

Attention : ASX Company Announcements Platform

Lodgement of 'Company Interview'



amcom

'COMPANY INTERVIEW'-MARKET PROFESSIONALS

Amcom Telecommunications Limited

Date of lodgement: 03/11/2014

TITLE: "Company Interview. Explains East Coast Expansion"

Highlights:

- Explains timing and details of east coast expansion.
 - Approach to growth in east coast market.
 - Describes current assets including those already in east coast market.
 - Synergies from existing businesses to help east coast expansion.
 - Growth focus and opportunities: acquisition or organic?
 - Available growth funding and key management.
 - Competition on east coast: industry consolidation provides opportunity for new entrants.
 - Progression of Vocus approach.
 - General outlook for telcos in Australia; and Amcom's main competitive advantages.
 - Broad impact on earnings if east coast expansion plans achieved.
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Record of interview:

Company Interview question:

Amcom Telecommunications Limited (ASX code: AMM, market capitalisation of ~\$600 million) recently announced its east coast expansion strategy. Why have you decided to do this at this stage?

Managing Director, Clive Stein

Over the past 15 years Amcom has established a very robust and successful business in Australia, centred largely in Perth, Adelaide and Darwin, built on extensive fibre infrastructure. Additionally, our Melbourne based Unified Communications business with sales offices in Sydney and Brisbane, has generated data connectivity growth on the east coast via the selling of third party services to customers. The opportunity to acquire fibre infrastructure will enable us to fast track sales growth across each capital city. The business we have built at Amcom has been essentially achieved by tackling only 20% of the Australian market. This transaction marks the step in our carefully structured expansion into the remaining 80% of the Australian market.

Company Interview question:

What will be your approach to achieve growth/market share in the east coast?

Managing Director, Clive Stein

Three things. The first is getting access to fibre infrastructure, that's important. In this regard, we are pleased to announce the acquisition of a 180 kilometre fibre optic network as one of our first moves. In addition, we've signed a long term, low cost fibre lease giving us immediate access to around 200 buildings in Sydney. Finally, we are also deploying Ethernet in the First Mile which gives us infrastructure in 30 exchanges across Melbourne, Sydney and Brisbane. This is a very efficient means of acquiring new customers ahead of any fibre roll outs.

Company Interview question:

What assets does Amcom already have?

Managing Director, Clive Stein

About 80% of our profit is driven from our fibre networks, a significant amount of which are in Perth, Adelaide and Darwin. We also have data centres in Perth.

We already have assets in the east coast market. We sell Unified Communications (IP telephony), with a recent major win of 14,000 licences to the University of Melbourne and fibre assets in all east coast capital cities. So the same technology we use in Perth, Adelaide and Darwin is already there. The next phase of our business plan is to bulk up our fibre infrastructure networks on the east coast and leverage them as hard as we can.

This strategy is critically important in that it adds our own network infrastructure in Sydney, Melbourne and Brisbane into our arsenal. Our east coast business currently focuses on a strong network of Wholesale and Channel partners with over 300 partners nationally. We have a growing Eastern Region direct sales team and now they'll have significant capacity to sell into the three primary eastern states cities. While infrastructure ownership does improve the economics of our business, it's really our sales and marketing capability that is the cornerstone of our expertise.

Company Interview question:

What synergies can be utilised from existing assets as you expand further in the east coast?

Managing Director, Clive Stein

We have been active in the east coast market for some time. Having our own infrastructure will enable us to achieve a higher profit margin. We will also be able to migrate customers from off-net to on-net. We have a well-established distribution network around the country with over 300 partners. That means we can accelerate our cost and price advantage and sign up more customers on the east coast.

We don't have to invest heavily in engineering and service desk functions as they are already in place. We will only add to that capacity once the scale of business warrants it.

Company Interview question:

You've now acquired the Megaport network. To what extent will you increase your business in the east coast markets through acquisition or organic growth?

Managing Director, Clive Stein

Our strategy is twofold. We will actively expand the current network. We expect to connect around 900 buildings across Melbourne, Sydney and Brisbane over the next 3 to 4 years.

Coupled with that we are looking for established data network businesses to acquire which can provide significant synergies to our business.

Company Interview question:

What other acquisition opportunities might be available?

Managing Director, Clive Stein

There are still many smaller data reseller companies available that can provide significant value to Amcom. We retain sufficient balance sheet capacity to continue to review these acquisitions going forward.

Company Interview question:

You raised \$40 million of equity in June. What will it cost to achieve your expansion goals in the east coast and what total funding is currently available?

Managing Director, Clive Stein

The acquisition of Megaport was \$15 million and we're very happy with that. As I've said, we'll continue to expand and invest in the fibre network over the next 2 years which will lead to enhancing the fibre foot print in the addressable market of circa 17,000 buildings that the Megaport network passes. This will be from our existing funds, but still leave us with plenty of financial capacity for further merger and acquisition activities.

Company Interview question:

What additional senior management will be required?

Managing Director, Clive Stein

In September we appointed, Jason Sinclair, Group Executive – Operations & Sales Eastern Region to bolster our executive presence as we expand our market. Jason was previously a senior executive at PIPE Networks and brings a deep understanding of the east coast market. We have already commenced recruitment of several experienced sales executives, adding depth to our existing wholesale and direct sales teams in Brisbane, Sydney and Melbourne.

Company Interview question:

What level of competition do you see in the east coast?

Managing Director, Clive Stein

With the infrastructure industry consolidating there are fewer competitors. At the same time demand for high performing Fibre Networks continues to grow to service the rapidly expanding cloud and hosted market. This has presented a great opportunity for us to enter the market to compete on equal terms with other infrastructure based competitors.

Company Interview question:

Vocus Communications Limited bought 10% of Amcom after market on Friday 24th October and has made Amcom a 'proposal' in relation to a combination of the businesses. Can you comment on this and how/if it might be progressed?

Managing Director, Clive Stein

We welcome Vocus as a shareholder, and at this time discussions continue. While there is strategic rationale in combining the businesses, I should stress that the proposal remains confidential, is conditional, incomplete and is non-binding. So there is no certainty that it will go further. We would certainly consider combining the two companies if it adds value for shareholders. However, we are very value focussed and we believe Amcom has considerable standalone growth for the immediate and longer term with value adding opportunities like the one we have announced today.

Company Interview question:

Is the east coast expansion a reaction or defensive move in response to the approach from Vocus?

Managing Director, Clive Stein

Absolutely not. Our expansion on the east coast has been planned for some time now, and was signalled when we raised \$40 million in capital in June. We are now conveying how we will deploy that capital. Pulling together an integrated strategy like we have is not something that can be done within a week. This plan has been in the making throughout most of 2014.

Company Interview question:

How do you see the general outlook for telcos in Australia? What will drive the industry?

Managing Director, Clive Stein

Data, data and data! There is a growing need for data from business customers. Move to 'the Cloud' is driving data, and the industry and all market participants are going to benefit significantly from this trend. We are ensuring Amcom remains well positioned to capture this growth.

Company Interview question:

Back to your east coast plans, what do you see as Amcom's main competitive advantages to achieve your goals? What about the risks to achieving your goals?

Managing Director, Clive Stein

The risks are relatively low because we will be competing with the same companies on the east coast as we do on the west coast where we have been very successful. We have a distribution channel already in place and our expansion strategy is multifaceted – including network acquisition, leased capacity, and Ethernet First Mile. We have also put in place the management to drive our expansion.

We see our competitive advantages as being very customer oriented and we pride ourselves on that. As an organisation, we are extremely innovative and flexible in our thinking and approach to customers and winning new business. We have a proven formula and a long term track record of growth delivery.

Company Interview question:

In summary - in broad terms what impact do you expect on earnings and value-add for shareholders if you achieve your expansion goals on the east coast?

Managing Director, Clive Stein

Our expectation is for earnings accretion in FY16 and over the medium term the east coast data network has the potential to account for up to 20% of total earnings in financial year 2017. It will take a little time to build, but we are confident that it will become a very important part of our company.

It will be an important step change for the business. Most of our revenue today comes from only 20% of the national market and we have done very well in growing our market share in this. The time is right for us to expand on the east coast, and we will be concentrating on growing our market share there.

Company Interview

Thanks Clive.

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