ASX ANNOUNCEMENT

27 August 2018

amaysim 2018 full year result

Solid growth in subscribers across mobile and energy in a highly competitive market

SUMMARY[1]

- Record statutory net revenue of $577.6 million (up 76.8%) driven by strong 12-month contribution of energy, subscriber growth across the Group and new product launches
- Diversification strategy is delivering growth and resilience in the business; energy represents ~54% of Group's statutory net revenue
- Good progress on cross-sell; resulting in approximately 17,000 customers purchasing products from more than one vertical
- Statutory EBITDA of $37.6 million (up 11.0%)
- Underlying EBITDA of $47.8 million (up 9.8%)
- Underlying NPATA of $22.4 million (down 11.2%) driven by increased depreciation of technology investment and financing costs related to acquisition funding. Statutory NPATA of $12.8 million (down 17.6%)
- Underlying operating cash flow after capex increased $13.8 million to $52.7 million, implying a cash conversion of 110% of underlying EBITDA
- Doubled brand awareness with "Just What You Need" marketing campaign
- Industry leading customer satisfaction and mobile plans – winning 2 gold Money Magazine Best of the Best 2018 awards; 2018 CommsDay Edison Award for "Best Virtual Network Operator"; and maintained high customer referral rate of 90%

amaysim Australia Limited (ASX:AYS) today announced its results for the full year ending 30 June 2018. New product launches, the refresh of the mobile product suite and successful marketing campaigns all contributed to the strong growth in subscribers across the Group and resulted in record full year 2018 statutory net revenue of $577.6 million, statutory EBITDA of $37.6 million and underlying EBITDA of $47.8 million.

amaysim's Chief Executive Officer and Managing Director Peter O'Connell said: "I'm pleased to be delivering shareholders a solid result that has been achieved in a highly competitive environment and one that reinforces that amaysim is no longer just a telco – we are an asset-light utilities provider focused on customer experience.

"In 2018, we continued to invest in strategic initiatives that will position amaysim for long-term growth and enable it to be competitive. This included the broadening of our suite of unlimited mobile products to target the new and growing sub-$20 market and launch of amaysim energy.

“Our diversification into energy has enabled amaysim to deliver growth despite a challenging mobile market. The early success of amaysim energy reinforces our belief that our cross-sell offering will differentiate the company in a crowded telco market.

“At around 54% of statutory net revenue, energy has, for the first time, contributed the majority of the Groups’ revenue. The greater proportion of revenue from energy has provided growth and resilience in our business.”

DIVISIONAL UPDATE

The mobile business performed well in the face of challenging market conditions. The strategic broadening of amaysim’s mobile product portfolio, much earlier than competitors enabled the business to grow subscribers by 7.8% to 1.158 million as at 30 June 2018. However, despite subscriber growth, mobile statutory net revenue was down -7.0% to $259.0 million. Excluding devices from the mobile result, statutory net revenue decreased by -13.3% to $241.5 million, gross margin remained strong at 33.8% and underlying EBITDA decreased 27.5% to $31.2 million. Statutory net revenue was primarily impacted by a reduction in mobile ARPU (excluding devices) to $17.87. Pleasingly, mobile ARPU stabilised in the second half as the rate of subscribers migrating to lower price plans slowed.

The energy business delivered a strong 2018 full year performance with statutory net revenue of $310.0 million and underlying EBITDA of $22.9 million. Despite increased competition in the sector, energy subscribers grew by 15.9% to 191,000 as at 30 June 2018. This was driven through Click’s existing channels, the launch of amaysim energy in late October 2017 and sustained campaigning with strong offers. Through the period, energy ARPU increased 2% to $142.96 and generated a strong gross margin of 23.7% driven by disciplined retail pricing.

The broadband business continued to grow in 2018, ending with approximately 15,000 subscribers and delivering statutory net revenue of $8.6 million and an underlying EBITDA loss of $6.3 million. In the second half of the 2018 financial year, the Company made the decision to reduce investment in broadband as a combination of intense competition and unsustainably high wholesale costs put further pressure on already low margins.

CROSS-SELL

Since November 2017, the Group has progressively increased the number of energy cross-sell campaigns targeting segments of our mobile subscriber base. In 2018, over 400 marketing offers were executed, including free mobile for a year to customers who also took up energy. This successfully increased cross-sell activity as well as provided valuable insights into customer behaviour and demand for particular offers.

After a short time in the market we are already seeing initial wins from this strategy. At 30 June 2018, we had approximately 17,000 customers purchasing products from more than one vertical and have a healthy pipeline of sales. The majority of these sales have been customers purchasing a mobile and energy service.

DIVIDEND

As announced at the 2018 half year results, in light of the company's growth and cross-sell strategy, the Board decided to review the company's capital allocation and dividend policy. The Board holds the view that it is in the interests of shareholders for the company to retain a greater proportion of profits in the business and has made the decision not to declare a dividend for the 2018 financial year. The Board expects this approach to continue for the short to medium term.

The Board regularly reviews its approach to capital allocation with a view to ensuring that returns to shareholders are maximised. If, in the future, the company has capital in excess of its investment needs, then the Board will consider all appropriate avenues of returning value to shareholders.

REVIEW OF BROADBAND AND DISCONTINUATION OF DEVICES

In line with the company's goal to maximise shareholder returns, the management team and Board have undertaken an assessment of the risk-return profile of the company's portfolio of products and services.

Part of that assessment was reviewing the markets in which the company competes. In the 2019 financial year, the company believes that competition in mobile and energy will continue and with its capability to be Australia's best customer focused, asset-light utilities provider, amaysim is well positioned to succeed. We will achieve this by leveraging our core skills to defend and grow in mobile and disrupt the energy sector.

Broadband and devices are, relative to mobile and energy, capital intensive businesses and, due to prevailing market conditions, amaysim broadband and devices are expected to deliver low returns over the foreseeable medium term. As a result, the Board has determined that it is in the interests of shareholders to review the broadband business and to discontinue selling devices in the first half of the 2019 financial year. These decisions are expected to enable the company to redirect capital to the mobile and energy businesses that have higher growth and returns. The company will provide an update on the review of the broadband business at the upcoming Annual General Meeting.

Mr O'Connell commented: "The decision to discontinue selling devices was not taken lightly and will allow the company to simplify its operating structure, concentrate on its core businesses and grow. We have developed terrific intellectual capital which will ultimately stay with the company. Our team will keep a close eye on the devices market and we may look to re-enter at a later stage, if the investment case makes sense at the time.

Mr O'Connell continued that "We are not moving away from our diversification and cross-sell strategy. We will continue to explore additional products and services which we can offer to our significant mobile subscriber base. However, we need to ensure that we do this in a way that is profitable, delivers a great customer experience and aligns with our asset-light business model.

OUTLOOK

The company believes there are opportunities in FY19 and expects underlying EBITDA for the Group to reflect:

- continued earnings growth in energy driven by amaysim energy and Click's existing channels
- competition to continue to put pressure on mobile ARPU and margins despite mobile subscriber growth
- reduction in underlying operating costs driven by simplification of the Group's structure and a more disciplined approach to cost management
- discontinuation of devices

The company also considers the following FY19 catalysts may drive earnings:

- plans to defend and grow the mobile business, including the launch of new mobile products
- continued investment in spectrum and mobile networks (4.5G and 5G) by carriers and potential consolidation of TPG and VHA, which may set the trend for a more rational market and lead to an increase in mobile ARPU and margin by the end of the financial year
- outcome from the review of the broadband business

Mr O'Connell commented: "While competition in mobile will remain intense in FY19, we are still confident about the sector over the medium to long-term. We continue to achieve strong mobile subscriber growth in July 2018 and expect the roll out of 4.5G and 5G networks in Australia over FY19 and FY20 to provide increased rationality and a slowing of competitive excess.

"In energy, we will closely monitor the government's response to the ACCC enquiry into the sector and finalisation of the National Energy Guarantee, participating in industry consultations where we get the opportunity to do so. We agree with the ACCC's recommendations and the overall theme that the whole sector requires fixing.

"Notwithstanding the difficult market, the company is actively reshaping itself to access new services, when ready, by developing our technology platforms to deploy additional services quickly; improving our analytics and marketing capability to attract and serve customers; increasing cross-sell of mobile and energy; and elevating our marketing capabilities.

"We are focused on delivering strong value by growing awareness of amaysim as a utilities service provider to increase cross-sell of energy to our mobile subscriber base. We intend to push hard on this strategy to achieve profitable growth," he said.

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FY18 Key Financial Information

Financial full year ended 30 June $ million (unless stated otherwise)	FY18 Underlying	FY17 Underlying	FY18 v FY17
EBITDA	47.8	43.5	10%
mobile	31.2	43.1	(28%)
energy	22.9	3.1	642%
broadband	(6.3)	(2.6)	142%
NPAT	12.3	21.2	(42%)
NPATA[2]	22.4	25.2	(11%)
EPS (cps)[3]	5.9	11.3	(48%)
Financial full year ended 30 June $ million (unless stated otherwise)	**FY18 Statutory**	**FY17 Statutory**	**FY18 v FY17**
Net revenue	577.6	326.7	77%
Gross profit	153.1	99.1	55%
Gross profit margin (%)	*26.5%*	*30.3%*	*(383bps)*
EBITDA	37.6	33.8	11%
mobile	23.4	34.7	(32%)
energy	20.4	2.8	638%
broadband	(6.3)	(3.6)	74%
NPAT	2.7	11.5	(76%)
NPATA[2]	12.8	15.5	(18%)
EPS (cps)[3]	1.3	6.1	(79%)
Subscribers ('000)			
mobile	1,158	1,074	8%
energy	191	165	16%
broadband	15	5	196%
ARPU ($)			
mobile	17.87	22.46	(20%)
energy	142.96	139.82	2%
broadband	60.97	52.76	16%

[1] All comparisons are full year ended 30 June 2018 compared to financial year ended 30 June 2017 and are for the amaysim Group, which includes mobile, broadband and energy. Subscriber numbers in this announcement are rounded to the nearest thousand.

[2] NPATA means NPAT and after adding back the tax affected amortisation relating to acquired contracts and intangibles other than software

[3] Statutory EPS/underlying EPS is calculated as NPAT/underlying NPAT respectively divided by weighted number of shares on issue