THE POWER OF MORE

# Morgan's Technology & Telecommunications Day

Morgans IN ALLIANCE WITH CIMB

2016 WINNER BEST AUSTRALASIAN RETAIL BROKER

AIRA AUSTRALASIAN INVESTOR RELATIONS ASSOCIATION Best Practice Awards

Presentation by Geoff Neate
Managing Director – Spirit Telecom

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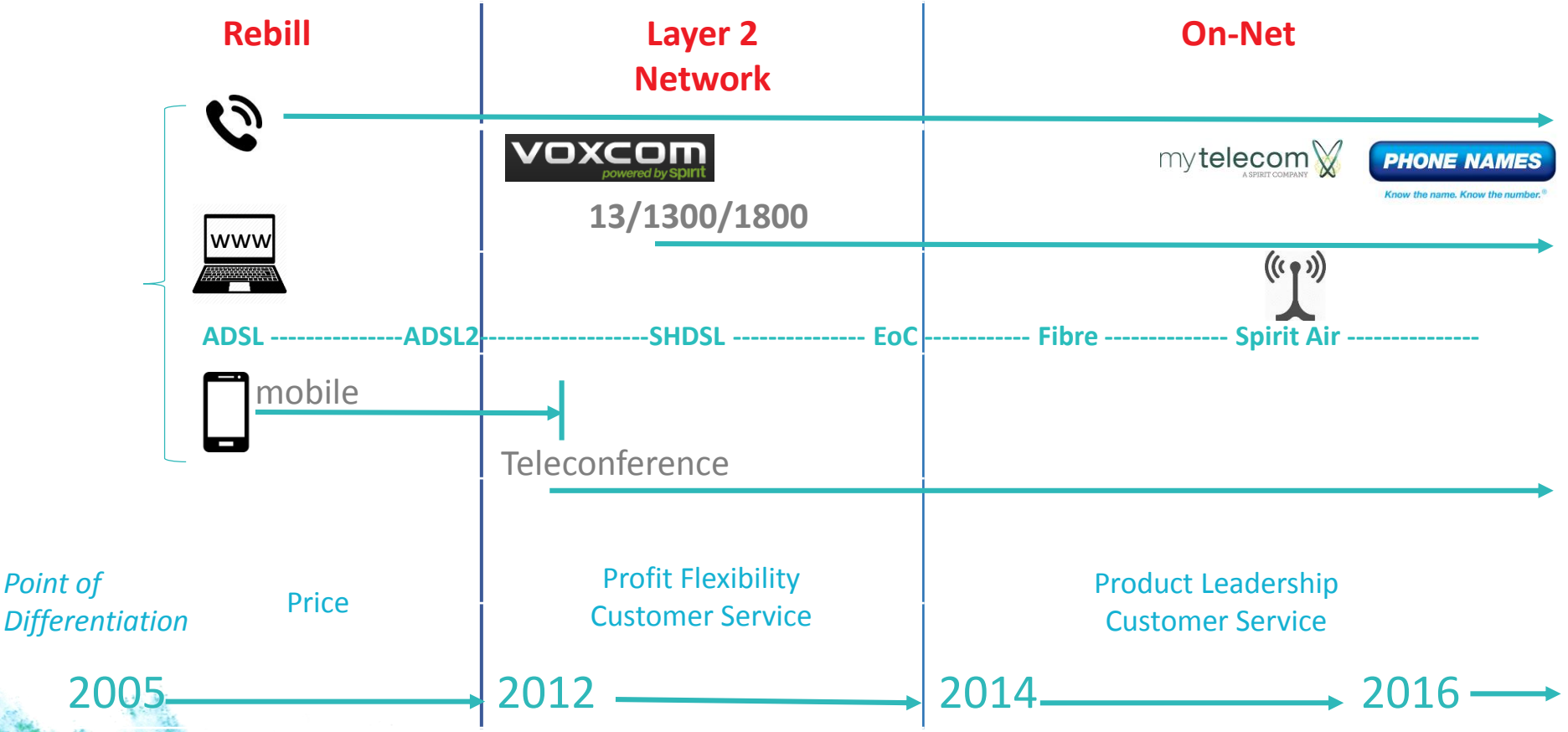
# Who is Spirit?

- Spirit Telecom Limited (ASX: ST1)
  - Market Cap $28M (as at 1 May 2017)
- A fast growing niche Telecommunications Carrier, supplying superfast internet and ancillary services to key segments, including:
  - residential
  - business
  - student accommodation
  - community housing and
  - business parks
- Recognised as being Australia's fastest overall Internet Service Provider (ISP)[1].
- Successfully acquired and fully integrated Voxcom (2012), My Telecom (2015) and Phone Name Marketing (2016)
- Listed on ASX 26 June 2016

1. PC Mag 2015

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# Where have we come from?




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# Industry Changes

*"Telco is working through a once-in-a-lifetime business model transition with the National Broadband Network (NBN) increasingly gaining traction, at the expense of earnings"*

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NBN has disrupted the industry

- Telstra moved from Carrier to Reseller
- TPG moved from Carrier to Reseller
- Optus moved from Carrier to Reseller
- Vocus moved from Wholesaler to Reseller

This is creating a margin squeeze, as ADSL customers move to NBN

*ST1's margins have grown from 52% (1H16) to 61% (1H17)*

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BUSINESS SPECTATOR

# NBN: The good, the bad and the downright unfair

MARK GREGORY
Business Spectator | 9:45PM February 16, 2015

Save

At the end of last year the fanfare surrounding the signing of the revised Definitive Agreements between NBN Co and Telstra overshadowed the release of NBN Co's Fibre to the Basement (FTTB) product technical specification.

# NBN Co chief hints that public must pay for future FttN upgrades

01 March 2017 | Written by Sam Varghese

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...ms & NBN | 27 Comments

THE AUSTRALIAN

NEWS OPINION BUSINESS REVIEW NATIONAL AFFAIRS SPORT LIFE TECH ARTS TRA...

# I was wrong on NBN: It's a turkey



The NBN could become costly.

The Australian | 12:00AM October 15, 2016

1027

Save

ALAN KOHLER
Editor-at-large, The Australian Business Review | Melbourne | @AlanKohler

Unhappily, Australia's national broadband network is a white elephant and, to mix ...hors, an albatross around the nation's neck.

...has effectivel...
...alians who r...
...nt to upgra...

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# NBN stuck in slow lane: Online rage erupts over connection speeds



DARYL and JAYNE COLLINS
Winchelsea, Victoria
ADSL 2+, 2.3Mbps
NBN tower nearby and within range but the couple say NBN is forcing them on to NBN Skymuster satellite system, which ...xpensive at $260 a month

Print Close

THE AUSTRALIAN BUSINESS REVIEW

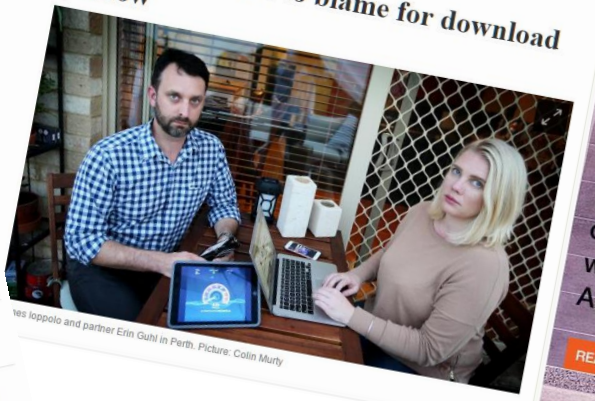
DISCUSS THE FEDERAL BUDGET

NEWS OPINION BUSINESS REVIEW NATIONAL AFFAIRS SPORT LIFE TECH ARTS TRAVEL HIGHER

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NBN

# NBN says Telstra to blame for download go-slow



...es Ioppolo and partner Erin Guhl in Perth. Picture: Colin Murty

NIC
Seize of un... with Analy...
READY?

itnews
FOR AUSTRALIAN BUSINESS

# Telco rivals slam govt intervention in Telstra price decision

...Juha Saarinen | Jul 23, 2015 1:32 PM

...Call on Turnbull to drop submission to ACCC inquiry.

...ve of Telstra's rivals have come out strongly against the Department of ...mmunications' support for a hike in the regulated wholesale prices Telstra can ...rge access seekers for its copper network.

...promised dig...

# Australian households, businesses on NBN slam 'unreliable' connection

John Rolfe, Cost of Living Editor, News Corp Australia Network
March 12, 2017 10:20am
Subscriber only

...they are getting less than a hundredth of the speed they were ...nd network.

...se of the NBN's unreliability.

Members get more from...

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NEWS OPINION BUSINESS REVIEW NATIONAL AFFAIRS SPORT LIFE TECH ARTS TRAVEL HIGHER ED M...

EDITORIALS

# NBN disappoints customers

The Australian | 12:00AM May 16, 2017

39

Save

Like the Gonski education package and the National Disability Insurance Scheme, Labor's broadband project was a big idea with little serious thought about its practical workings or likely cost. Kevin Rudd promised an outlay of $4... towards a National Broadband Network supposed to re...

"Donald Trump's t... him well on the camp... start playing the long...

RHYS BLAKELY

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# NBN impact on the customer



**LAWRENCE DRAYTON**
**Asquith, NSW**

| | Download Speed* | Upload Speed* |
|---|---|---|
| Telstra $95 plan ** | 100 | 40 |
| Test result | 1.83 | 19.04 |



**VICKI OVEN**
**North Wyong, NSW**

| | Download Speed* | Upload Speed* |
|---|---|---|
| Telstra $95 plan ** | 100 | 40 |
| Test result | 2.85 | 3.23 |

Taken from The Australian March 28 2017

*"Every way you cut it the best average download speed for a $60 user on the NBN is 0.587Mbps or 170GB per month"*

Bevan Slattery Comms day 1/8/2016

Meanwhile…

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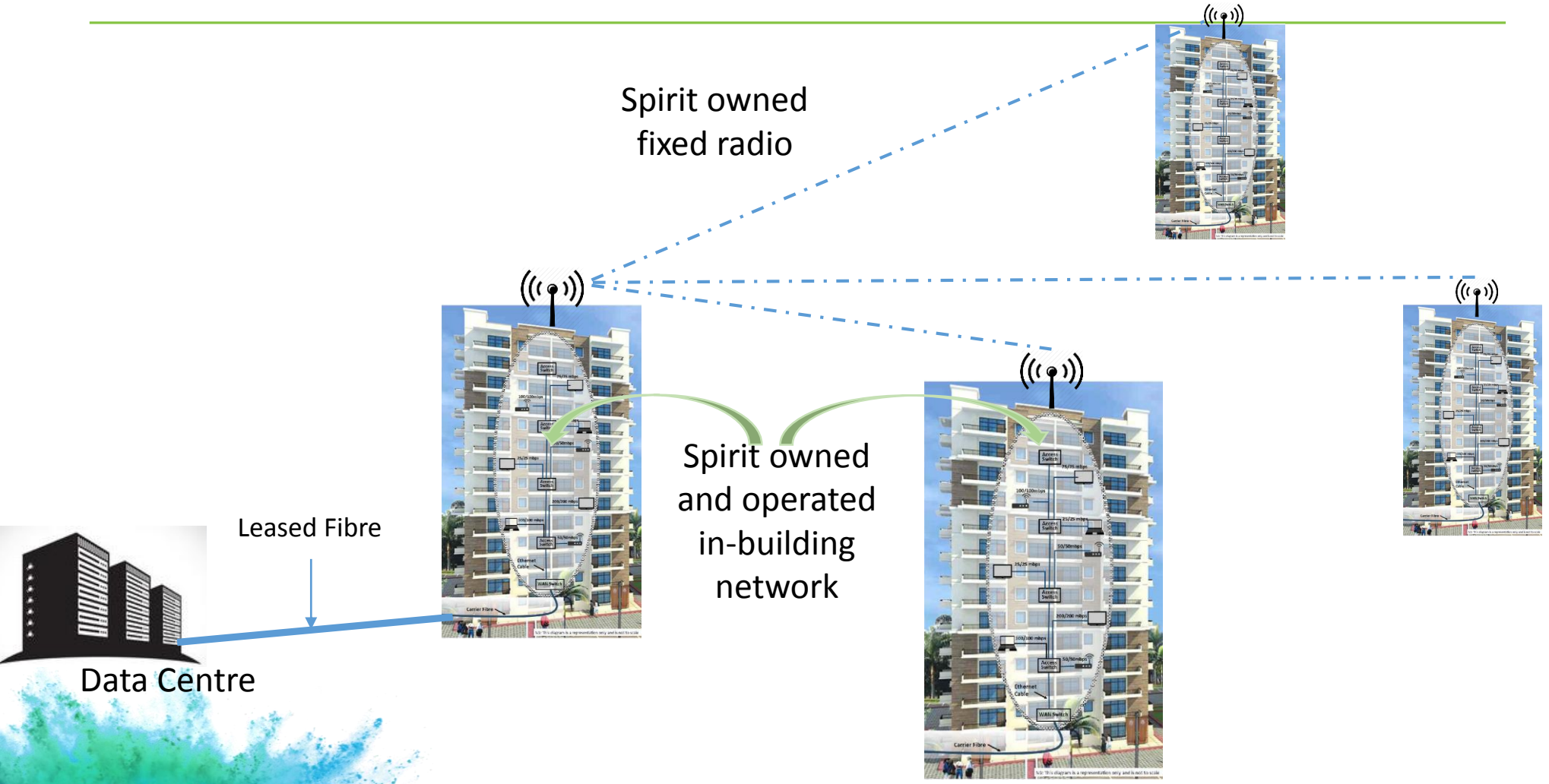
Spirit delivers 200/200Mbps Internet speed on The Block in Melbourne. Wow! - https://youtu.be/v4ge0rPVqkQ




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# Spirit Business Model




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# NBN versus Spirit




So, a single end user on a 25/5Mbps NBN service requires a $27 access fee and $15.25 of CVC[2], compared to Spirit's less than $10 for 25/25Mbps

1. Based on a 25/5 Mbps service
2. Based on industry average of 1Mbps/user

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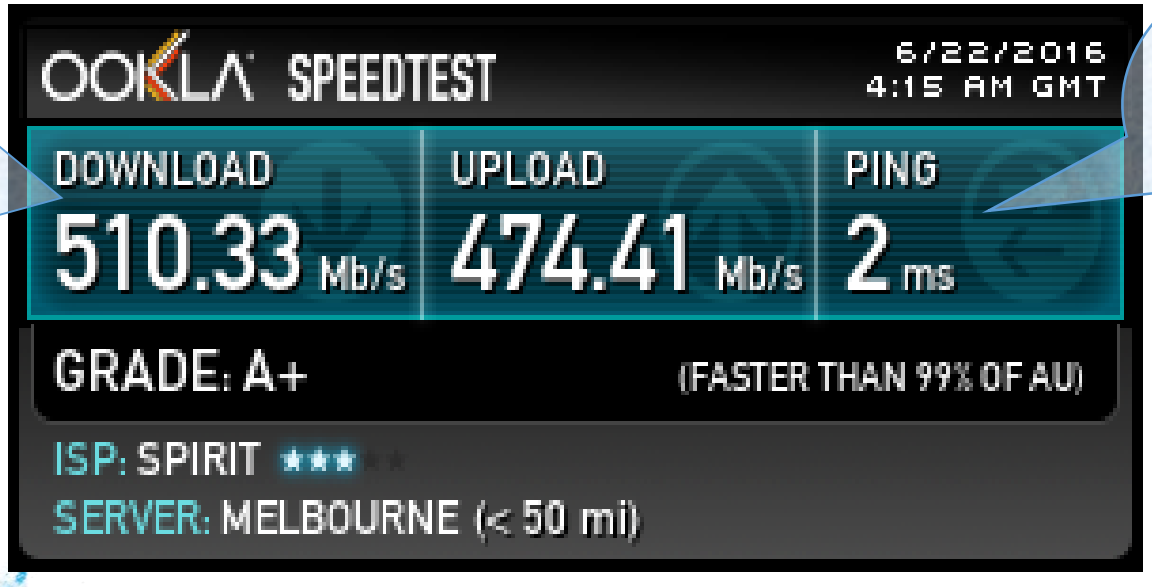
# What makes fast internet?

There are two critical components that determine Internet Speed

1. Latency: the time to transmit data between points A and B
2. Bandwidth: The transmission capacity of a given connection

So using a freeway analogy…….

**Bandwidth**: how many cars can travel on a freeway




**Latency/ "Ping" speed**: how fast a car travels on a freeway

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# Case Study 1 – Spirit v NBN

*Eureka Towers – Melbourne's tallest building*

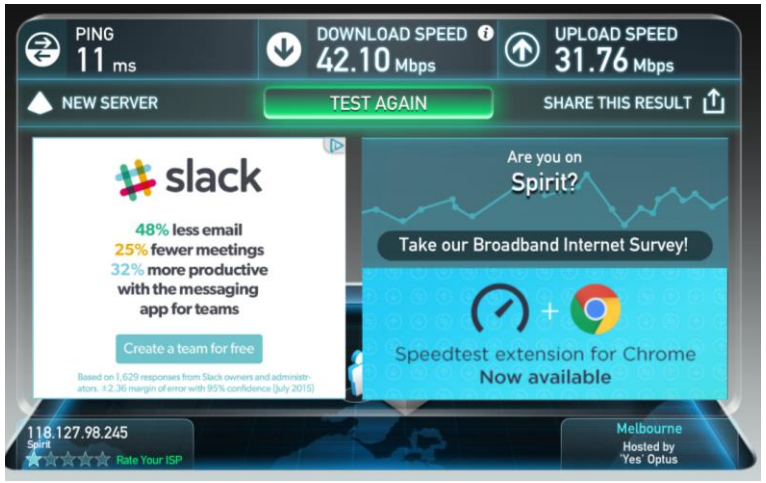
- NBN Installed November 2015
- Spirit signed 9th January 2017
- Spirit installed 24th February 2017
  - 1st customer connected 2pm 24th Feb 2017
  - 100th customer installed April 2017
- ROI
  - Revenue to date $19k (includes some commercial)
  - Capex $70k
  - Cash return <11 months



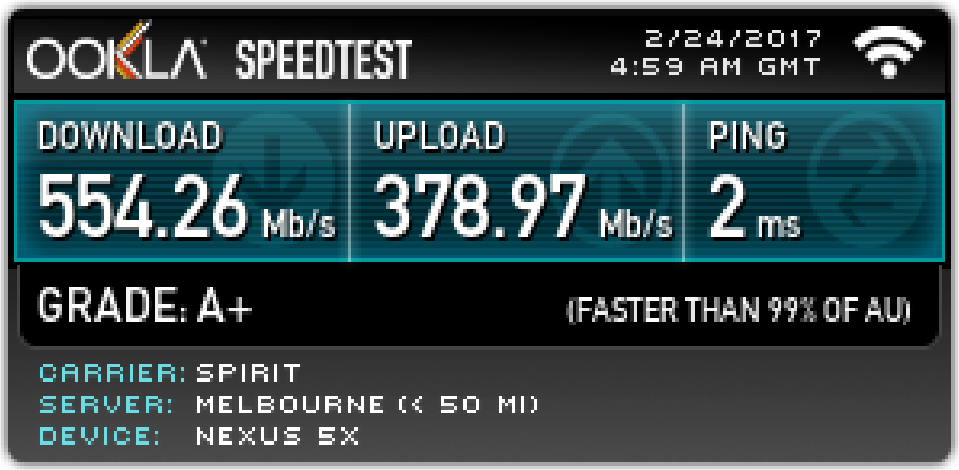
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# Eureka Speed Tests




*Apartment in Eureka on NBN*




*WiFi speed test in Eureka foyer*

- Same Building
- Same Provider (Spirit)
- Different network
- Dramatic improvement!

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# Case Study 2 – Spirit v Superfast competition



*Southport Central – Gold Coast*

- 700+ apartments, 300 SME's
- Freedom Internet already installed
- Spirit Install completed Dec 2016
  - 4 week install
- ROI
  - Revenue to March $24k (includes commercial)
  - Capex $80k
  - Cash return <11 months

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# *Case Study 3 -* Small and unloved

*Irving Apartments Melbourne*

- 12 Apartments
- NBN – "Jan-Jun 2019"
- Telstra – not sighted
- TPG – not sighted
- Spirit – Installed Aug 2016
  - 100% achieved Jan '17
- ROI
  - Capex $10k
  - YTD Revenue to March $7k
  - Cash return <11 months



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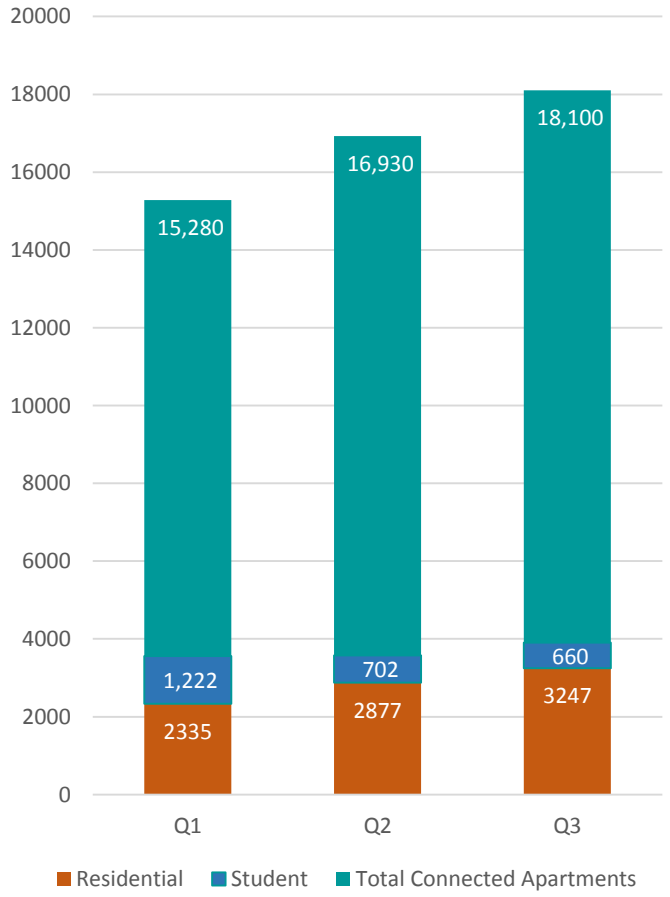
# Growth & Leverage

18,100 (March 17) Connected Apartments

- ⇒ $65 ARPU
- ⇒ 21% average penetration
- ⇒ $247,000 monthly revenue

If 100% penetration*

- ⇒ @$65 ARPU = $1,176,500 monthly revenue
  - Additional $929,000 monthly
  - Or $11,154,000 annual…straight to EBITDA

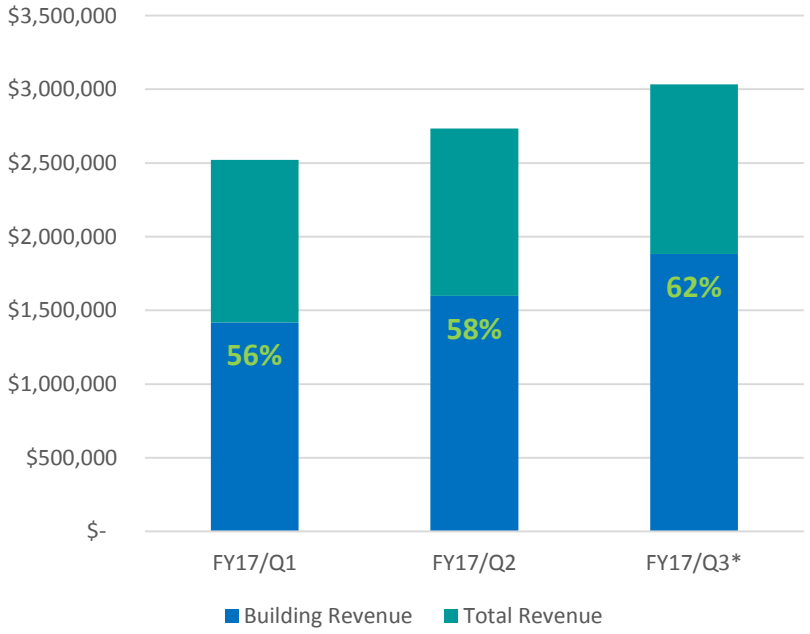


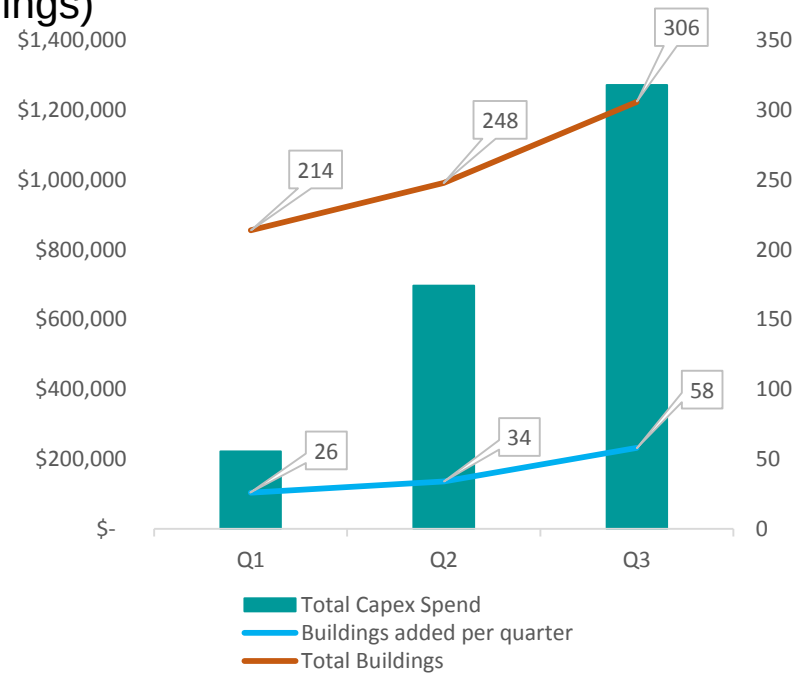

*For demonstration purposes only, not an expectation of reaching 100% of all buildings

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# The Greater Spirit

- 70% Commercial – MDU's; Business Parks & Single dwellings (factories, shops)
- 306 On-net buildings
  - 118 added this FY
  - Capex/building $10-$11k (outside marquee buildings)




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# *Think Again!*

