander
- Primus Business
- Engin

 **nextgen**  
GROUP

- Nextgen Networks
- NWCS
- ASC
- Metronode

**VOCUS**  
communications

- Vocus Wholesale & Business
- Ipera
- First Path

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# Market segmentation

The individual businesses concentrated on different market segments

	Wholesale	Enterprise	Government	Business	SMB	Business Partners
<b>amcom</b>	Niche	Niche	SA/WA/NT	SA/WA/NT	SA/WA/NT	SA/WA/NT
<b>M2 GROUP</b>	Niche	No	No	Niche	Yes	Yes
<b>nextgen GROUP</b>	Yes	Niche	Yes	Niche	No	No
<b>VOCUS communications</b>	Yes	Niche	Niche	Yes	No	No





# Geographic concentration of activity

## The businesses concentrated on different geographies

	<i>amcom</i>			
<b>Queensland</b>	Low	Medium	No	Low
<b>NSW</b>	Low	High	High	High
<b>Vic</b>	Low	High	Medium	Low
<b>ACT</b>	No	Low	High	No
<b>Newcastle</b>	No	Low	No	High
<b>SA</b>	High	Medium	Medium	No
<b>NT</b>	High	Low	High	No
<b>WA</b>	High	Medium	High	No
<b>International</b>	No	No	No	High

# Infrastructure investment




The businesses developed or invested in different infrastructure and systems

	Voice	Backhaul	Access DSL	Access Fibre	Access Wireless	Cloud	DC	OTT
	Yes	No	Yes	Yes	Yes	Yes	Yes	No
	Yes	No	Yes	Yes	No	Yes	Yes	No
	No	Yes	No	No	No	No	Yes Metronode <sup>1</sup>	No
	Yes	No	No	Yes	No	Yes Ipera	Yes	No

1. Metronode is a third party supplier

# Products

## The businesses concentrated on different products across the market and geographic segments

	<i>amcom</i>				
				<b>Vocus</b>	<b>Ipera</b>
Dark Fibre	No	No	No	Yes	No
Ethernet	Yes	Yes	Yes	Yes	Yes
IP VPN	Yes	Yes	Negligible	Negligible	Yes
CTS <sup>1</sup>	Negligible	Yes	No	Yes	No
IN <sup>2</sup>	Negligible	Yes	No	Yes	No
IP Voice	Yes	Yes	No	No	Yes
Third Party	Yes	Yes	Yes	Negligible	Yes
Rebill	Yes	Yes	No	No	Negligible
Data Centre	Yes	Yes	No	Yes	Yes
IP Transit	No	No	No	Yes	No
Internet	Yes	Yes	Negligible	Yes	Yes
Cloud	Yes	Yes	Negligible	No	Yes
Wavelength	No	No	Yes	Negligible	Yes
Access Build <sup>3</sup>	Yes	No	Negligible	Yes	Yes
Big Build <sup>3</sup>	No	No	Yes	Negligible	No

1 CTS – Call termination services

2. IN – Inbound Voice

3. Access Build is access network construction, big build is bigger network builds that are customer specific

# Philosophy

The businesses adopted different approaches to business building

	<i>amcom</i>				
				Vocus	Ipera
Account management	Yes	Yes	Yes	Limited	Limited
Acquisition Focus	Yes	Yes	Yes	Yes	Limited
Third Party	Yes	Yes	Yes	No	Yes
Capex	Yes	No	Yes	Yes	Limited
Business Partners	Yes	Yes	No	No	Yes
New Telco Product	Yes	Yes	Limited	No	No
New Non Telco Product	No	Yes	No	No	No

# Driving shareholder value

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## Drive Top Line Growth

- Leverage capability of acquired businesses – create a unified product stack
- Broaden target market –large enterprise, government, carriers
- Increase share of wallet

## Reduce Cost to Serve

- Enhance customer interface to allow online ordering and tracking
- Improve provisioning automation
- Removal of duplicated processes

## Improve Returns

- Implement consistent national customer account management approach
- Focus on churn reduction and driving product penetration
- Focus on capital allocation and returns

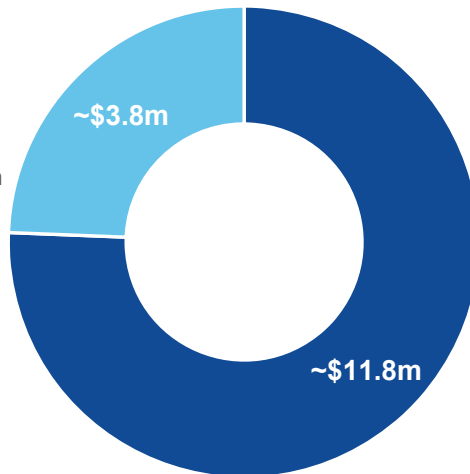
# Market opportunity

## Significant market, Vocus ~5% market share<sup>2</sup>

Australian Enterprise, Business & Wholesale Market<sup>3</sup>

### Government

- Variety of Federal and State Government Agencies
- Estimated market size ~\$3.8bn



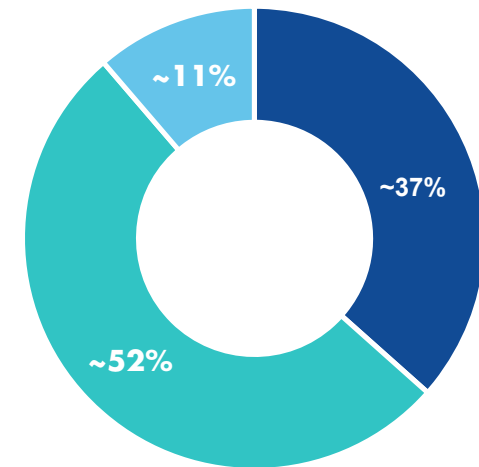
### Enterprise & Business

- High value long-term corporate and enterprise customers
- Estimated market size ~\$11.8bn

### Wholesale and channels

- Large domestic and international carriers, Domestic ISPs, Integrators and OTTs<sup>(1)</sup>

Vocus Enterprise & Wholesale Proforma<sup>4</sup> FY17F Revenue Split by Segment



■ Enterprise ■ Wholesale & channels ■ Government

(1) Denotes over-the-top provider.  
(2) Includes SMB revenue  
(3) Industry data  
(4) Proforma includes 12 months of Nextgen

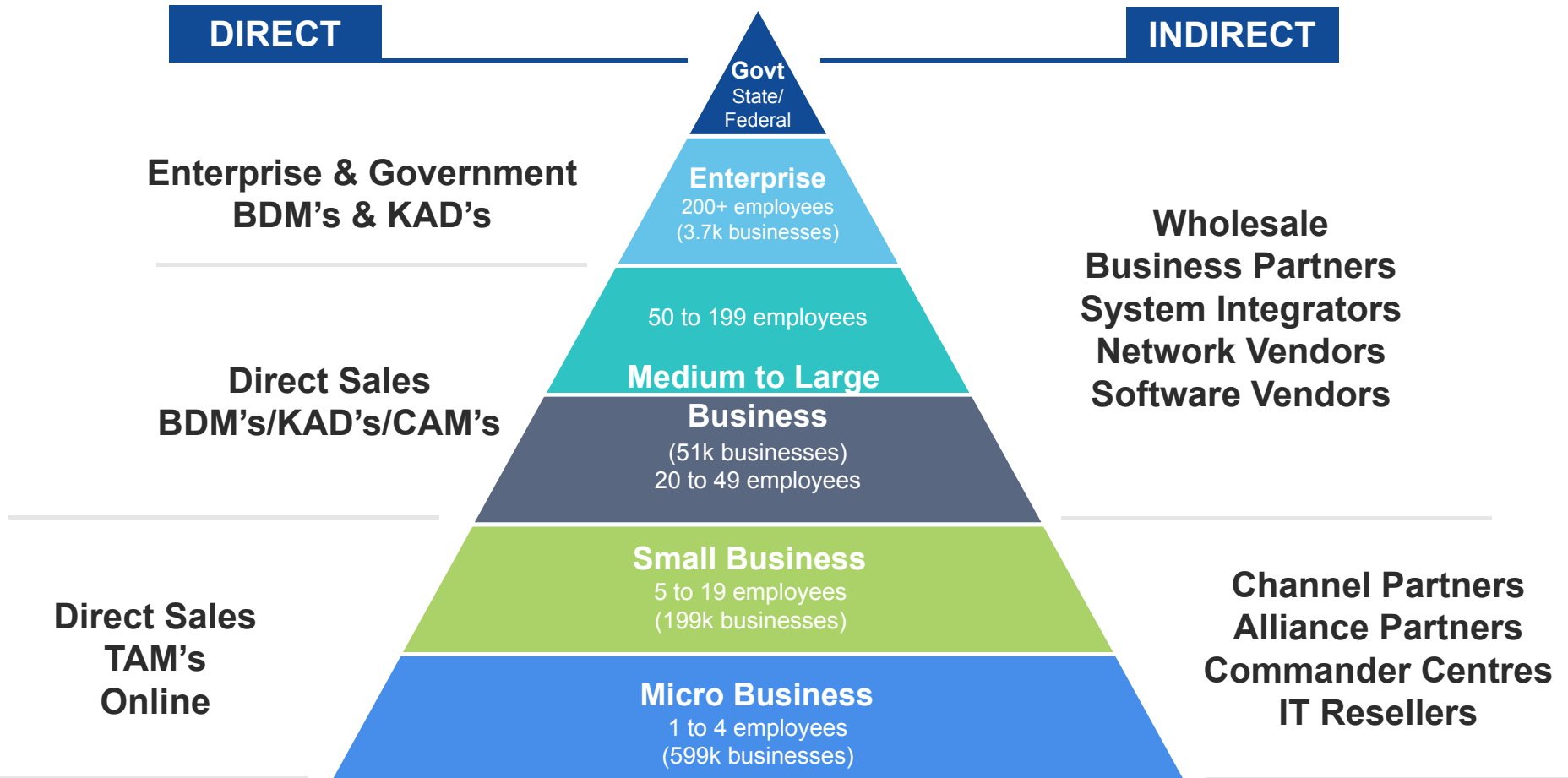
# Enterprise and Wholesale transformation

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**The transformation to the New Vocus has commenced with initiatives in the most immediate profit enhancing business activities... picking the best attributes!**

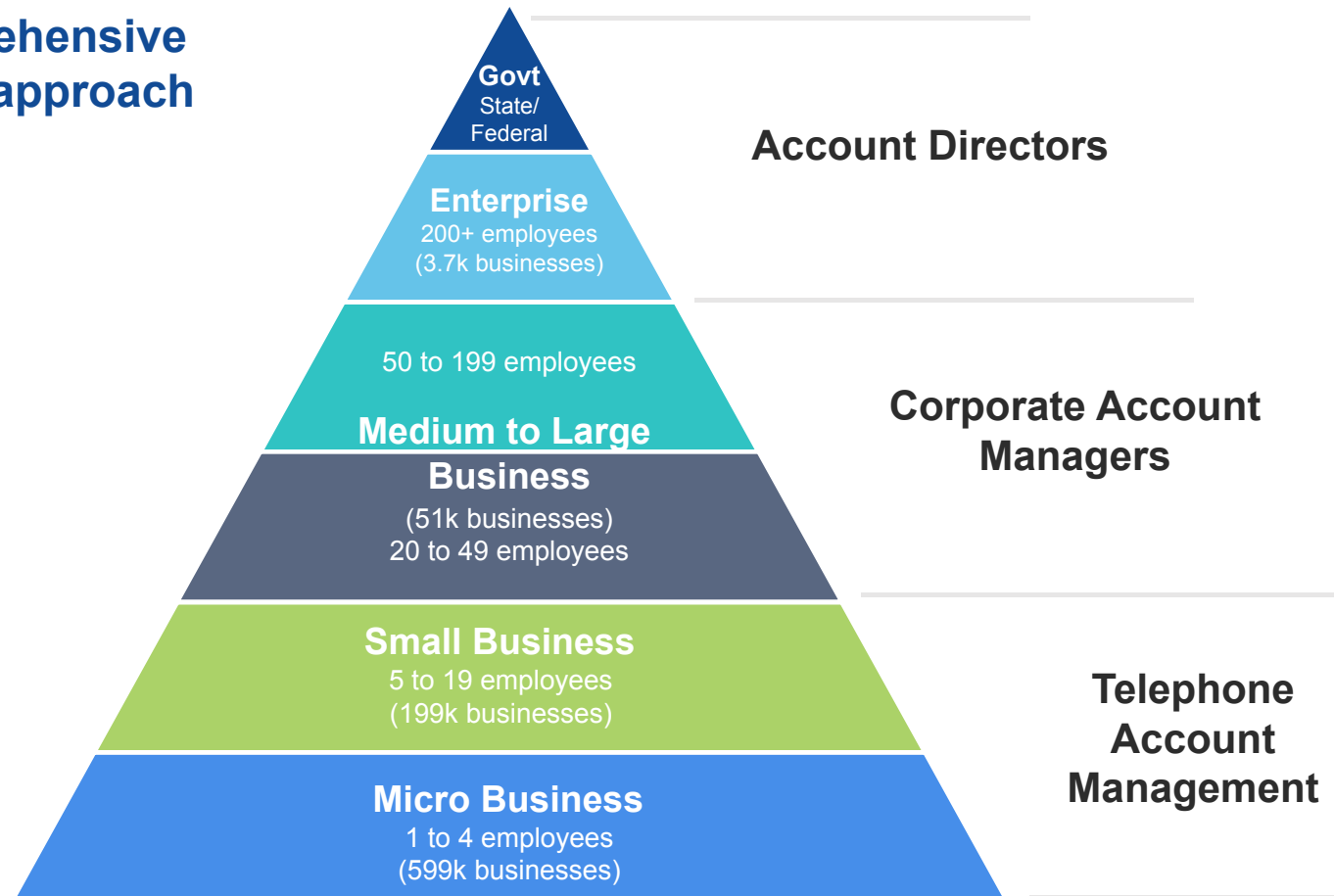
- ✓ Maximum Share of Voice
  - Integrate Commander and consolidate go to market around Vocus Communications brand
- ✓ Best of breed products
  - Pick “one of each”, sell it nationally in a consistent way – sweat the asset
  - Keep it simple to ensure consistent customer outcomes
- ✓ “Fit for segment” distribution
  - Leverage current capability across dealers, direct sales and wholesale
  - Build new capability for new segments – Ent/Govt/Carrier
  - Be a partner of choice for all channel models
- ✓ Maximise lifetime customer value through account management
- ✓ Make service delivery great again

# Go to market – branded Vocus



# Post sales management model

Supported by a comprehensive account management approach



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# Wholesale – Significant New Business opportunities

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## "If I am going to be cannibalised I would prefer to cannibalise myself"

- ✓ We sell wholesale. We own infrastructure and we should sweat it!
- ✓ Current Customer list is long & customer spend is low
- ✓ Limited penetration in carrier market ex Nextgen- only one carrier in Top 20 Customers
- ✓ Nextgen asset has enabled opportunities not previously available
- ✓ New products launched and on the horizon to take advantage of this opportunity
- ✓ Workforce restructure is producing revenue growth – 12% growth in Wholesale billings (ex Nextgen) in last four months.

# Corporate approach has varied by region

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## Grow modest Eastern region share through expanded distribution and product offering

- ✓ Revenue today is half of Western region. Eastern region is ~84%<sup>1</sup> of the addressable enterprise market in Australia
- ✓ Representation in region has not been strong
- ✓ Limited product set resulted in low penetration above medium business
- ✓ Refresh is underway – investing in growing sales team and capability
- ✓ If we can grow Eastern region market to half the Western region share today, annualised revenue would grow by ~\$150M

## Western Region benefiting from enhanced capability and coverage

- ✓ Strong market presence but original business brand, model and culture diluted
- ✓ MRR has been in slight decline since Vocus acquisition of Amcom
- ✓ Nextgen back haul infrastructure has opened new markets and new conversations
- ✓ Strong interest from large resources companies – new opportunities in the pipeline

# Dedicated government team

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## Backhaul and access network combined with quality application layer means this market is now wide open for Vocus

- ✓ We now have a full product set combined with the Nextgen network and reputation
- ✓ We are on all State & Federal Government panels
- ✓ Federal existing customer list long spend is small
- ✓ We have built a dedicated Government team and bid capability. Early wins in Federal
- ✓ Share of market currently very small to nearly zero
- ✓ New Federal , NSW and Victoria government opportunities coming to market. At the Federal level total contract value of \$450M coming to market in July17, Vic TPAMS \$120M pa in next 2 years, NSW >\$230M pa in next 3 years

# Big business solutions for our small business customers

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## Commander being integrated into Enterprise & Wholesale

- ✓ Leverage the single product stack for all business segments
- ✓ Commander dealer programs aligned with national Business Partner launch
- ✓ Unify product, marketing, delivery and support teams
- ✓ Customer journey management implemented to ensure seamless NBN transition
- ✓ Expanded product offering to include Cloud et al.
- ✓ Proforma FY17F revenue for Enterprise, Wholesale & Business expected to be ~\$770m<sup>1</sup>

1. Assumes a 12 month contribution from Nextgen and a 12 month contribution from the Commander SMB business

# Account management & business partners

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## New Focus on Customer Retention, Maximise Cross Sell Opportunities

- ✓ The business has not previously adopted a structured account management & retention program
- ✓ This has now been implemented with a new GM Account & Business Partner Management
- ✓ Consistent national approach reflecting customer size and opportunity
- ✓ Implementation of a National Business Partner program aligned to the account management program – become a carrier of choice for Partners, Channels, Resellers & Affiliates.
- ✓ Expanded infrastructure platform and product penetration will contribute toward improved retention.

# Service delivery & assurance

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## Network infrastructure size & complexity, combined with expanded product set, means new methods, people and skills

- ✓ Service delivery efficiency and speed has progressively deteriorated as businesses acquired
  - Due to spike in acquired business + employee capability across all products
- ✓ A new leadership & approach to delivery implemented
- ✓ Service delivery has impacted MRR growth and CSAT/NPS scores
- ✓ The number 1 project for the Transformation Office is **Contract to Cash**
- ✓ A national approach to product offerings will contribute to improvement
- ✓ Early signs of improvement evident MRR backlog nearly ~\$4m in December 2016 down to \$2.8m now, aim for <\$1m pipeline at any one time subject to growth in the business

# Priorities

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- ✓ Grow share of market
  - Invest in Eastern region to drive market share to be in line with current Western market position
  - Focus on immediate \$50M TCV opportunities in Victoria, NSW & Federal Government markets
  - Increase Carrier & Carriage Service Providers share in wholesale
  - Partnering approach in small business and via Partners
  - National Account management approach to improve customer lifetime value
- ✓ Standardise and expand products to ensure consistency of offering and seamless delivery
- ✓ Improve automation of provisioning processes and customer self help portals – drive down quote to cash
- ✓ Discipline around costs and capital allocation to improve returns to shareholder



# Questions

# VOCUS GROUP

## Consumer

Scott Carter – Chief Executive



# Agenda

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## 1. Where we play and how we win

- Markets
- Revenue
- Trends

## 2. Driving shareholder value

- Take share in NBN
- Reduce Cost to Serve
- Reduce Churn

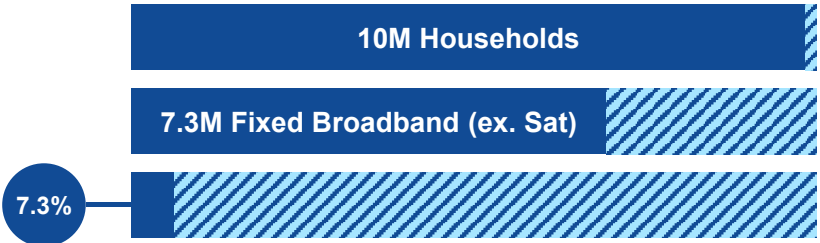
## 3. Transitioning our operating model

- From call centre to digital lead customer engagement platform
- Unleashing analytics in the core

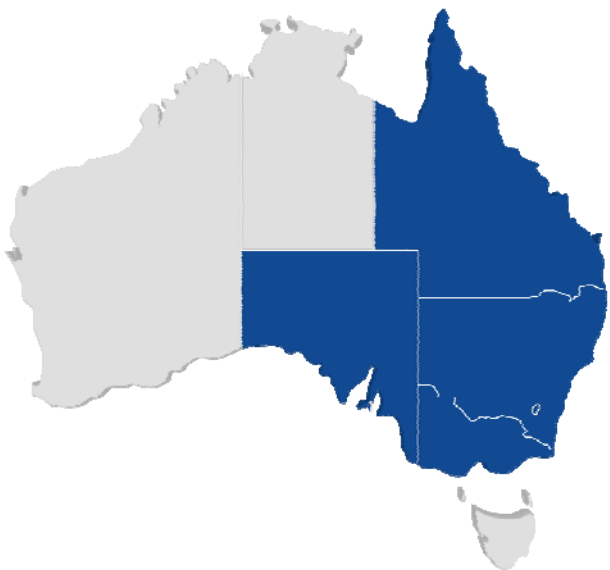
# Addressable market & share – opportunities for growth



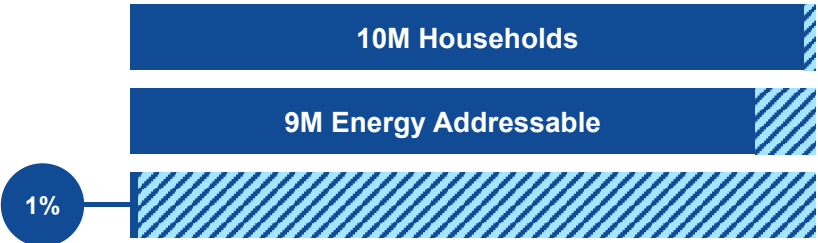
Addressable Broadband Market



Maps are indicative only



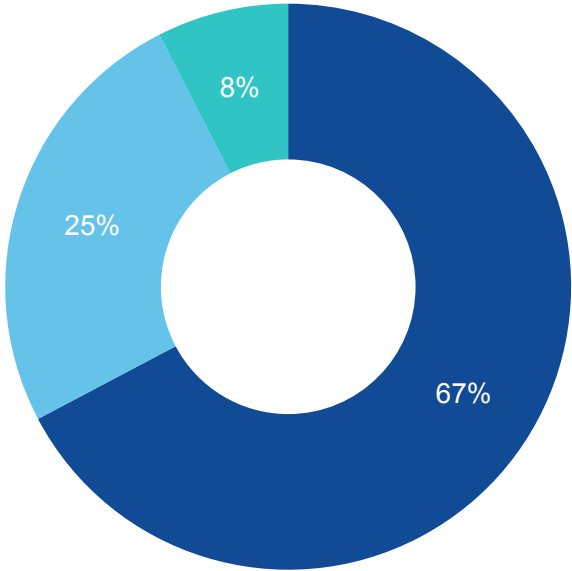
Addressable Energy Market



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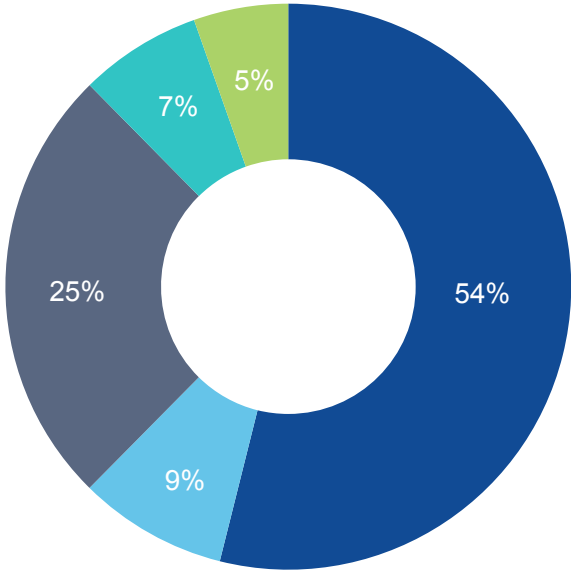
# Consumer – revenue overview

FY17F CONSUMER REVENUE BREAKDOWN (\$m)



■ Telco ■ Energy ■ Other

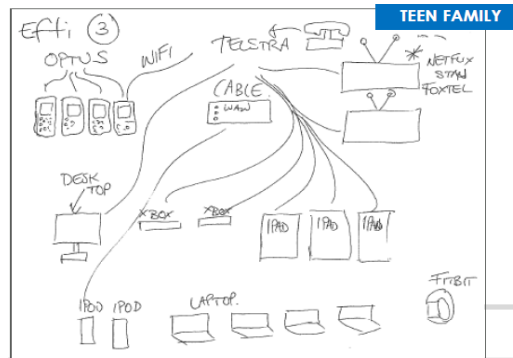
FY17F CONSUMER REVENUE BREAKDOWN - PRODUCT (%)



■ Broadband ■ Voice Only ■ Energy ■ Mobile ■ Other including Fetch

# Key trends driving demand

## Connected devices increasing



## Streaming entertainment growth continuing

**NETFLIX**

**You Tube**

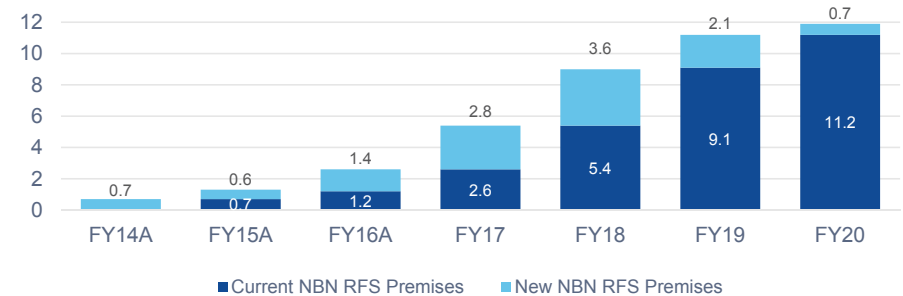
**amazon**  
Prime instant video

**Stan.**

## Changes in consumption of Free to Air TV



## Peak NBN rollout in FY18 – 3.6m new homes



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# Driving shareholder value

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## Drive Top Line Growth

- Leverage NBN rollout and take share
- Relaunch iPrimus and cement position in the market
- Focus on bundling opportunities to drive value from existing customer base

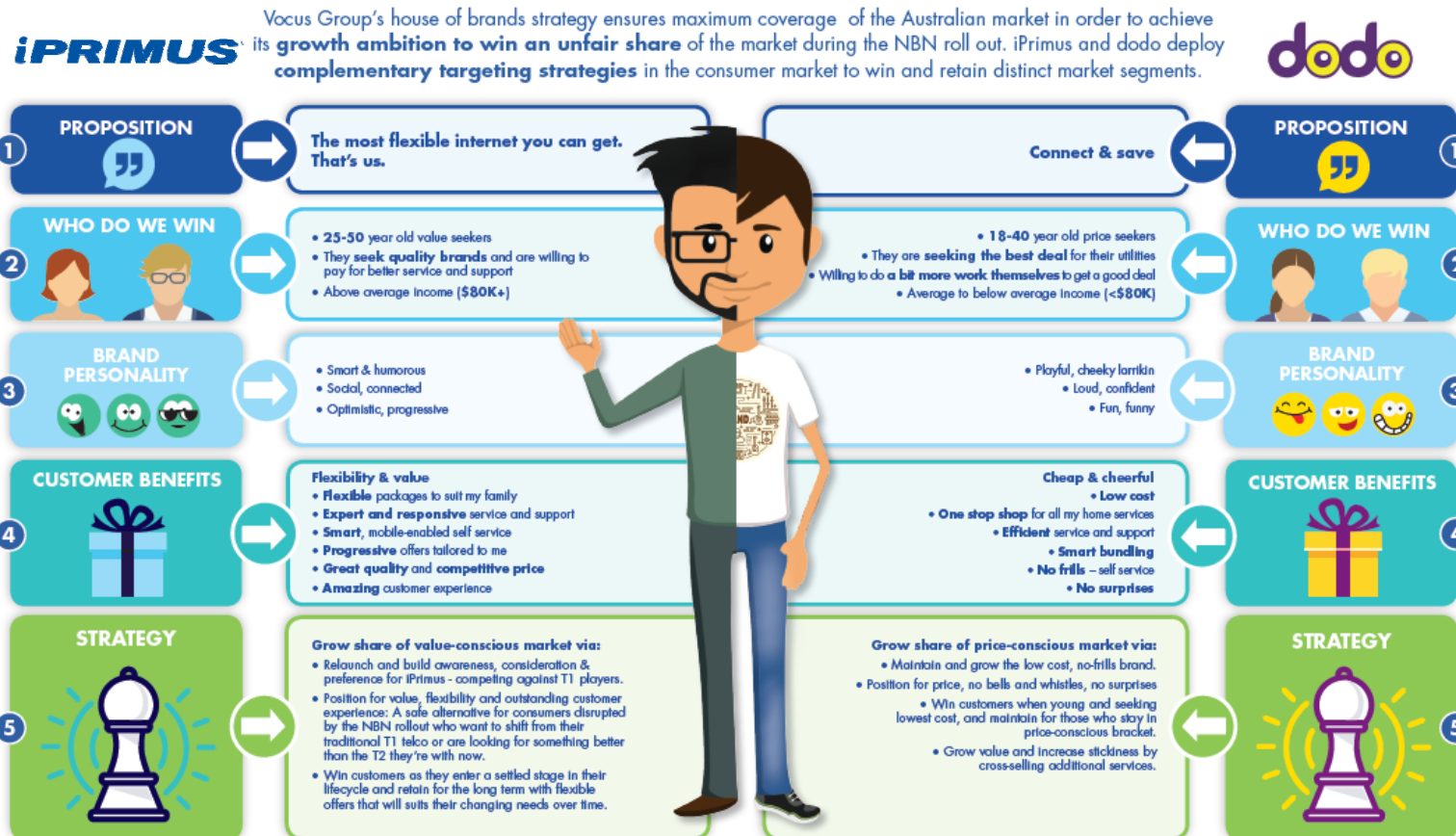
## Reduce Cost to Serve

- Transforming the operating model to digital lead
- Increasing consumer engagement channels
- Simplification eg Plug and Play self install modems
- Automation

## Reduce Churn

- Focus data analytics capability to pre-empt churn
- Increase share of wallet through bundling
- Delivering a quality NBN experience

# Dual brand strategy to take NBN share



# dodo and iPrimus deploy complementary targeting strategies to address the needs Australian consumers



## *'Bundle & Save'*



- ✓ Price seeker
- ✓ Low cost
- ✓ Broad range household utilities
- ✓ Bundle & Save
- ✓ Target: 18-40 yr old price seeker
- ✓ Average or below average income



## *'Most Flexible internet you can get'*



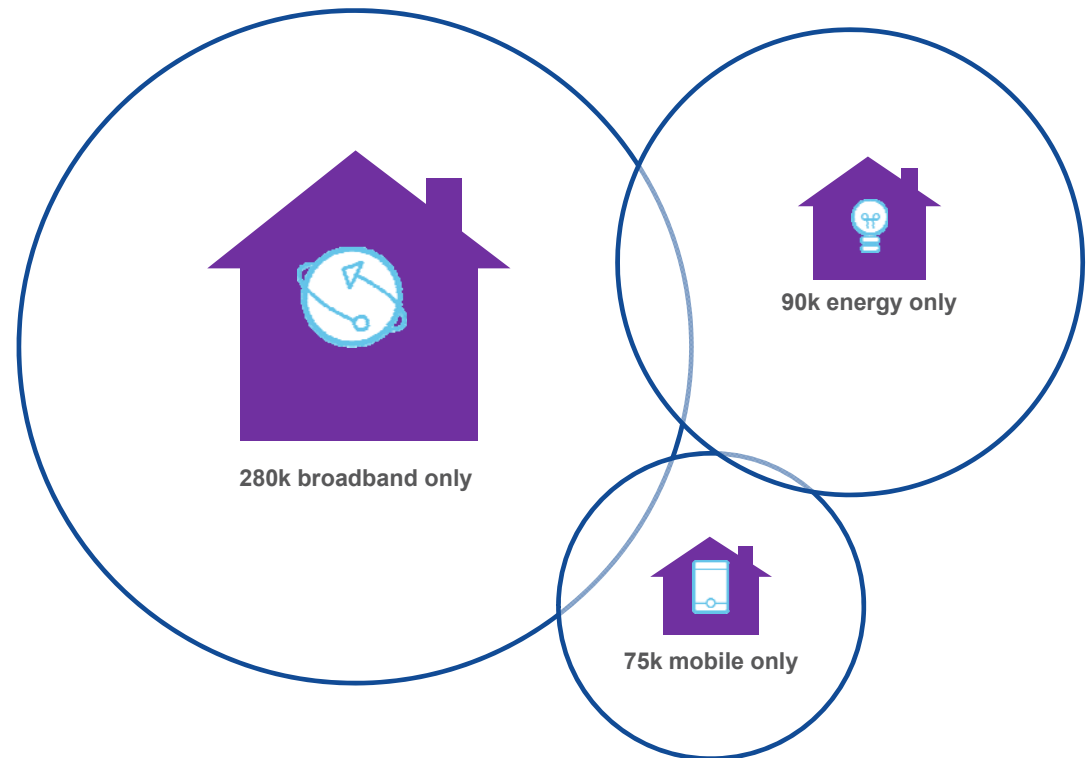
- ✓ Value seeker
- ✓ Competitive
- ✓ Flexible
- ✓ Amazing Service
- ✓ Target: 25-50yr old value seeker
- ✓ Above average income

# Dodo 'bundle and save' proposition leveraging NBN, energy & mobile



## Drive value by increasing telco and energy bundles

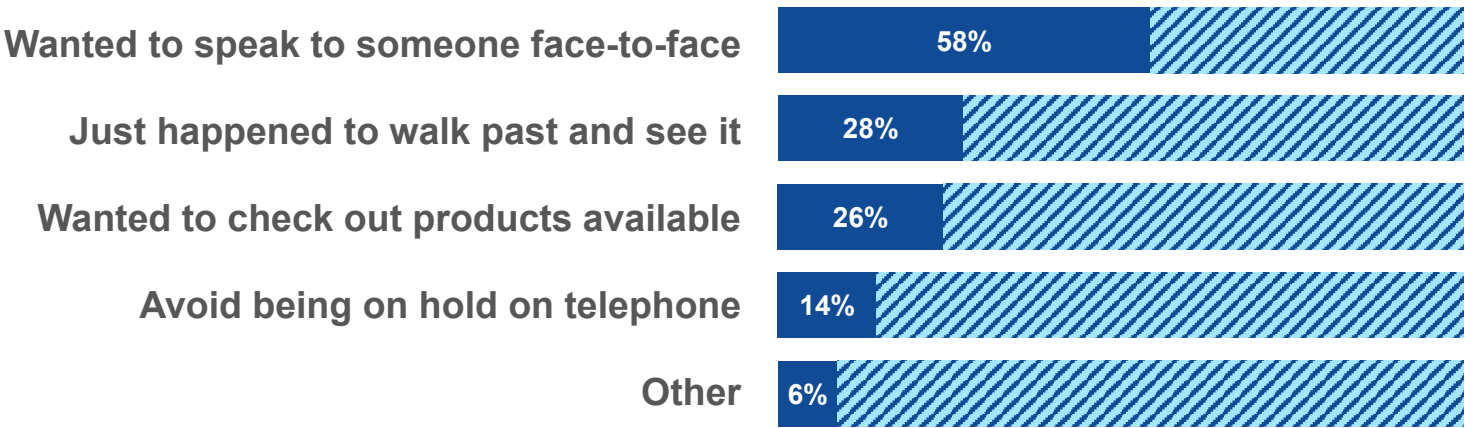
- ✓ 50% of Dodo broadband customers eligible for energy bundle
- ✓ 80% of Dodo energy customers are not with Dodo for broadband



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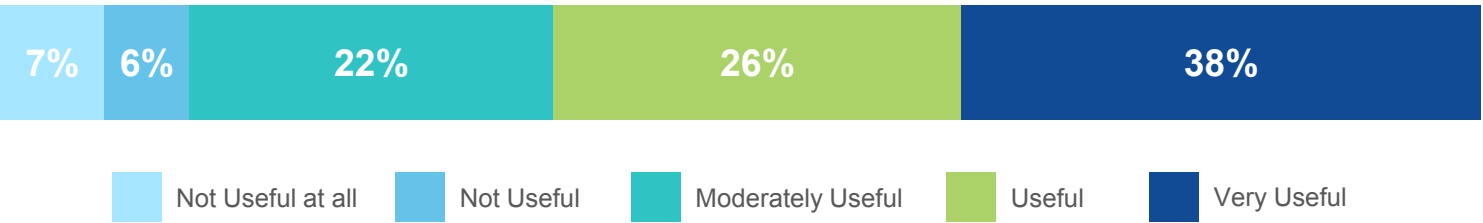
# Retail and pop up kiosks extending reach in NBN areas

## Reasons for kiosk visit:



100 pop up and permanent kiosks across Australia

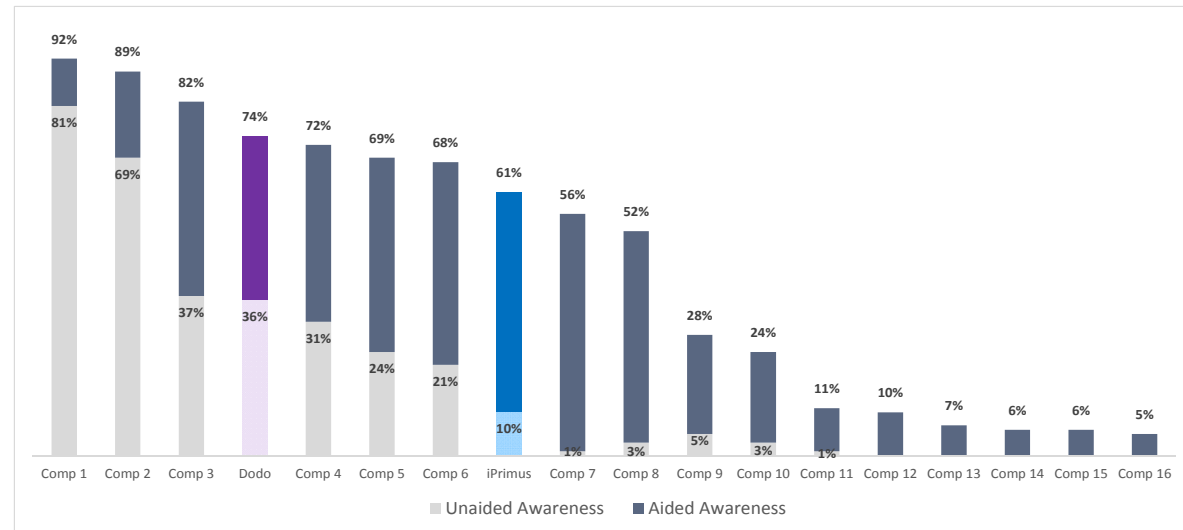
## Usefulness of the visit:



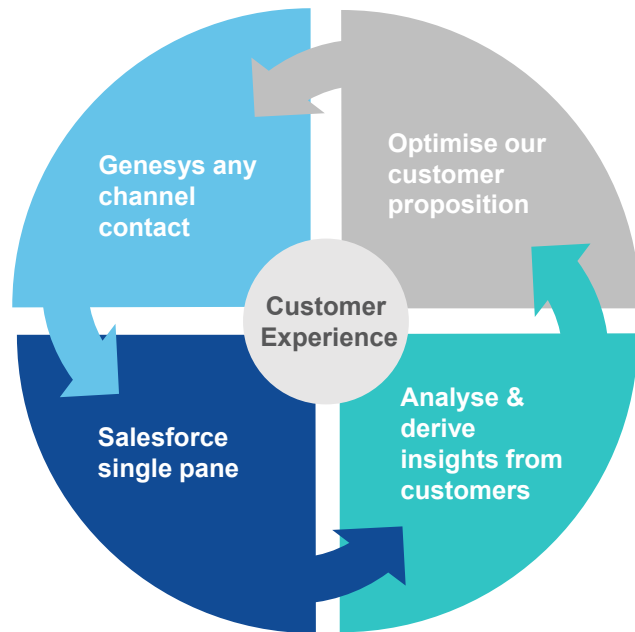
# Relaunching iPrimus 1H18 – leveraging brand equity and targeting NBN

**iPRIMUS**

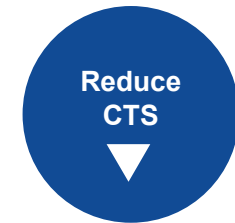
- ✓ Launching with new customer engagement platform in iPrimus 1H18 (salesforce/Genesys)
- ✓ 20 year old challenger brand relaunching to capitalise on the NBN change event and challenge in value segment
- ✓ Will appeal to market who are not price seekers but looking for great value, flexibility and outstanding customer experience



# Transforming our operating model in line with consumer demands and building a cost to serve advantage



- ✓ Designed customer journeys
- ✓ Any channel engagement platform
- ✓ Single agent console
- ✓ Automation
- ✓ Analysis and optimisation



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# Increasing online sales & service channels

## Current Model

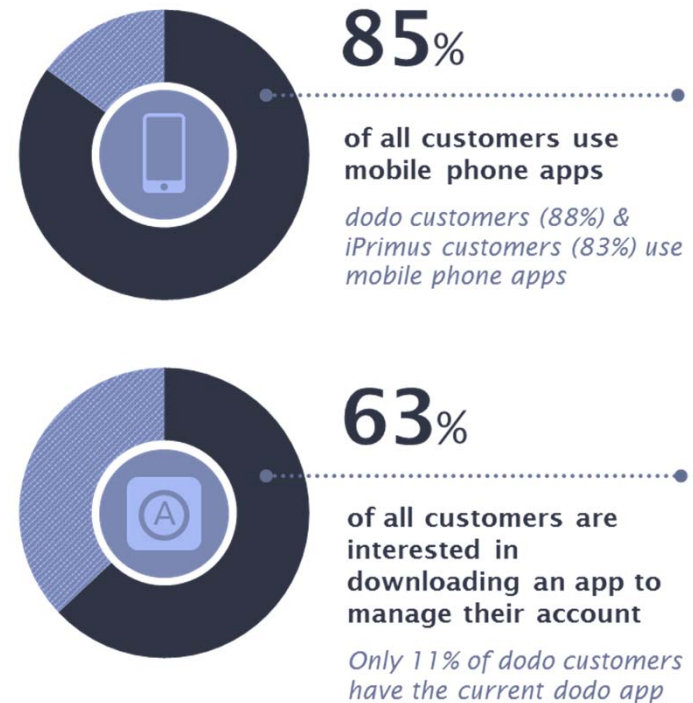
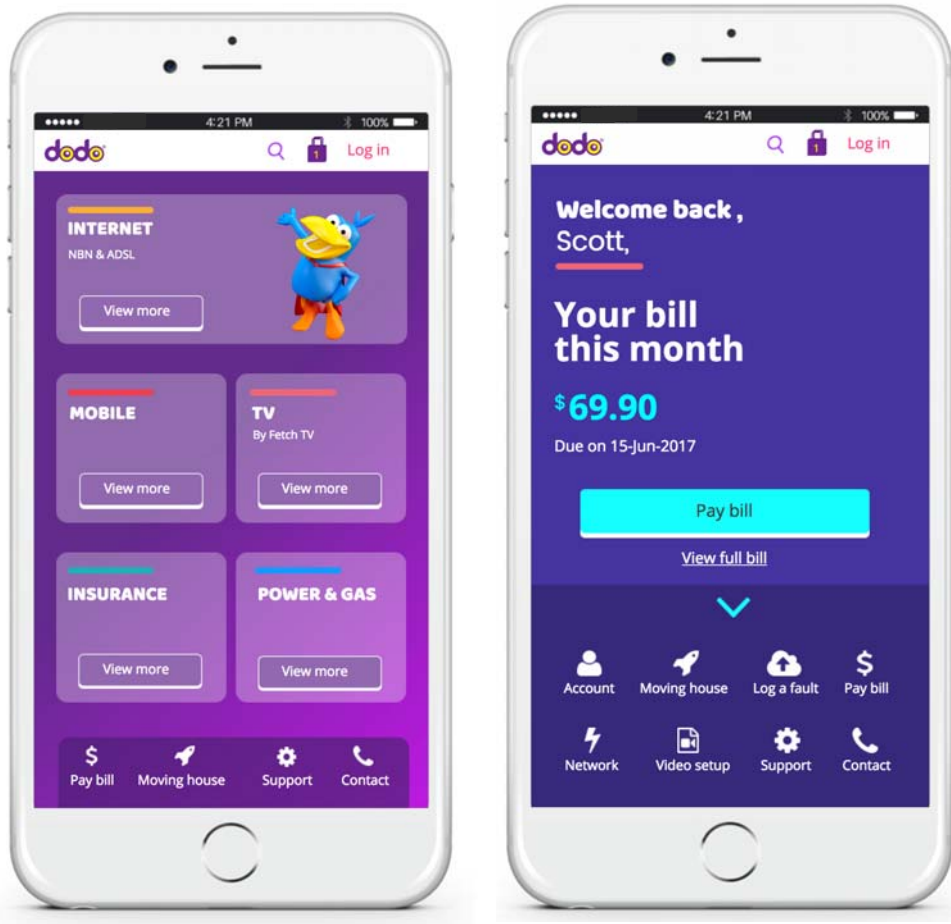


## Future Model



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# Putting the customer in control



Reference: Hall & Partners – Finding the Customer Love

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# Simplifying agent console – single pane of glass

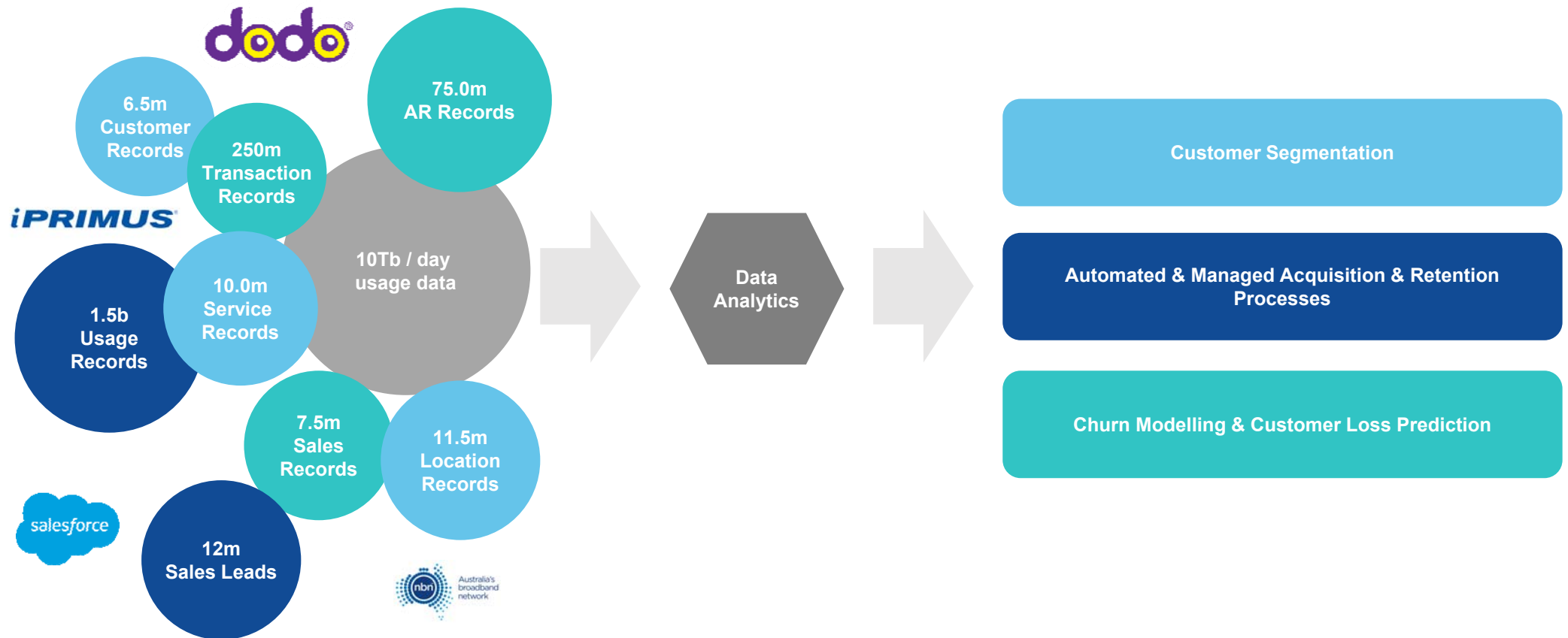
The screenshot displays the iPRIMUS agent console interface, designed as a single pane of glass for customer management. The interface is organized into several key sections:

- Header:** Includes the iPRIMUS logo, a search bar labeled "Search Salesforce", and user profile icons.
- Customer Profile (Lucy Potter):**
  - Contacts:** Action, Contact Name, Relationship (Self).
  - Services:** Action, Asset Name, Current Status (Home Phone, ADSL 2+, NBN, Mobile, Speedster).
  - Cases:** Action, Case, Subject (00001839, 00001840, 00001841, 00001842, 00001843).
  - Open Activities:** New Task, New Event.
  - Activity History:** Action, Subject, Name (Inbound call on Thu, Jun 23, 2016 3:18 PM).
  - Coverage:** NBN Status.
- Customer Details (00001844):**
  - Customer Status:** Account Lifecycle (Early Life), Signup Date (27/05/2016), Activation Date (01/06/2016).
  - Customer Call Enquiries:** Bar chart showing call volume by month (Dec to May).
  - Billings Status:** Current Balance (\$70.00), Last Payment (\$75.00), Payment Date (26/05/2016).
  - Monthly Bills:** Bar chart showing bill amounts by month (Dec to May).
  - Monthly Usage:** Bar chart showing usage by month (Dec to May).
- Bill payment section:**
  - Update Status:** Click here to expand the Update Status action.
  - Case Closed:** violation has occurred. (3 June 2016 at 7:55 AM).
  - Solution Proposed:** violation has occurred. (2 June 2016 at 3:55 PM).
  - Tim Service:** to Vocus EBC Only changed Status from New to Waiting on Customer. (1 June 2016 at 3:57 PM).
  - Tim Service:** sent an email. (1 June 2016 at 3:57 PM).
  - Tim Service:** to Vocus EBC Only attached an article to this case. (1 June 2016 at 3:57 PM).
  - Tim Service:** created this case. (1 June 2016 at 3:55 PM).
- Knowledge section:**
  - Articles:** How do I setup payment methods, How do I make a Bill, Things you should know about Bundles.
  - Search:** Bill payment.
  - Sort by:** Relevance.
  - Filters:** Available for Calls.
- Footer:** You'd have completed the training on new modems. Please qual. Billing, Knowledge, History, Macros, Omni-Channel, Phone.

Fictional customer details

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# Unleashing Analytics: Data rich, insights poor



# Copper Churn Prevention

225k Active Dodo DSL Subscriptions

## Cohort Selection for Test Campaign

- Tenure: at least 15 months
- Contract Status: either out of contract or within 3 months of expiry
- NBN Status: at least 4 months away from RFS
- Churn Probability: **at least 60% likely** to churn away from us in the next 30 days

Actionable Cohort

~11k customers

The Offer: Recontract for 24 months and receive one month free

Actionable Cohort

Cohort A  
Control  
n=2700

Cohort B  
EDM  
n=2700

Cohort C  
SMS  
n=2700

Cohort D  
Outbound  
Call  
n=2700

## Results (2 weeks into 4 week experiment)

Channel	n	Reach	Contacted	Converted	Converted %
A: Control	2700	0	0	0	0
B: EDM	2700	2700	17	15	88%
C: SMS	2700	2700	125	80	64%
D: Outbound Call	2700	2018	559	256	46%
Total	10,800	7,418	701	351	51%

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# Priorities

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- ✓ Drive top line growth through 2 leading consumer brands
  - NBN change event driving opportunities to take share
  - Copper migration increasing in line with NBN rollout
- ✓ Leverage broad product capability to assist in winning NBN share
  - Energy and mobile bundles
- ✓ Transforming our operating model
  - Delivering on our Most Loved Telco goal
  - Building a cost to serve advantage
- ✓ Unleashing analytics
  - Improving acquisition and retention campaigns
  - Driving cost to serve efficiencies



# Questions

# VOCUS GROUP

## Wrap Up

Group CEO Geoff Horth



# Earnings Outlook

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## Reconfirming Guidance for FY17:

- ✓ FY17 revenue expected to be ~\$1.8bn
- ✓ FY17 underlying EBITDA expected to be in the range ~\$365-375m
- ✓ FY17 underlying NPAT expected to be in the range ~\$160-165m
- ✓ FY17 significant items taken below the line are now expected to be a pre-tax expense of ~\$116m compared to the previous guidance of ~\$113m pre tax including ~\$96m of non cash items.
  - The ~\$3m increase in significant items arises from redundancies to be taken in 1HFY18 associated with restructure of our Technology division
- ✓ Expect FY17 capital expenditure (ex ASC) to be ~\$180-190m

# Summary

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- ✓ M&A has created a platform that makes the business competitive with the majors and opens up significant growth opportunities
- ✓ Team now largely in place to accelerate transformation and progress the plans to drive top line growth and cost out
- ✓ Strategy in place seeks to leverage the infrastructure platform with a focus on:
  - Unifying our product portfolio and growing our share of market
  - Transforming our technology environment to improve customer experience and create an efficient scalable platform for growth
  - Improving capital management and driving returns for shareholders



# Final Questions



# Appendices

# Deferred SAC

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## Overview – Current

- ✓ Vocus has adopted AASB Interpretation 1042 (Subscriber Acquisition Costs in the Telecommunications Industry).
- ✓ This Interpretation has been around in various forms since 2001 but will be superseded by AASB/IFRS 15 (Revenue from Contracts with Customers) in FY19.
- ✓ 1042 allows for the deferral of direct subscriber acquisition costs where a future economic benefit will be received.
- ✓ 1042 specifically excludes the deferral of advertising and marketing costs as well as general costs such as administrative and overhead costs.
- ✓ In summary, this allows Vocus to defer sales commissions, sales joining credits, provisioning/early life costs and equipment (such as promotional Pendo giveaways) provided to subscribers if the subscriber signs up for a contracted period of service..
- ✓ Note that the cost of telephones provided to subscribers cannot be deferred under Interpretation 1042, so instead we apply the matching principle guidelines from AASB's Conceptual Framework "Framework for the Preparation and Presentation of Financial Statements", that enable the telephone cost to be deferred over the contracted period.
- ✓ Costs that are deferred are then recognised as an expense over the lesser of:
  - the stated period of the contract
  - the period during which the future economic benefits are expected to be obtained
- ✓ With the majority of contracts being 24 months, but some subscribers on 12 month contract, the average amortisation period equates to 22 months (17 months for NZ).
- ✓ As Dodo Power and Gas does not offer contracts, all acquisition costs are expensed as incurred (no deferral)

# Deferred SAC

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## Overview – Current

- ✓ AASB/IFRS 15 (Revenue from Contracts with Customers) will supersede Interpretation 1042 and will first apply to Vocus for the FY19 reporting period (annual periods beginning on or after 1 January 2018).
- ✓ AASB15 has a tighter tolerance for the deferral of subscriber acquisition costs which will lower the costs that can be deferred by Vocus by replacing;
  - Interpretation 1042 describes these costs as “those incremental subscriber acquisition costs that are directly attributable to establishing specific subscriber contracts and would not have been incurred had those contracts not been entered into” (paragraph 4); with
  - AASB 15 describes these costs as “those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained” (paragraph 92)
- ✓ As Vocus’ acquisition costs that are deferred (to the Balance Sheet) and the amount expensed (to PL) become in line from December 2017 onwards , the adoption of AASB15 in FY19 will most likely have no material effect on our profit. It will require a write down to our Opening Retained Earnings in FY19 as an adjustment required due to the adoption of a new accounting standard.
- ✓ 1042 and AASB15 define the period of expensing the deferred asset using slightly different wording. This has not yet been fully analysed , but is unlikely to materially change the current deferral period we use (contract period).
- ✓ Vocus is presently working with Deloitte on understanding the full financial impact of applying AASB15 to our business with workshops commencing shortly.
- ✓ Initial view of the change to deferral of Subscriber Acquisition Costs under AASB15 is that provisioning costs and some commissions will not be allowed to be deferred under the new standard

# AASB 1042 VS IFRS 15

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## Extract From;

AASB Exposure Draft ED 252 -

**“Proposal to supersede AASB Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry”**

### **Differences between AASB Interpretation 1042 and IFRS 15**

The main differences between AASB Interpretation 1042 and IFRS 15 include:

- (a) Asset recognition – although it may not have a significant practical effect, the asset recognition criteria are described differently in AASB Interpretation 1042 and IFRS 15. In addition, paragraph 16 of AASB Interpretation 1042 states that examples of directly attributable costs include the costs of recording subscriber and contract information in relation to contracts entered into. Under IFRS 15, those costs could be included in the asset only if the incurrence of those costs is incremental to obtaining the contract.
- (b) Practical expedient – IFRS 15 includes a practical expedient for an entity to recognise the incremental costs of obtaining the contract as an expense when incurred if the amortisation period of the asset that would otherwise be recognised is one year or less. AASB Interpretation 1042 does not provide entities with a similar practical expedient.
- (c) Amortisation – AASB Interpretation 1042 states that the period for amortising the asset cannot extend beyond the stated period of the contract. In contrast, IFRS 15 states that the asset is amortised on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates, and thus may include anticipated renewals of the contract.
- (d) Impairment – AASB Interpretation 1042 requires that impairment of the asset is determined in accordance with AASB 136 Impairment of Assets. In contrast, IFRS 15 has developed a specific impairment test for these assets.

# Glossary of terms

<b>\$</b>	Australian dollars unless otherwise stated	<b>FY</b>	Financial year ending 30 June
<b>ACCC</b>	Australian Competition and Consumer Commission	<b>IDA</b>	Infocomm Development Authority of Singapore
<b>AMPU</b>	Average margin per user	<b>IRU</b>	Indefeasible right of use
<b>ARPU</b>	Average revenue per user	<b>kms</b>	Kilometres
<b>ASC</b>	Australia Singapore Cable	<b>MRR</b>	Monthly recurring revenue
<b>AVC</b>	Access Virtual Circuit – the bandwidth acquired by RSPs which can be allocated to end-user premises. The AVC is a virtual point to point connection from NBN's network boundary associated with end-user premises back to the POI	<b>Naked DSL</b>	DSL broadband Internet connection that does not require a landline phone service
<b>CAGR</b>	Cumulative Average Growth Rate	<b>NBN</b>	National Broadband Network
<b>CSA</b>	Connectivity Servicing Area. A logical collection of end users defined by nbn. Each CSA has approximately the same number of end-user premises	<b>NZ\$</b>	New Zealand dollars
<b>CVC</b>	Connectivity Virtual Circuit – Determines the capacity of an RSP to be able to serve each CSA. The CVC in virtual Ethernet broadband capacity acquired by an RSP that can be allocated by them to their aggregated AVCs at a CSA	<b>NPAT</b>	Net Profit After Tax
<b>Capex</b>	Capital expenditure	<b>NPS</b>	Net promoter score
<b>cps</b>	Cents per share	<b>NWCS</b>	North West Cable System
<b>D&amp;A</b>	Depreciation & amortisation	<b>OCF</b>	Operating Cash Flow
<b>DSL</b>	Digital subscriber line	<b>RBBP</b>	Regional Backbone Blackspots Program
<b>DRP</b>	Dividend reinvestment plan	<b>SIO</b>	Services in operation
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortisation	<b>SX</b>	Southern Cross Cable
<b>EPS</b>	Earnings per share	<b>UFB</b>	Ultra Fast Broadband

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