

## Chairman and CEO Report 2018

The 2018 financial year was again a period of investment and development at Bendigo Telco, over which we delivered another successful trading year and a sound profit result. During the period it has become quite commonplace to see announcements in the mainstream media about the challenges that beset the telco space. The key driver of this disruption has of course been the National Broadband Network (NBN) that is rapidly being rolled-out across Australia and has already delivered an improved broadband experience to more than 4 million locations. For the established telco industry however, the NBN roll-out has brought with it sharply reduced revenue and margins, across the full range of telco market segments. This ongoing industry disruption will present both challenges and opportunities for our company.

I am pleased to be able to report to shareholders that our business delivered a healthy 26.8% increase in earnings per share (EPS) as compared to the full 2017 financial year. This result, produced against a backdrop of testing market conditions underscores the success that the business has achieved in integrating the telco assets we purchased from the Bendigo Bank in FY2017. This improved outcome has enabled our Board of Directors to declare a fully franked dividend of 8.0 cents for the latest half, bringing the total dividend payment to 12.0 cents across the full financial year.

As a business, our purpose is the same today as when we were founded eighteen years ago – to be Australia's leading customer and community engaged technology solutions partner. We are committed to feeding into the prosperity of our customers and their communities, not off it. We seek to achieve this by:

- Ensuring we remain relevant, connected and valued by our customers.
- Creating genuine community partnership through meaningful engagement and relevant contribution in the regions we serve.
- Minimizing the telecommunication inequity experienced by regional businesses as compared with our capital city competitors.
- Maximizing the retention of human, intellectual and financial capital within our regions.
- Providing an alternative to the Tier 1 telco suppliers whilst ensuring that a portion of our customer's telco spend is returned directly to community activities across our regions.

With the increasing commoditization of telecommunication products, our customer and community values are a powerful reason that our customers choose to stay with us, year after year. We work hard to remain relevant and connected to our communities and our customers. Our customers don't simply buy *what we do*, they buy *why we do it!* Our commitment to this fundamental difference in the way we do business will continue to be our highest priority and ensure that we remain a strong company - even as the telecommunications industry continues to undergo rapid change.

### **Further Expansion of our Business**

Just as the Industry as a whole continues to change, Bendigo Telco has been undergoing some important strategic changes of its own. In February of this year, Bendigo Telco entered into a further agreement with the Bendigo Bank to acquire all of its remaining telco business. The transaction, which was EPS neutral for the current financial year enabled us to acquire a further 10,500 telco customers. This acquisition of the final tranche of the Bank's direct telco customers is an important addition to the scale of our business and also establishes the company as the Bank's preferred telco provider on behalf of its customers. The transaction further underscores the strength of the relationship between Bendigo Telco and the Bendigo Bank that has developed over many years.

As a result of our customer base expansion over the recent past, our revenue grew 13.1% to \$35.3M as compared to the FY2017 figure of \$31.2M. For the same period, NPAT grew 32.7% to \$1.2M as compared to the FY2017 figure of \$0.9M.

### Financial Year Highlights

- Completion of the integration of the remaining Bendigo Bank telco customers into our business.
- Strengthening of the important strategic partnership between Bendigo Telco and the Bendigo Bank. One result of this is that the Bendigo Bank transferred their voice services to our business during the financial year, generating more than \$200K in additional revenue per month.
- Renewed focus on automation to lower our cost to serve customers – especially in the consumer and small business sector.
- Reorganization of the business into three distinct divisions - *Bendigo Bank*, *Business & Enterprise*, and the *Consumer & Micro Business* - to enable us to better serve our customers with differing needs.
- Continued R&D investment to broaden the range of solutions that we make available to our customers in each of the market segments that we serve.

### Industry Trends

With the NBN rollout now more advanced, its effects upon our business and our industry have come into sharper focus. However, we believe that we now have a sound understanding of how to operate as a business in this new paradigm. As the NBN moves into a particular region, customers are responding by moving to switch their data services from ADSL to the new NBN network. At the same time, customers are also moving away from traditional 'fixed-line' voice to voice delivered over their NBN data connection.

This change has the effect of reducing both revenue and margins retained by Bendigo Telco for this type of service. We have found, however, that as the NBN rolls through a region where we are present, we actually gain customers as a result. This has helped us maintain our revenues as this process continues. We have also worked hard with our wholesale suppliers over the financial year which has made a positive difference to our retained margins.

The second major industry trend active in our marketplace at present is the introduction of additional competition into the mobile technology space. Aggressive buildout of mobile capacity by the majors with increasing amounts of data for consumers will result in a reduction in the margins seen from mobile products. This trend will have an effect on Bendigo Telco over the medium term, as end user prices are reduced, however our strong relationships with our wholesale suppliers will help us lessen the effects of this on our business.

### Our Competitive Advantage

The telco landscape has changed rapidly over the last few years for all participants in the marketplace – every telco business has been affected, whatever their size or market position. Our competitive position is based on the relationships that we have developed with our customers and the communities that we serve. Over the last year we have increased our focus on engagement with our customers and the delivery of outstanding customer service. We believe that this will be of great benefit to us and enable us to retain our customers as the telco market becomes even more commoditized.

One of our key focus areas has always been the 'mid-tier' marketplace – business customers with between 50 to 500 employees. In this market segment we have a rich set of existing relationships and

have continued to add depth in this area over the last financial year. We have a strong technical capability around Telephony, Cloud and Networking and this enables us to deliver additional value to this customer segment - that rarely has this skill-set 'in house'. We are actively expanding our product set for the mid-tier including the launch this year of a new 'Backup as a Service' offering that has been well received by our customers.

### **Key Strategic Priorities for the Year Ahead**

As we manage the company over the next year, we will pay particular attention to a number of key strategic priorities across the business, including:

- During the FY Bendigo Telco welcomed around 10,500 new customers who came to us from our partner the Bendigo Bank. We must continue to ensure that these customers are well cared for and that they understand why they can trust us to deliver their telco services.
- Putting the needs of our customers first is one of our core principles. We are improving our ability to rapidly respond to the needs of our customers – both in person and by using new technologies.
- We believe that we can grow the business over the medium term by deeply understanding the needs of our customers, so we continue to deliver the relevant products, service and experience that will support the achievement of their goals.
- Our business was created to serve the needs of the Bendigo community. As we have matured and expanded, it is important that we work to extend our positive impact in other communities, especially in key regional areas such as Geelong and Ballarat. We are more closely aligning our community focus with that of the Bendigo Bank to increase our impact in this area.

### **Acknowledgements**

I would like to thank our Board of Directors for the leadership they have shown in guiding our business through these complex times of mergers, acquisitions and industry disruption. To our customers and communities – thank you for allowing us the opportunity to continue to serve you across the years. It is your loyalty that has kept us strong and enabled us to grow. Thank you as well to our dedicated team of management and staff for the commitment you have shown to the needs of the customers that make our business strong.

The telecommunications business is a complex one that is currently undergoing a period of rapid change. I believe that if we are true to our purpose and put the interests of our customers and communities first that we will continue to grow and prosper as a business.



Rob Hunt – Chairman



Jeff Jordan – CEO