

Chairman and Executive General Manager's Report

The Telco Market and your Telco.

This year has been one of transformative change for our business, in line with a substantially changed telco environment and reduced margins in many of the traditional telco products provided by us into our local markets. With the rollout of the National Broadband Network by the Australian Government and the introduction of new telco technologies, there continues to be a significant shift in the revenues for all Telecommunications providers. This has prompted us to make structural alterations and modifications to our business priorities to ensure we remain – relevant, connected and valued by our customer base across all our local markets.

Bendigo Telco was formed 20 years ago to address areas of Telco 'market failure' in our regions. Our regions were disadvantaged in terms of price, priority, competition, and access to infrastructure connecting us to national markets. This placed our customers and communities at a significant disadvantage. While many of these shortcomings have been reduced or eliminated over the years new challenges continue to emerge. Our customers and local markets still experience 'digital disadvantage' compared to major capital city organisations.

Over the years we have played a significant role in prompting a more competitive and responsive telco market in our communities. We will continue to play this role and we expect this will provide new opportunities for our business. After reviewing and considering the changed market conditions, we have prioritised our efforts into activities that are more aligned to our particular strategic strengths. This has prompted a reshaping of our balance sheet, our organisational structure and operating model over the course of the last year to position the business for the future.

While we are reporting a statutory loss for the year, we continued to produce a solid cash profit and maintain strong customer alignment and support. The opportunity to continue to enhance individual customers' telco and technology outcomes, in all our markets, remains apparent. Our new strategy and operating model moving forward addresses these opportunities, and we believe effectively employs our shareholder capital in this changed market environment.

Against this backdrop and in challenging market conditions, the company was able to deliver a Net Profit after Tax (NPAT) before one-off adjustments of \$1.23M for FY19. The one-off adjustments included a non-cash impairment charge of \$2.35M made against goodwill and other non-current assets and restructuring costs of \$285K. This result has enabled our Board of Directors to declare a fully franked dividend of 7.0 cents for the final half of the year, bringing the total dividends paid from the FY19 trading year to 11.0 cents.

Our new Operating Model and Reshaping of our Business

As stated the environment our business is operating within is ever changing, and we must react effectively to the shift in the market. As a result, the business has carefully reviewed its strategy, target markets, organisational context and cost base. During FY19 we have reinvigorated our forward strategy.

The four key elements to our forward strategy are:

- **Community Enablement**
Foster sustainability, growth and partnerships in each regional community in order to build a better strategic future for the markets we serve.
- **Bendigo & Adelaide Bank Partnership**
Further enhance our existing business with the Bank in the areas of Networks, Voice, Cloud, Security and Data Centre capabilities.

- **Grow Mid-Tier Business Market Segment**
Continue to create stronger connections with our larger customers in the mid-tier market and expand this base by enhancing our ability to enable them to achieve their individual business goals.
- **Protect Consumer and Small Business Market Segment**
The advent of the NBN and introduction of new technologies has changed the economics of the Consumer and Small Business telco marketplace. We will maintain a quality level of service to our customer base and continue a focus on automation to serve our customers at a lower cost.

As stated, in order to give effect to our forward strategy, we have embarked on significant reshaping of our business. This bold approach involves implementing a simplified flattened organisational structure, which will allow the company to become more agile, better respond to the needs of our business customers and deliver on our strategic priorities. Layers of management and overheads that are not in line with our strategic priorities have also been removed or reduced. Our core business and implementation of our new operating model has been led by Executive General Manager – Mr Jarrod Draper. As Chairman I will continue to have strategic oversight of the business in conjunction with the executive team and my highly competent team of directors.

This reshaping positions our business well to capitalise on our strengths, amplify our competitive advantage and achieve long term success in our chosen markets.

As the telecommunications industry continues to undergo rapid change, our commitment to our customer and community values will continue to be our highest priority. We recognise that our customers don't simply buy what we do, they buy why we do it! These values are a powerful reason that our customers choose to stay with us, year after year.

Financial Year Highlights

- Significant investment into our strategic technology capabilities in Data Centre, Network, Security and Cloud – upgrading to industry leading platforms
- Reshaping of the business in order to better serve our target market and communities
- Restructuring of our balance sheet in line with the changed market conditions
- Delivered robust cost optimisation in order to offset the reduction in gross margins
- Improvements in business productivity and efficiency
- Progressed strategic conversations with existing and new partners in order to address the 'digital disadvantage' experienced by regionally based customers
- Working hard to continue the important strategic partnership between Bendigo Telco and the Bendigo Bank (our largest customer)
- Continued focus on automation to lower our cost to serve customers

Key Strategic Priorities for the Year Ahead

As we manage the company over the next year, we will focus on executing our forward strategy, key priorities include:

- Product development in the strategic areas of Cloud, Security and Networking. A key outcome of this product development is to provide enhanced 'visibility and control' to our customers.
- A refocus on the communities we serve, increasing our participation in these communities
- Lead additional strategic conversations with our partners to deliver strong outcomes for our regions
- Continue the reinvigoration of our processes and internal business systems to address the needs of our customers and to deliver a great customer experience
- Continue to deliver improvements in business productivity and efficiency

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, Security and Networking and this enables us to deliver additional value to this customer segment. During the FY19 period, we have made a significant investment into the technology platforms that serve this buying base, these platforms are class leading. We are now focused on leveraging this technology investment to deliver innovative and relevant product capabilities to the market.

Acknowledgements

During the period our CEO of four and half years - Jeff Jordan, returned to the USA to pursue both business and personal endeavors. Jeff leaves the organisation in good shape to meet these market challenges and departs with our thanks and good wishes for the great contribution he has made to the business during his tenure as CEO.

I would like to thank our Board of Directors for the leadership they have shown in guiding our business through these challenging times. 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.

Thank you as well to our dedicated team of management and staff for the commitment you have shown to the needs of the customers and your eagerness to constantly adapt to the changes in our company and our industry.

Finally to our shareholders, thank you for the trust and support you have demonstrated to us over the years. I'm confident that we have the right assets, strategy, priorities and partnerships as well as a highly competent team in place to execute on our refreshed strategy – to continue our objective to create shareholder value.



Rob Hunt – Chairman



Jarrod Draper – Executive GM