MNF Half Year FY20 Results Webinar Transcript

Rene Sugo (00:00):

Welcome everyone to our H1 financial year 20 half year results presentation. I'd like to welcome Chris Last, our recently appointed CFO. And of course I'd like to welcome John Boesen, our CTO. For this H1 result, we've had some very good performance on things like recurring revenue and EBITDA. The headline figure there, EBITDA is up 52% to $16.9 million. And of course, I just want to clarify that this is now post AASB 16 Lease accounting, which has increased our EBITDA slightly. Now having said that though, the 52% growth we have restated FYI 19, and you will see throughout the presentation that we have restated FY19 in EBIDTA for all the numbers. Now, I'd like to point out underlying NPAT-A is up 35% to $6.5 million. I would also like to clarify that we've restated NPAT-A to exclude acquisition costs, amortisation and acquired customer contracts. And of course, we've eliminated tax effected restructure costs. So we hopefully have a bit of an apples for apples comparison with the prior year, so we give everyone a good feeling for how the business is going. Of course, recurring revenue is up 52% to $48.3 million and recurring gross margin, very pleasingly up 39% to $27.8 million, all relative H on H. As we go into the details of the presentation, you will see there is a fair bit of noise from the Telcoinabox acquisition. During the half, we took an additional five months of revenue and margin from Inabox. However, we also had a restructure and that affected the staff costs, which we eliminated of EBIDTA , but did impact NPAT. We've also had some Telcoinabox product rationalization and simplification of the platform. So that's affected the direct wholesale and also the direct retail segments. However, the key messages hopefully that you'll get from today's presentation is that there's strong underlying organic growth in domestic wholesale and global wholesale. I forgot to mention, feel free to ask questions throughout the presentation through the chat system and I'll answer it. So I'd like now to hand over to Chris Last to go through the financial summary for H1.

Chris Last (02:53):

Thank you, Rene. Good morning everyone. This slide covers our main profit and loss of metrics for the half year and builds upon several of the key items in this that Rene has discussed. Our revenue for the six months has increased by 14% to $98.1 million up to $112 Million. Within this, importantly Rene indicated that recurring revenue was by far the stronger performer up 52%. Gross margin, as already highlighted, up 26% to $45 million. What is really positive is the gross margin percentage has increased 3.7% points to now surpass 40%, an improvement on both the prior comparator period (to December 2018) and the immediate preceding six month period (to June, 2019). Rene has already commented on our strong EBITDA performance and that we restated the prior period to present a like for like growth of 52%. Had we not done so, our growth would have been 72% on the prior period EBITDA of $9.8 million. We restated FY19 to provide a better view of the real momentum, as this extra growth driven purely by the adoption of the AASB 16 Lease accounting. Our NPAT result indicates strong growth over the first half, up 20%, and whilst it's often thought the adoption of the Lease accounting standard does not impact NPAT, for many Groups, of which MNF is one, there are headwinds created by this new accounting standard. For us, $0.4 million lower NPAT in the first half. Rene has already talked through underlying NPAT-A, so I'll comment on earnings per share which has grown by 16%. Whilst this is some 4% below our NPAT growth of 20%, it's due purely to the extra shares issued in the successful $50 million equity raise in November last year combined also with shares issued from the Dividend reinvestment programme. And finally, to dividends and the board has confirmed that the DRP program will continue and that the FY20 Interim dividends is 2.5 cents per share. This dividend level is up 19% and is also fully franked. This payout level represents approximately 50% of our earnings per share, a level that the board believed is an appropriate payout metric balancing the needs of our institutional and retail investors, especially for franked income, alongside the Group's desire to ensure adequate funds for future expansion. And now I'll pass back to Rene.

Rene Sugo (05:35):

Thank you Chris. Now seeing there's a couple of questions coming in, I'm just going to defer those questions until a more appropriate time in the presentation because we do have a lot more detail coming, which will hopefully answer those questions. Moving into the trends, I'd just like to talk everyone through this slide. There's a lot of information on this slide. Firstly, H1 on prior corresponding period, the performance is excellent. You will notice however, there's a lot of H2 to H1 pullback in the details of the slide. Firstly, I'd like to point out there is some Telcoinabox noise from H2 to H1 amounting to about $2.6 million in margin that hit some recurring margin streams in both domestic wholesale and direct. So from H2 to H1 it's a bit more of a difficult comparison, but I'd like you to bear with us. Of course, there's also the typical seasonality of MNF where things like wages, hiring and project cycles kick off in Q1 and recurring revenues of course build throughout the year and usually we have a bigger H2. Historically over the last five years MNF has achieved about 44% of EBITDA in H1 and the remaining 56% of EBIDTA in H2. So at the moment, the seasonality is still as per normal. I'd like to point out however, the strong key indicators, things like phone numbers up 300,000 in just six months, which is actually a 16% annualized growth rate. There's also a strong order backlog coming into the December for phone numbers and number portability, which of course work its way out in H2. I'd like to point out some other key KPIs, like EBITDA percentage of revenue is up to 15%, which is the highest EBIDTA percentage of revenue we've ever seen in the business and gross margin as a percentage of revenue is up to 40%, which is the highest we've ever seen. So we've got a lot of detail here. I'm just moving to the H1 to H1 waterfall so you can see the moving parts. It's easy to identify our headwinds here, things like staff costs and staff outsource costs, as well as technology costs have increased, a total of $4.2 million.

Rene Sugo (07:59):

Most of this increase can be attributed to the additional staff and outsourcing requirements of Inabox, which contributed five months of additional costs relative to the prior H1. As I mentioned earlier, we did a restructure post acquisition of Inabox and that was completed in September, so we will see some benefit on costs in H2. There was a decrease in variable organic margin in the direct segment, which I'll talk a little bit later when we talk about the segments in detail. However, if we look at the positives, we've made other savings across the business at $0.9 million in H1, relative to the prior H1. Telcoinabox contributed five months of additional margin, which was $7.1 million for those five months. If we take that over a six month period, it's about $8.52 million over six months. That's a good contribution for the Inabox acquisition, but slightly below expectation, and I'll talk about that when I discussed Inabox in detail. You can see our recurring organic growth of $2.8 million H1 to H1, which is made up of 22% organic growth in domestic wholesale and 13% organic growth in global wholesale. So that's sort of the moving parts of the business. Hopefully that plants a pretty good picture. In terms of the changing mix, and this is the story that we've been talking now for a couple of years, the business is transforming into a recurring revenue and recurring margin business, which is good to see. We can see here the percentages of revenue, up to 43% of our revenue is now recurring and our gross margin is up to 62%. Further on, I'll show you the segment detail, but the highlights are that domestic wholesale is now 75% recurring margins and global wholesale is now 37% recurring margins. Just to deal with the Telcoinabox issue and to recap, we acquired Telcoinabox for $33.8 million in December of 2018 which was about 7.5 times EBITDA. In terms of the consolidation, working through the integration and consolidation, we've had some customer base consolidation where a customer might have been a customer of both companies, MNF prior to the acquisition and Telcoinabox prior to the acquisition, and as we bring those customers together under one roof, there has been some margin erosion because they were getting slightly different prices from one or the other and we had to honor those prices across the entirety of the business. So some of the customer base has caused us some erosion there. There was some operational headwinds around some product obsolescence, mainly to do with ADSL and customers moving to NBN, but also ISPN and customers moving to voice over IP. So performance was unfortunately not quite as expected. However, we're still very confident in the business in terms of EBITDA. We mentioned a restructure in September, that was a very tough time for MNF. It's the first time we've ever had to do a restructure. However, the synergies were too great. There was too much commonality between both businesses and we had to rationalize. We have not yet seen the operational benefits, or the product benefits of the network integration. So the network integration will take longer and that will give us further financial benefits going forward. So in summary, we're pleased with the overall result. We've picked up some very good team members, very good staff. We have definitely increased our scale, especially in regards to purchasing of the retail products categories. We've picked up some very good customers across the entire customer base, but also some very marquee customers I would say, and of course added some products to our portfolio. So that's the Inabox acquisition.

Rene Sugo (12:08):

Direct segment update - We've presented a lot more data this time round. We are trying to respond to the questions that we get during the presentations and provide the data proactively. We provided a three year H1 trend here. We've also calculated the percentage changes between variable and recurring revenues, so it gives people a very clear picture of what's going on. You can see here clearly that there is a declining variable revenue in the direct segment, however, that's not matched by the client in margins. For example, $2.9 million decline in variable revenue only accounted for $0.5 million in variable margin decline. So that was largely due to the sale of the retail ADSL base, which you can see didn't really have any impact in margin. So that ADSL base was running very low margin and of course EBITDA negative because we still had support costs and sales and marketing costs. So we divested that, and you can see that whilst that had impact of the revenue line, very minimal impact at the margin line. As I mentioned earlier, there was H2 H1 impact due to divesting some Telcoinabox assets. There was a couple of small retail businesses that Telcoinabox had tucked away. Unfortunately, those products weren't compatible with MNF's strategy and the platforms weren't compatible with our platforms, so we made the strategic decision to divest those, which gave us a headwind in terms of margin in the direct segment. But once again, operationally at the EBITDA level it was neutral. The positive here is that the margin percentage of revenue is increased to 65% due to the removal of that low margin DSL base. There's another small impact here of $400,000 in recurring margin, which is a cost that moved from OPEX to cost of goods sold. And that's relating to the freight costs in terms of shipping handsets to new small business and enterprise customers. That's just a cost treatment movement as opposed to any change in the business. So that's the direct segment.

Rene Sugo (14:37):

Now I do have some questions here from some investors asking about PennyTel, and to provide an update on PennyTel. We typically don't talk too much specifically about that level of detail at the moment. However, I'm happy to say that PennyTel at the moment is sitting at about 14,500 subscribers. We seem to be adding about 200 subscribers per week on a growth adds basis. So the performance is quite good. Gross margin from Pennytel is growing quite well. We don't break it out specifically and I don't have the number to hand and I would say that PennyTel is approaching break even at the EBITDA level now, which is great. It's probably taken a bit longer than expected, but it's definitely performing well. And at 14,500 subscribers, we're very pleased with the performance of PennyTel.

Rene Sugo (15:28):

We'll talk about domestic wholesale. We have very strong underlying organic growth in domestic wholesale. It is hard to see with the Telcoinabox noise when you're looking at H2 to H1, which I'm sure a lot of you will be doing. There's a lot of pluses and minuses spread across H1 FY19, H2 FY19 and H1 FY20. So there is a little bit of a noise. And you know, I guess one thing I'd like to mention is that when MNF does an acquisition, we do aggressively integrate it. We're not treating Telcoinabox as a separate business anymore. We really have fully integrated it into the segments. We fully integrated the staff, the developers, the operations people, and the exec team. So we don't report on Inabox separately, but it is causing noise in the numbers and it will take another 6 to 12 months to flush through and you get what I would call the new organic MNF. But at the moment we're calling out the organic drivers so you can see what's happening underneath the Inabox acquisition, even though we're reporting consolidated numbers. So the good news is that underlying organic growth in recurring revenue with 18% H1 to H1, which is a good indicator of the prior Inabox business. Overall organic growth at margin, however was 22% H1 to H1. So we're seeing some good growth in revenue and margin organically. The gross margin percentage blend dropped from 52% to 46%, and that is the addition of the Telcoinabox resale products like NBN, ADSL and mobile, which are a lower average percentage margin than our internal products. However, the key takeaway for this slide is that 75% of the margin in this segment is now recurring margin, which is really good to see and it's consistent with our strategy going forward.

Rene Sugo (17:16):

Recurring revenues continue to grow here to $7.1 million in H1, which is an 18% growth on prior corresponding period, and this is all organic growth of course, because there's no Inabox effect in global wholesale. Better news still, the Telecom New Zealand International business has had some good strategic wins, in the minutes or the variable business lines and John will talk about this in his case study section later on. I want to steal his thunder, but the outcome is we should see some more margin stability for TNZI going forward, which is great news. Margin growth on the recurring side didn't convert 100% from revenue as per usual. We have had to increase network capacity which we account for in cost of goods sold. So the increase in network capacity was a step function. We had to basically double our capacity which should give us plenty of room for growth for the next five years. So the impact of that is about $600,000 per annum on the margin line of recurring. However, we will see that recurring growth to continue and we should get back to prior level of net margin growth in global wholesale. I'd like to now hand over to Chris to go over the cashflow.

Chris Last (18:42):

Thanks Rene, and now a quick look at all important Cash Flow and our level of Debt. The table on the left highlights our Operating Cash Flow and first I'll comment on the cash flows from operations. You will recall from prior presentations that in July 2018, our H1 FY19 we had some large cash outflows relating to the novation of some supplier debt. This is all history now, but explains the -$0.8m cash outflow in our H1 FY19 comparator period. For this reason, we have also included our H2 FY19 period in the middle column of this table to guide. In the period we are reviewing today we delivered cash inflows of $12.1m from operations, and compared to our $16.9m EBITDA for the period this implies a Cash Conversion Ratio of 72%. However I would highlight we had a $1.3m cash outflow on one off restructuring costs, and adjusting for this, our underlying cash conversion ratio was 79%, sitting comfortably alongside the H2 FY19 metric of 78%. Looking forward we are targeting a cash conversion rate further improving to 85% in H2 FY20. Whilst not shown on the chart, our Capital Expenditure in the first half was well controlled, at $6.1m, of which $4.5m relates to the all important investment expenditure by our engineers on software platforms to drive future revenue growth. The remaining $1.5m was spent on more traditional styles of plant and equipment capital expenditure. We do still expect our Full Year Cap Ex number to land around $15m covering both forms of capital expenditure, with the greater majority being spent on capitalised software development. And finally - the table on the right highlights our balance sheet Net Debt position. Subsequent to the raising of $49.7m of Equity in November last year, and as indicated, we have utilised $25.6m of the proceeds to pay down or reduce debt, whilst continuing to hold the remaining balance as cash. Now, although we repaid this debt we have continued to hold the $60m committed debt facility open in full, with our relationship banks HSBC and Westpac. We therefore still have a further $30m of debt available - this is completely undrawn and alongside the near $39m of cash held this places the Group in a very stable and strong position with $69m available to support both future acquisitions and organic growth. Thank you and now to Rene to conclude.

Rene Sugo (21:54):

Thanks Chris. I just have a couple of questions here from the floor so to speak. A question is why is cashflow conversion only expected to be low 80% for this year. Chris, do you have any insights?

Chris Last (22:05):

I think we're very keen to push it up as high as we can. We don't have any specific one offs to mention. Generally trading terms can slip as we become a more international group. So some of our credits or balances take a little bit longer to pay. Australia is one of the lucky countries in that generally has a tighter payment platform.

Rene Sugo (22:30):

The other thing too to point out is that with the AASB 16, our EBIDTA has in some ways been inflated by our leases, which really don't generate cash. When we take out cash generated from operations divided by the new EBITDA, it's going to be hard to get to 100% anyway because we're going to have a lease cost in there, which is one thing. And of course we did have $1.3 million of restructure costs in H1, which did eat into our cash conversion. That's probably why we're not quite hitting as high as we could this year. So hopefully that answers the question. I have another question here from Luke, "you talking enthusiastically about high margins. Do you think customers knowing this are more likely to ask for better rates from you?" So that's a very good question. I don't often go to lunch with a customer and tell him how much money I'm making from them, but, I have had customers tell us that it's very important for them to partner with a strong supplier. So when you're building your business on us, you want to know that we're strong, that we don't have debt, that we can invest in future technology and keep growing and providing a high quality, high grade service to our customers. So in some ways it's good that we're strong and profitable for our customers because it means that we keep them up to date with innovation and a high quality service. And I have had customers point that out. Secondly, when you look at our piece of the margin pie or the cost pie for our customers, when we look at some of the larger technology companies, they see us as a very small cost, input cost to their bigger picture play. So it is still a good story for our customers. So don't worry about it Luke. It's all good.

Rene Sugo (24:35):

Moving right along with the presentation. We are pleased to reaffirm our EBIDTA guidance, which is now at $36 to $39 million due to the AASB 16 Lease accounting changes. So it's not an upgrade, it is just a reaffirmation of EBIDTA guidance and I'd like to reiterate that this EBIDTA guidance was originally modelled in October of 2018 as we were initially contemplating the Telcoinabox acquisition and we were modelling pre due diligence Telcoinabox. So 17 months later and one acquisition later we're sticking to and reaffirming that guidance and that model. So that's no mean feat and I'd like to thank my exec team for a stellar effort in speaking to our convictions and pushing for this result. NPAT however, has proven to be more of a challenge due to the many factors outside of our control and we've itemised them here on the slide. Things like the restructure costs of course, which we can remove from EBITDA, but do flow into NPAT. Our lower R&D tax concessions forecast because of changes due to the federal government changing the R&D scheme. Apparently, MNF is not a high intensity R&D company, therefore our R&D concession rate will reduce. We've launched the new employee share scheme across the entire company benefiting every single employee, which is a non-cash cost, but it's essential for staff retention in a very competitive technology industry and cities like Sydney and Melbourne where technology staff are in extremely high demand. So employee retention is a very big focus of ours and of course our amortisation, which is very hard to model pre acquisition of Inabox. So we apologize for having to restate NPAT, however we want to set expectations early and we're very pleased that the business overall at the EBITDA level is performing to expectations from almost two years ago. On that note, I do have another couple of questions which I haven't answered only because I don't have the data here, so I will follow up individually with those that have asked those questions. In the meantime, I'd like to pass over to John.

John Boesen (26:45):

Thanks Rene and good morning everyone.Well we are pleased to see at the half our recurring revenues, gross margin, phone numbers and underlying organic growth indicators all up on PCP. We are making solid progress executing our growth strategy while taking a balanced approach to uplifting our internal systems, processes and technology to ensure the future demands of our customers and our own growth ambitions can be realised but I wanted to first answer three important questions we get asked by investors, namely, What keeps fundamentally fueling the Unified Communications as a Service (UCaaS), Communication Platform as a Service (CPaaS) and Contact Center as a Service (cCaaS) segments, What role and unique value does MNF play in that equation? And why do our customers view MNF as an integral long-term partner to deliver sustainable growth for their businesses.

At our full year results webinar 6 months ago, we also presented several use cases and will revert to these again, with some new additions, to reinforce the unique problems we are solving for our customers before detailing where we are with our Singapore expansion. But first to the underlying drivers of … the unified … communications platform … and contact center as a service segments. And every year we are not surprised to see independent valuations of these segments exceed prior year predictions but who are the players and why is it happening. Well there are countless new entrants and they are not telcos. They are software and technology giants … the likes of Microsoft, Google, Zoom, Twilio, Ring Central, Dialpad and Cisco to name just a few of the more established players … and as disclosed last year for the first time … all customers of MNF.

John Boesen (28:23):

Their product offerings span the three “as a Service” segments mentioned previously and they are solutions you have likely heard about or even used in your daily routines, products such as Microsoft Teams, Google Voice, Cisco Web Ex Calling, Zoom Conferencing, Ring Central’s conferencing, PBX and Contact Center suite, Twilios rich messaging, voice and video API platform, and not to forget companies like ours, such as Bandwidth, who like us, have built next generation VoIP networks and rich software ecosystems that connect the forementioned products to legacy telco networks … but more on this unique and critical underpinning capability shortly. These companies can move at a pace and have global reach and scale never before seen in traditional telco circles. These companies are not bound by the constraints of an infrastructure led telco world. They are software companies born and bred. This may certainly explain why the space has evolved at the pace we have seen, but the real reason lies in the fundamental disruption they are imposing on the way we all work, removing the friction from collaboration and the barriers to productivity in an attempt to unlock the more with less contradiction. They are also responding to the demands of a new generation of flexible practices and work cultures demanding a better balance between work and life and when we all think we have reached the summit, the disruption continues, spurred on by new technology advancements, gadgets or simply different ways to solve a collaboration and communication problem we thought was already solved. It appears to be an endless cycle, but there is one critical feature all these cloud based software solutions must overcome.

John Boesen (30:05):

Their solution must interoperate with existing telco networks and if not implemented their software is incomplete and the user experience crippled. But to do this, software companies don’t want the heavy up-front capex expense to interconnect their cloud based software solutions to carriers infrastructure. In every country they wanted to offer in-country phone capabilities. Nor do they have the experience or desire to get into the details of how to do it. Nor did they want to deal with regulatory and compliance standards, governance bodies, privacy, data sovereignty, security standards. Or deal with the potential risks of breaches attracting potentially crippling penalties and brand damage as a consequence. They ideally want someone to take the up-front cost, complexity and risk out of the equation. They want a partner that could provide software APIs for all the features they wanted. That understood how a software company worked. But could also quickly adapt and pivot to build new features if they needed. A solution that could scale to meet their growth ambitions. But also a solution that was proven and reliable. All without exposing themselves to the complexities of being a telco and under a cost model that could scale with their growth. Which led to the founding of MNF back in 2002 where the problem was clear as well as the opportunity, with the team working along-side the new software players of today to build the services and features they now use from us. We took a software led approach to delivering telecommunications as a service, something Bandwidth in the US and Gamma in the UK also did for their regions. MNF built a dedicated Voice over IP network in AUS, connecting with all the incumbent carriers over a 10 year span and finally becoming a carrier ourselves to host our own phone numbers in our own private cloud, with software we had built from the ground up, giving us ultimate flexibility and control over our destiny, while always focused on hiding the complexity from our customers.

John Boesen (32:04):

Over time, we established ourselves as a proven and reliable provider of telco services on the wholesale stage, leading to further expansion with our acquisition of Telecom New Zealand International voice business in 2014, our domestic wholesale expansion into NZ in 2015 and our more recent move into the Singapore domestic wholesale market. So fundamentally, MNF hides the complexity of being a telco from our customers but delivers all the capabilities plus more of a traditional telco … we bridge the cloud world with the telco world better then anyone else in the Asia Pacific region to offer features such as virtual numbers, number portability, IP based voice calling, any to any connectivity, toll free numbers, emergency numbers, geo redundancy, global call routing, regulatory and compliance as a service, fraud monitoring … and many more. All running on a network that we built, own and operate, a software ecosystem that we built, own and continually enhance, quality and reliability we control and all the margin benefits that brings. This is why our customers have been asking when we will be in other countries, because the capabilities we offer and the experience we have is unique. We are a software company sitting on top of a strong telco foundation and a quote recently from LogMeIn underpins that story.

John Boesen (33:15):

So we are powering market disruption but what opportunity is still left on the table? If we look globally for a moment and from a previous slide this morning, Gartner believes it to be a $70Bn opportunity over the next few years. Transparency Market Research forecasted a $230Bn market by 2027. Ring Central at their recent 4Q guidance stated they saw an addressable market of 300 to 400 million potential users for cloud-based enterprise communications services. And penetration for Ring Central and its rivals was still under 5%. Looking domestically, we have spoken in the past of the churn event facing AUS as a result of the death of copper and ISDN services and the rollout of NBN, bringing those impacted to look at a raft of cloud based options we power. And if we look at MNF and our current 4.1M numbers out of a base of 86M, we also are at under 5% in our own backyard. There is a lot of opportunity left. It has taken us over a decade to position us to capitialise on all these events, but it is a corner stone asset we are proud of and building upon. And we are powering experiences you have likely interacted with on a monthly, weekly or even daily basis … and for the uninitiated, they have no idea MNF underpins the voice capabilities of these products or services … and has done for many years. The GoToMeeting number you dialled today for this conference call, powered by our HD Audio capability for those dialing in via the web or users on the Vodaphone network. When you answer or make an Uber driver call. When you join a Zoom conference. When you sell a car and buy a temporary number from Car Sales. Or where we support multinationals AU/NZ voice needs under the banner of one of our global partners, such as Orange Business Services. There is are many other examples but lets dive deeper into a handful of these now.

John Boesen (34:59):

We have spoken before about our Telco as a Service (TaaS) approach and Spark is just one great example of where a large in-country Tier 1 telco saw the value in our offering. Namely, Spark partnered with our TNZI team, where we provided a number of managed services centered around call routing/termination, call quality monitoring, fraud detection and spam protection. We have had a long-standing relationship with Spark, clear evidence of how well we do what we do and further supported with a recent renewal of the relationship for at least another 3 years. We have seen a dramatic increase in number misappropriation, also referred to as number hijacking, which prevents calls getting through to their intended destination. This type of fraud is increasing and causes significant social and economic impact in the form of lost revenues which can lead to entire county codes being blocked by overseas retail networks worsening the economic impact. With TNZIs deep industry knowledge and proprietary tooling, a new managed service was recently developed to combat this problem, delivering enhanced protection of these number ranges in a bid to return long-term sustainable revenue for these customers. The Sure group based in Guernsey (an island in the English Channel off the coast of Normandy and now owned by the Bahrain Telecommunication Company) have recently signed up a number of their properties in the Pacific Islands suffering from this fraud, joining several other Pacific islands already realising increased revenues as a benefit of this new service.

John Boesen (36:15):

With increasing cases of fraud and spam, phone number anonymisation continues to grow in popularity and use. Using our network's capabilities, numbers can be masked securely within our core network to protect the identity of the caller. Uber uses this service for driver-passenger or passenger-driver calls where a temporary virtual cloud number is allocated for the duration of the call and in the case of car sales, a virtual number is available for purchase by the end user that can be used exclusively for the lifetime of the ad. In both cases a pool of MNF numbers are powering the experience and protecting the identity of the caller. Ephemeral phone numbers like this have many uses cases, the permutations and innovations are endless, all driving phone number use cases. Audio and video conferencing has been a core capability for MNF for well over a decade. Under the broad banner of UCaaS, end users can now choose from a large number of application suites offering real time individual or group chat, real time file transfers, real time desktop sharing, recording of all of the above and a raft of other features aimed at unifying the communication experience. However, voice communication remains the dominant use case within the UCaaS segment. When AUS, NZ and soon Singapore capabilities are needed, MNF delivers these, hiding all the complexities allowing our customers to focus on product innovation. E-commerce and advertising analytics is another beneficiary of our software led approach to telco. In the case of Google, you may have noticed inline numbers returned in-search results that you can click and call via an app or over traditional telephone networks. Despite what method is used, we provide Google metadata to power their analytics platform that helps their customers understand the usage patterns of these numbers.

John Boesen (37:50):

Jaguar Land Rover needed their caller id to be reliably transmitted in all scenarios but that was a big problem for them. Drivers of their cars could press an assistance button to make a call to a Jaguar Land Rover call center OR in the event of a serious accident, the car would automatically dial out. This is where the caller id was critical and MNF's network was found to be the only network that could deliver all the call information reliably and accurately to allow emergency services to be dispatched … we were able to guarantee this capability where other carriers could not because we own and operate all segments of the domestic and global networks that needed to be traversed. And as NBN migrations continue, countless businesses risk losing their land line numbers in the process. However, through MNFs cloud network, NBN service providers were able to 'port' customer numbers away from legacy network operators to leverage a better deal, turning the number into a virtual cloud number with programmable redirect capabilities to ensure no calls were missed. The end customer therefore was able to keep their longstanding number made possible by our network and software defined porting and routing capabilities. Our capabilities are indeed unique and valued by our customers.

John Boesen (39:04):

And still only 76% of our customer are leveraging 1 or 2 of our product sets. For instance AUS phone numbers of any type (such as fixed, mobile, toll free, premium, emergency) represents one set of use cases, NZ phone types another and each future country such as Singapore would represent another. We see a large opportunity to not only cross sell our existing capabilities into our existing customer base, where we see only 4% of customers leveraging 4 or more use case set today but the introduction of new capabilities and expansion into more countries will see further cross sell and organic growth opportunities for us. And while we understand it is critically important we maintain and continually evolve our capabilities to support existing and future customers, we are equally excited to take our network and software platform to regions ripe for MNF to disrupt, and that for us means to look to South East Asia. The expansion will be customer led and Singapore is our first step along this path. If we look at a phone number view of our current market services, we can attribute $8.78 of EBITDA per phone number based on a market share of 5%. It is an interesting way to view our long term market potential, but lets look closer at Singapore.

John Boesen (40:20):

The market represents a fixed line opportunity of around 7.5M numbers, made up of 5 carriers today, with MNF soon to be the 6th but our market entry will bring with it new wholesale capabilities that have never before been available in that market. Capabilities such as API based number portability and the capability to connect to voice services over a software interface with virtually limitless capacity as opposed to what happens today. Where a classic CapEx front end heavy investment to install hardware into Carriers datacentres is required, which then only delivers limited capacity and a process that needs to be repeated every time you need more. These capabilities are what our customers already value us for in AUS and NZ and what they desperately want in Singapore (and other South East Asia countries). And to really highlight the disruptive nature of what we are doing in Singapore, it has been almost 20 years since a new fixed line voice network has been interconnected in that region and with 97% market share held by just 3 legacy networks. We are super excited by what lies ahead. We think 10% market share over the next 5 years is achievable.

John Boesen (41:32):

We expected the carrier interconnect phase to be challenging but not for technical reasons … and we did manage to complete 95% of the Singapore infrastructure build, with 2 carriers fully inter connected and tested with 2 more scheduled for testing March and April this year with the 5th and smallest carrier still to confirm a test date. While we didn't quite hit the 100% network build state communicated 6 months ago, we are confident we won't have to build or deploy any more infrastructure, but we just can't call it 100% complete however it is not material to the Singapore timeline we spoke about last year, as our software teams are well down the path of localising our software to meet regulatory, compliance and unique market requirements. The first software phase is scheduled for completion later this year where we are focusing on offering basic number types and portability, before customer onboarding can commence around these services. As stated at the FY19 guidance we are not expecting revenues in FY20 from Singapore with customer ramp up expected to occur throughout FY21 but do expect Singapore to be EBITA positive in FY21. Which brings me finally to recap our strategy, where we are ensuring our software capabilities and features continue to hide telco complexity, while still delivering all the capabilities to meet the needs of our existing and future customers. And we are expanding our presence across Asia Pacific, as evidenced with our Singapore expansion. And will continue to use acquisitions as an accelerator and growth vehicle where it makes sense. Combining this with our passionate team and the focus within to execute, we continue to perform, solving problems where others have not and inspiring us all. We are in a great place to take advantage of the opportunities presenting domestically and internationally and it continues to be an exciting time for MNF as we "as a Service Telco". I trust this update has helped explain where we feel the market is at, the unique value we offer our customers, more clarity around what we do and the opportunity that lies ahead for our customers and shareholders alike. At this point I will hand back to Rene for any closing remarks and Q&A, if we have time.

Rene Sugo (43:42):

Thanks John. We do have a bit of time we started a bit late. So thank you very much John. Thank you very much Chris. A couple of questions, this has come through, which I'd like to address. And JB, the question is to you around the delays in Singapore and you've answered that, I think that's fine in terms of carrier interconnect testing, which is outside of our control. But what's the demand from our customers like and what's their expectations like at the moment given these delays, can you answer that?

John Boesen (44:11):

We've got a very strong pipeline of customer interest as we've spoken about, mainly because these customers already with MNF and have been with us for over 10 years and the services that they're using are very unique. They cannot get software-based number portability or software voice services as we provide today. So the challenge that we have as Rene has called out, is making sure that we interconnect with all of the carrier networks in the Singapore region so that we can then start to offer the same services that they're using from us today. So the appetite is strong, the pipeline is strong. We're starting to talk to customers to get their testing queue scheduled, but it's an exciting ride ahead of us and the faster we can move, the faster we can board these customers.

Rene Sugo (44:58):

Great. Thanks. And then a similar question, which I'll answer of course is "if Singapore and Telcoinbox are behind, what's the source of upside to reiterate underlying guidance?" Just as John mentioned, Singapore never factored into FY20 contribution. So Singapore delays aren't impacting us at all this financial year. Inabox is a little bit behind where we'd like it to be on a margin level. However, we have reduced costs, we have found efficiencies in the business and at an EBIDTA level we still feel very positive about the Inabox acquisition, so we're not seeing that as any cause for concern on guidance. So hopefully that answers those questions. I have a question here about raising equity and then paying a dividend, and then unnecessary dilution. I think that the equity raise and the dividend payment policies are different non-related items and we have historically paid dividends at 50% of EPS and the Board had elected to continue with that dividend policy and the Board does not see it in the same context as raising funds to reduce the debt and prepare us for the next stage of growth. So hopefully that answers that question. Hopefully I've answered almost all of the questions. There's a couple of questions there that I haven't, I'll do apologize because I don't have those numbers to hand it. I don't want to give to the wrong numbers, but other than that, I'll follow up with those people individually. So thank you very much. And I'll see you on the road show.