

# Conference call transcript

14 July 2011

## INVESTOR DAY

### **Nick Wentzel – Reunert Chief Executive**

I'd like to welcome you all today. It's a beautiful day in Cape Town. That's why we organised to come down today. We will be staying for the weekend and going home in two weeks' time, so it will be a nice time for me. I'd like to welcome you all. I'd also like [unclear] people phoning in today. We have quite a few people phoning in. I'd like to welcome them as well. At our interim results there was a big demand coming from my bosses and the investors on ECN, the acquisition, where ECN fits in and the price we paid for it. As most of you have seen we have done the acquisition, so we will quickly go through the process of ECN. Then there were also a lot of questions about Nashua One going forward. So the intention today is to talk about ECN, to talk about Nashua One. We've got Andy Baker here. He's running the Nashua operation now. So Andy will talk about the Nashua One concept going forward. It's not a concept dreamt up by some guys from the [unclear]. It's an internal driven process called One because they think it should be one company. It came from inside Reunert, so it's not something we're doing because we were told so by consultants. At the end we'll have questions. And there will also be questions from the people dialling in, so we will allow them to ask questions as well.

ECN. On the 14<sup>th</sup> March we announced the agreement was reached to buy [unclear] ECN. On the 9<sup>th</sup> June we bought the company and we got approval from the Competitions Commission. The purchase price was around about R180 million. There were some rumours in the market of R400 million. The purchase price was R180 million. Of course ECN remains a separate company that reports in to Andy Baker. So that's the total ECN acquisition. Andy will talk about ECN a little bit later in his presentation. ECN stands for Electronic Communications Network. I think it is the fifth or sixth largest network in Africa, so we have got a nice [unclear] in ECN.

The business we're talking about today is Nashua. So if we look at the Reunert group the total turnover of the company is just over R10 billion of which Nashua makes up 65% and the other companies make up 35%. So it's a big portion of our revenue, 65%, the operating profit making up 52% of our operating profit for the past financial year, R615 million. The other portion, R556 million. So Nashua is the biggest in terms of revenue and also the biggest in terms of operating profit. Total assets, Nashua assets, R3.6 billion. Total assets about R8 billion, the assets together, of which R4.4 billion is cash. So we also see Nashua a major portion of our assets. We're talking about a big portion of our business, the biggest in terms of revenue – 65% - the biggest in terms of operating profit – 52% - and a substantial portion of our assets. So this concept cannot go wrong for Reunert because it makes up such a big portion of our business. Andy, over to you.

### **Andy Baker – Nashua CEO**

Thank you very much. Can everyone hear me okay? Nashua One as Nick mentioned is the concept of bringing five businesses within the Nashua group all individually owned by Reunert together into one organisation. But the key issue for us is from one organisation we're structuring our business into two divisions around customer buying behaviour. The two types of customer buying behaviour that we have clearly are from the consumer side of our business – we will go into this in more detail in a moment – which is really ring fenced within the 160 retail outlets we have within Nashua Mobile. It's a simple consumer transaction, somebody walking in, talking a cell phone contract and walking out with a new Nokia or a Blackberry. The transaction is very simple as opposed to what is involved in the corporate side of our business, which will be grouped together in terms of the corporate side of Nashua Mobile, which is 65% of Nashua Mobile. Nashua Office Automation, Nashua Communications – we will go into some detail in a moment on this – PanSolutions and ECN. All of those transactions by nature are extremely different and need separate focus.

I've mentioned the five separate independent businesses. Our market and our customer needs and demands are changing fast. Our customers have been coming though to me, in fact before I joined the Nashua Group and Reunert, over the last year to 18 months. Customers have been coming to us and saying that what we're really looking for is a single solution for our communication needs. They want a one-stop shop. And there is an increasing need for efficiencies across the group because of pressures in the market, and I'll touch on that during the course of the presentation. And there is an increasing need for a greater level of customer intelligence, to understand our customers' changing buying behaviours as we advance the business.

A brief one-pager on each of the businesses in the group. Nashua Mobile, by profit the largest service provider in South Africa. 850,000 subscribers, heavily biased towards the corporate side of the market and a very good average revenue per user or ARPU. 160 retail shops, as I've mentioned. 750 staff. To give you an idea, part of the process that we've gone through in the last six to nine months is we've been looking across the group companies to take out unnecessary cost. That number I was mentioning to Nick on the plane this morning peaked in November last year at about 950 staff. We've taken out a couple of hundred staff, 160 in one tranche at the end of the year, so the efficiencies and operating margins have been enhanced quite nicely. And the business is around mobile, voice and data products, on-selling products from the network operators. And you're all aware of the service provider model.

Nashua Office Automation, number one in the office automation environment with a 21% market share. The next largest player in the market, and it is a very busy and active marketplace, has 14% market share. 63 outlets. 4.5 billion prints per annum. 92,000 active contracts. And key for us, 38,000 customer. Key because the cross-selling opportunities across the group are very important for our future. So printers, multi-functional printers, document [?] management, software services, Ricoh equipment that we are on-selling through the operation. We have a 30 year relationship with Ricoh and the relationship is exceptionally strong. And we are undergoing and are in the closing stages of buying back 20% of the franchise, buying back the largest franchises, representing 80% of our revenue which will be owned under our own steam.

Nashua Communications. Again the number one leading player in the PABX market in South Africa with market share just over 20%. A very large installed customer base throughout South Africa, 12,000 customers. Strong focus on solutions and systems integration. 460 staff. It's voice, WiFi and unified communications solutions. We'll talk in a moment when we get onto the divisionalisation of the business about the obvious synergies and quick hits and low-hanging fruit in terms of making sure that we operate between the companies to cross-sell and make the most of the customer opportunities that we have.

ECN. Nick mentioned to you the recent acquisition. This for us is worth far more than the price we paid and the clear, simple evaluation of the value of the business. The leveraging opportunities with us holding the organisation of ECN within our portfolio is enormous. It is the largest corporate voice operator in the marketplace with a market share of around 40%. 500 corporate customers and over 2,000 SME customers. 25 active agents and 65 active wholesale partners across the country. Just over 50 staff. Six voice, data and converged IP offerings. And ECN's voice network is... If you think about one of the issues that we have within Nashua Mobile, and those close to our business in the service provider model will understand this, with the slow demise of the leased cost routing business with the drop in the interconnect rates for us to have a vehicle to sell the LCR business into that voice environment, which is the new LCR, is of tremendous benefit to us.

The other point to be made here is that ECN, and obviously not by scale, is a competitor for Telkom. And that fixed-line market in South Africa is worth circa R60 billion. Some of our major customers have been converted customers from Telkom that we've managed to wrest into our product base. The compelling element of this is that a call made through our voice system is better quality than a fixed-line Telkom call and obviously substantially cheaper than a Telkom phone call.

And PanSolutions. We have an office automation on-seller agreement with Kyocera and we have Panasonic and Broadcast distributor agreements. 29 office automation dealers across South Africa and 40 presentation Broadcast dealers. 250 staff. And that's a brief description of the underlying business.

So the rationale for the amalgamation. I touched on this, but our customers have increasingly asked us for a one-stop communication shop. We had an outdated, in our opinion, company structure and approach to business. Certainly we were in need of a refresh. The essence of this is we want to move from box dropping to solutions provision. And I hope that that what will become clear through the presentation and some of the discussions I have around these points is that our approach to selling our converged range of services is really around the consultation element as opposed to just dropping a box and asking our customer to get on with it. Box dropping as far as we're concerned is dead.

There are opportunities around converging technology, and certainly some of the meshing between the technologies for us complements what we are trying to achieve dramatically. And I think it is fair to say if we critique what we've done right and wrong in the past that our customer understanding is not where it should have been or was not where it should have been. And I think that we've been a little bit prescriptive in terms of the products that we haven't taken into the market. It has really been back to Henry J Ford. Any colour you want as long as it's black. So really the products that we have, it is for us about convergence. The fixed, mobile, voice and data, the office automation products, the voice offering and the leverage possibilities that we have not just as a vehicle for the LCR business that we need to transform into the new LCR vehicle. But also if you consider it between Nashua Communications, the PABX business and ECN, ECN's products added to the Nashua Mobile set of products makes our set of products extremely powerful. So we have a fantastic convergence opportunity in the market and we can meet that with frankly an almost unrivalled set of products that we have across the Nashua group.

The process. At the moment the senior team, the team reporting directly to me, is finalised. The first three levels of the organisation reporting to the senior team will be finalised by the end of this month. We are putting the final touches to our product showcases so when we take this to launch on 1<sup>st</sup> September we will have a proper showcase. If a customer or fund manager or analyst taps into our website they will see clearly our range of services and they will see the leverage opportunities within those services. Instructions have been issued not to reduce any front-line sales or product support staff. We have an intention to make sure that each element of the commercial touch point of each of the businesses remains independent as it stands at the moment. Obviously there will be some rationalisation in back-room structures, and that's going to be touched on in the presentation.

We've had customer involvement in the structure of our business. We've asked customers how best suits them to deal with us, because we have a simple objective of trying to become an awful lot simpler to deal with. And that is from a customer picking up the phone at the inception of trying to deal with us to then receiving an invoice and making the payment to our organisation. So in everything we're trying to make sure that we're simple and seamless.

The essence of the structure is around customer responsiveness and buying behaviour as I touched on in terms of the consumer and the corporate transactions. We have embarked upon the simplest form of customer segmentation that we could possibly achieve, and it is really within Nashua Business around having a platinum group of customers, our top 20 customers, where we have all bells and whistles and red phones that flash when a customer calls us, to a corporate segment and an SME focus as well. Each of those will have a head specifically looking after the nuances and needs of that particular segment. Each segment will obviously have [unclear] an appropriate service. One of the keys to segmentation is that, sure, you need to have all the bells and whistles for the top-end platinum group of customers but if you offer the SME group of customers the same level of service you can go out of business quite easily.

It's quite interesting; I was talking to one of the professors that lectures near to my university in London recently that came out to talk to us about marketing. And one of the points that we spoke about was segmentation. Now, some of the organisations across the world, Tesco for example, have 20,000 different segments within their business. We've got three. It's probably easier to manage. So there will be a business unit director looking after each of the segments. And this is quite key for us. Accounts will be looked after by account managers. I was involved in putting three businesses together about 15 years ago so I've been through this process once before.

One of the mistakes that I made was to try to have one sales person represent all of the different products and take them to the customer. The issue is this. If you have an office automation sales rep and ask the office automation sales rep to go to a customer and sell office automation products, printers, voice, mobile phone services and solutions, data, they will sell what they're best at and the rest will quite quickly dilute.

So our intention is to have the single point of contact that our customers want. So we will have account managers, and the account managers will go into the business, establish the needs by meeting the decision makers within the organisation and the influencers, come back out of the business, interact with the different sets of sales people within the organisation, tailor a converged offering and go back to the customers with a solution. So that's really going to be our approach.

I've spoken about the fully integrated and converged communications solution. The cross-selling opportunities within our customer base are extreme. And we've really started this process at the most simple level that we could possibly do by taking the top 50 customers per organisation, looking at the product ranges that each of those customers have, looking for the gaps and taking that to the sales people. So we've had some quick hits already and that's building a little bit of momentum.

One of the other key issues for our market right now is the issue around carrier pre-select. Now, carrier pre-select – some of you will be aware and some of you won't – was introduced in the European markets about 20 years ago. It was really aimed at fixed lines. And in the UK as an example when carrier pre-select was introduced this was an opportunity for other players to convert subscribers from British Telecom into competitor accounts and competitors could use the network because it was public property. Now, British Telecom at the time in 1987 or 1988 over a period of about three or four years lost 45% of their subscriber base to other operators. Carrier pre-select has been legislated in South Africa in October of last year. But the key issue for us is in South Africa carrier pre-select has been legislated not just in fixed lines but also in mobile. It is an opportunity for us to sell carrier pre-select and convert subscribers into the Nashua Mobile environment. We've started the process. At the moment we have applied to ICASA through our number range and we have our short code already. Carrier pre-select as a matter of interest, the way it operates, if you dial 1616 or whatever the short code might be as a call comes in it is put onto the Nashua Mobile network. So this process has started and we have an intention to start selling in the first quarter of next year around carrier pre-select. So quite an exciting opportunity for us.

Now, the key for this, in the history of carrier pre-select when a subscriber is converted that is a relatively short-term subscriber grab process. The key for us is to be able to sell other goods and services into that environment. For us what we've managed to do with the converged set of services we have, once the subscriber has converted we can sell other goods and services into that environment so that we can make sure that customer is retained. So that is really the key element of that. I'm happy to take any questions that you might have on that later.

We have two autonomous and separately managed, completely focussed business units. Functional support at group level. You will see the organisation chart in a moment. Shared services for IT, marketing and finance. And the objective of the structure is to unlock value. At group level this is how the business will look. You see Nashua Business. We have support for sales, human resources, operations and service delivery. Shared services for technical. So there will be one single IT structure across the group, ultimately one billing system, one invoice rather than the five that we have at the moment. A shared set of financials. And a joint marketing department just to make sure that we have a coordinated set of properties that we support, coordinated advertising and a theme throughout the business. We have a whole range of things across the five businesses that we have supported from a marketing perspective over the years, and we need to make sure that there is a bit of uniformity about that.

If you look at the structure of the business the only direct report line into the two managing directors is around sales. And that is done very specifically to make sure that they are unencumbered from another element of the

businesses. So human resources has a hard line reporting in to the group director with a dotted line into the managing director. We want these organisations to be sales organisations, unencumbered sales organisations. So there are two major divisions. PanSolutions is the one that will remain separate so that we don't muddy the water with regards to the office automation, the main office automation business that we have around Nashua Office Automation.

For Nashua Business I've mentioned about the functional responsibilities being removed. The core elements of this structure around segmentation, customer understanding, solutions orientation and centralisation of shared services. And obviously from moving into this direction the cost savings over the next year or two and going forward will be substantial. Positioning of Nashua Business is critical as well. The following are critical factors. Opportunities exist for Nashua Business to emerge in the market as a consumer champion. There are opportunities obviously within our market to substantially save communication costs for South Africans. Converging services is one element. Carrier pre-select is another. But there are more opportunities for us as well.

I've mentioned it is key for us the transition for us as an organisation from being a product-driven organisation to being a solutions provider. Proactive sales philosophy driving the converged set of services. And our customers, even in the embryonic stages that they're in at the moment have responded to that very favourably. And the unique selling proposition for us is around service and converged technology and value, not price. Although I've spoken about saving communication expenses for our customer base, and we believe we can achieve that in a substantial way, for us it is about value and we're not going to go in and start slashing prices.

A converged offering must be completed with an IT capability. At the moment we've started looking at this process already. We've started looking at a significant IT organisation to enter the fold. If you look at the organisation as we stand at the moment, we say we want to offer a converged set of communication solutions. I've said that we have a fixed and mobile voice and data. I've said we have the VoIP environment, the office automation environment and the printing solutions. Our customers have said to us if you're going to be a one-stop communication stop what about the information technology side of things, the WAN, the LAN, the inter-branched communication? And that is something we understand that we have to look at. We've started the process of speaking to an organisation and we're hoping in the next few months to have something to bring to market and tell you about.

If you just look at the Nashua Business exploding it out of the group structure that I gave you, we will have the group key account director and a sales director for each of the business units. So we will have a completely focussed sales leadership with each of the businesses reporting in to the Nashua Business MD. The segmentation organisation will report into the key account director. Key account managers will be the interface with the customers that I mentioned. So the customers will have one point of contact but we will keep the sales organisation separate.

A comment on the Nashua consumer organisation that we have, value proposition based on choice, service, pre- and post support. One of the reasons that our customers come to us is we have the choice of any of the networks, including 8ta who we recently added as well. Reseller representation in key locations. As you know we have 160 retail shops. Retention through service delivery, value. We're introducing a loyalty programme that we're working on at the moment. Certainly there is a re-think going on at the moment on whether a dedicated managing director on the consumer business would give us the opportunity to take a very careful look at how we interact with customers. So we're looking at how we interact with customers. Do we sit or stand within the shop when somebody walks into the shop? How do we make sure if somebody walks into the shop they don't walk out without being served? What we do understand very clearly, if somebody walks into the shop and walks away without buying something we've lost them for life. We understand that clearly. It is really about in our consumer business making sure that we do things right the first time.

The Nashua group launch plan. Projects are underway to align the organisation and channel us to the new sales structure, ensure that the operations can support the channels. We have two senior operations people at the

moment putting together the service delivery structures to make sure that when we pull the trigger our initial customer experience is a favourable one. Align the product suite across all of the companies. Training is taking place during the month of August for our launch date on 1<sup>st</sup> September. And at that time we will have the full press and media launch, customer interaction around the country, marketing campaign commencing on the 4<sup>th</sup> and a national road show to make sure we cover bases with our most important customers. Are there any questions at all? Okay. We expected more.

**Willie – question**

It obviously sounds quite good in a presentation format. The practical considerations are obviously where it's either going to succeed or fail. One of the practical considerations I'm quite interested in is the IT system. Obviously you have these five businesses. They've all grown up I suspect with different IT systems. So you have these legacy IT systems. And based on your presentation I suspect that you're looking at moving towards one IT system across all of those businesses. How is that working? What is the planning there?

**Andy Baker – Nashua CEO**

A good question, Willie. We have appointed... I can't announce it yet, but we have appointed a particularly talented and very capable Head of Technology. Your question is absolutely valid. We now at the moment have completely disparate IT organisations and IT systems that aren't speaking to each other. It's our intention to make sure that we get to one IT platform, one completely integrated IT system that produces one invoice, supports the billing system and does everything we need to do. Will that be achieved overnight? Clearly not. I think it will probably be a year to 18 month process until we achieve exactly what we want. But we have an architecture in place. We have the plan in place and we know exactly what we want to do. It's just a matter of time. That's the truth of it. It would be impossible for us from day one to have an IT system that is integrated on one single platform overnight. But we do know exactly where we want to go. We have an architecture, and it will take 12 to 18 months.

**Johan – question**

If I can just go back to one of your first slides. Just in terms of the team leaders for the two divisions, is it possible to maybe disclose the names?

**Andy Baker – Nashua CEO**

I can tell you one. The other I can't. The head of the national consumer business. The national consumer business, the walk-in 160 retail stores, will retain the name of Nashua Mobile. Clearly the business will be called Nashua Business. But the head of that business will be Chris Radley. Chris Radley was for the last ten or 11 years the operations director of Nashua Mobile. So a hellishly experienced guy. He's a chartered accountant by background and we're surrounding him by very strong commercial people. So he is a very capable guy. We do have the person for Nashua Business, the head of Nashua Business. I just for some various reasons can't announce his name yet.

**Johan – question**

Can I ask a second question?

**Andy Baker – Nashua CEO**

Sure.

**Johan – question**

Going forward if you take the whole business as one Nashua can you give us a sense of sustainable margins medium to longer term? What are your expectations, if you could share that with us?

**Andy Baker – Nashua CEO**

Certainly at the moment the margins are in excess of 10%. And we hope to enhance those margins going forward. I'm certainly not going to make a forecast, but there are two things. Firstly, I think that we are through

moving from a product drop situation into a solutions environment anticipating a small enhancement of our margins on the one side. But the second is, and I alluded to this during the course of the presentation, the opportunity for us to take down our costs via the shared services and bringing the finance, IT and marketing together into one single support unit that can cover the various businesses. Again I'm not going to share the number. We have an idea of what that number will be, but the cost saving will be significant. So through those two elements we anticipate the operating margin will strengthen over time.

### **Question**

Hi Nick. You talk about Nashua One. Then the one thing you said about ECN was it was going to be kept separate with its own billing and monitoring system.

### **Andy Baker – Nashua CEO**

Only for a period of time. It's our intention. Nick and I haven't put a clear, definitive timeline on this, but loosely Nick and I have agreed that probably for a year we will run ECN in its own environment. ECN this last year for example grew at 6% a month. So the business is growing at a hell of a rate. We need to make sure that we manage that business properly. We don't want to dilute that kind of growth. We don't want to stunt the growth. In terms of the products and services they will certainly be integrated with the products and services within the Nashua Business environment. But we don't want to fully integrate it physically at the moment to make sure we manage that and we get the right kind of value out of that in the short term. So in a year or so we will look at further integrating. But for now we want to make sure that we don't stunt that significant growth that we're enjoying at the moment and we want to make sure that we get full value out of the acquisition. That's our intention.

### **Nick Wentzel – Reunert Chief Executive**

[Inaudible]. We need to run through a lot of buildings, a lot of changes. I don't want to rush Andy into doing it too quickly and then make a mess of it. Rather do it a bit slower. We expect everything to be completed towards the end of the next financial year, with 2012 being a totally completed process. There is so much to be done that to add ECN to it as well can only complicate matters. So we want to keep it simple and do it at the right pace, and not rush it and make a mess of it.

### **Andy Baker – Nashua CEO**

Just to touch on that, for example if you look at the premises, the buildings that we have. Here in Cape Town we've got five different buildings, probably more now that we're acquiring some of the franchises back. We've got five, six or seven buildings in Durban. We've got seven or eight buildings in Johannesburg. Ultimately we need or maybe two for the Nashua Mobile business to have a structure somewhere. Now you think of the cost savings of those, but those will only be realised over a period of a couple of years as the leases for buildings run out and we have the opportunity to move people seamlessly and without too much trouble. This process is going to take a while, but in terms of ECN that's [unclear].

### **Question**

And talking about cost savings, all these changes probably cost a lot of money. Can you give an indication of what kind of charges we might expect?

### **Andy Baker – Nashua CEO**

We can't. We have the number in mind of course, but all I can say to you is the savings we will enjoy as a result of some of the structures will dwarf the upfront cost. I mean the upfront cost is obviously going to be there, but the savings by comparison are extreme.

### **Nick Wentzel – Reunert Chief Executive**

We will certainly have costs involved in doing the process, but within the same financial year we will recover that so we don't have a negative effect on our margins in any financial year.

**Question**

And then just a quick last question on ECN, the number of customers. Can you comment on the concentration of them?

**Nick Wentzel – Reunert Chief Executive**

In terms of...

**Question**

How big a component [unclear] top ten clients.

**Nick Wentzel – Reunert Chief Executive**

Top ten clients would be Old Mutual. We have Exxaro. We have Discovery. We have the JD Group. We have Clover. Those are the top five customers. And we also have Kumba. So it is an array of blue chip customers that we already have in ECN.

**Question**

[Inaudible segment].

**Andy Baker – Nashua CEO**

Total revenue, it might be 45%. It's not unhealthily stepped in terms of... I can see the reason of your question. It's not unhealthily stepped at all. There is no dramatic worry that we think if we lose this customer and that we're in trouble. It's quite a nice healthy spread.

**Question**

Just carrying on with the ECN question. How long is the management team locked in? I mean it's quite an entrepreneurial management team. A guy like John doesn't seem to fit into the corporate culture as well.

**Andy Baker – Nashua CEO**

John is tied in for a year. John is actually very pleased to be with us for the next year. John has moved out from the operational world, but he is remaining as non-executive chairman of ECN and he is working very closely with me. He is also working with me on one or two projects and he's overseeing it. The beauty and the strength of the ECN team is that there are four directors within ECN with a tenure of around eight to ten years. They've been around a long time. So there is a massive stability within the organisation. We do have lock-ins within the agreements that we have over a year or two, but these guys want to stay around. They're delighted to be part of the wider group. John is around for a year, and that is key for us. We think this year is quite important. We want to make sure that we bed down the acquisition properly and get true value from it, not just from a pure acquisition point of view but also the leverage opportunities that I spoke to you about with the ECN services and products into the other elements of the business. So he will be around for a year as chairman of the business.

**Question**

Can you just explain a little bit more about carrier pre-select? Will I then as a customer be able to choose which network or which operator the call comes through?

**Andy Baker – Nashua CEO**

Well, hopefully the way carrier pre-select works is that you would agree to be a Nashua Mobile customer, Nashua Mobile subscriber. What we would do is we would make sure that we route the call in a manner through our switching facility which we have within the ECN network in a manner that would save you an agreed amount on your cellphone bill or fixed line bill. We would say to you, we can save you 25% on your phone if you dial this four number prefix, which would be 1616. So you would dial 1616. We would route it through ECN because ECN has the network. You're coming through the ECN switch. We would route the call to where you want to go through an efficient system and you would get a bill from Nashua Mobile which would save you a particular amount of money which we would agree upfront. Now, there are two elements to this. The one is the fixed line

which I spoke to you about. The other is the mobile. If you sign up through carrier pre-select and you're making a call through your cellphone you don't have to dial the prefix. We can send you an SMS which you will accept on your phone, and then when you make a call from there on the prefix will automatically be linked in, so you just dial the number as normal and you would enjoy the saving that we would agree upfront. Now, for us the issue is about converting the subscriber from whatever environment they're in to our environment. Now, the way that could be potentially be done would be through commercial call centres who could just make outbound calls to convert customers. The easy one would be Telkom through their customer list in the phone book. We could have a way of going to the market where we could save our customers communication costs. That's really the kicker for us.

### **Question**

Can I ask maybe one last question from my side?

### **Andy Baker – Nashua CEO**

Sure.

### **Question**

You spoke about the quality of the ECN calls being better quality than the Telkom calls. On what basis do you make that claim?

### **Andy Baker – Nashua CEO**

I can't remember the name of it, but there is an industry norm system measuring the quality of a call. Afterwards I'll make a quick call and I'll tell you what it is. It escapes me at the moment. All telecom operators use this particular system to measure the uniform quality of the call on a range of criteria. On a consistently measured basis the quality of calls through our corporate voice system is better than a fixed-line Telkom call. Telkom acknowledge that, by the way. They acknowledge it. The top customers that Nick was talking about earlier, Old Mutual, Discovery, they went through a process where they measured that. We had to prove that measurement actually existed and that we were actually better in terms of quality of calls.

### **Question**

The telco industry in South Africa has definitely become a lot more mature in the last couple of years, heading for low single digit growth rates, increasing focus on margins and trying to manage that, quite a lot of inflation in different product segments. How do you think you will grow relative to the overall industry over the next three, four, five years? You're obviously going to have players trying to push and get cost savings and margins from wherever they can. How do you think you're going to manage the relationship particularly on the mobile side with the major operators in order to keep your margins where they are right now?

### **Andy Baker – Nashua CEO**

That's a very good question. I think the key point is – and I mentioned this in a couple of conversations before the presentation kicked off – as a service provider or an on-seller of network operators' services if we as Nashua Mobile in three years time are doing exactly the same on-selling process that we're doing at the moment I think our margins will be squeezed. At the moment we have a 27% margin that we're afforded from the networks. Experience around the world in different parts of the world indicates that that could be anything from 15% to 7%. If we do nothing at all the service provider model will be squeezed. There is absolutely no doubt about that. So there are a couple of things that we need to do.

Firstly just talking about the service provider model, and then about my opinions of the telco environment for the year two years. In terms of the service provider agreement our challenge over the next few years is around making sure that we own the customer. It's making sure that we have a fully integrated, owned and managed and very efficient billing system, that we're doing our own billing activities at the end of each month. And thirdly we need glue, so we need to make sure that all of the goods and services that we have are being sold into that subscriber base so that subscribers have more reason to stay with us. And that is really the process that we are going through at the moment. So between now and the next few years when network operators have the

opportunity to squeeze us we need to build up a head of steel in terms of value, not only in the eyes of the network operators, much more importantly in the eyes of our customers.

In terms of the environment going forward will the telco market mature over a period of time? Undoubtedly. There are lots of opportunities that exist for us that I touched on and alluded to that I think open up so many more opportunities than we've enjoyed to date. The one is the R60 billion fixed-line market that I told you about. With ECN now being a competitor to Telkom we fit into that R60 billion fixed-line market that we never had an opening into before. Now, is ECN a big player? Of course not. You can't by scale call ECN a competitor to Telkom. But you can when you talk about the quality of service. You can when you start talking about the pricing opportunities of ECN. You can when you talk about the quality mix that ECN has against Telkom. And Telkom know that.

Secondly, I think there are huge opportunities for us once we get a foot in the door with the major operations and start holistically managing communications on a spherical basis and we can take a single, one-stop shop communications solution to our customers. That starts opening up new opportunities for us. What we have found with one or two customers that we've trialled a few of these things with we found new revenue opportunities the further into an organisation we go. So if we do what we're doing at the moment, if we do in three years time what we're doing today our business will be very unexciting. If we do what we plan to do and what we've described today I think our business will have so many more opportunities that will open up new revenue streams.

#### **Question**

Just a follow-on question. You were talking about carrier pre-select. You talk about targeting the telephone book of Telkom. What about your own Nashua base? How does that contract work? Is it with you, with the subscriber, are you actually able to turn them onto your network and use the pre-select or [unclear] the major operators?

#### **Andy Baker – Nashua CEO**

I don't understand the question.

#### **Question**

At the moment a subscriber is with Nashua. If you want to market them to pre-select to your network on the mobile service are you able to do that with the current relationship?

#### **Andy Baker – Nashua CEO**

With our own subscribers can we then put them on to the Nashua...?

#### **Question**

Right.

#### **Andy Baker – Nashua CEO**

Yes, we can. Yes, of course.

#### **Question**

I presume the interconnect works with all these incumbents. Can you give us a sense of the differentials between their interconnect and what ECN is currently getting?

#### **Andy Baker – Nashua CEO**

I can't give you the detail of that at the moment, no. Are you talking specifically about carrier pre-select or...? No, I can't give you that. That's not finalised at the moment. That's in the process of being finalised, but I can't give you those numbers at the moment.

#### **Question**

Is the expectation that it is going to be materially different to what it currently is?

**Andy Baker – Nashua CEO**

Yes.

**Johan – question**

One concern on the Nashua Mobile business mostly on the leased cost routing side. Let's say you do a billion minutes a year. We know the differential in pricing between MTN, Vodacom and Telkom at this point in time, Telkom being very aggressive to take some of that onto their own network. What are your plans in place to make sure that those minutes stay on a Nashua Mobile platform? I mean the differentials between Vodacom and Telkom is 5c per minute. For that I can easily move back to Telkom and they do per second billing.

**Andy Baker – Nashua CEO**

You're absolutely right. The biggest single challenge or threat to Nashua Mobile as it stands at the moment is the leased cost routing environment. It is unquestionably the single biggest challenge that we have. I think again if we go into a process of self-critique I think up until the end of last year we didn't give that enough attention. Since the end of last year, certainly picking up with some momentum now, our conversion rate from that LCR base through our dealer network into the VoIP [?] environment is going very well. I think that we've stabilised the ship and we're holding on to the customers within our leased cost routing environment very well and very capably. And I think certainly our top 400 customers which represents 50% of our leased cost routing revenue are keen to remain with us and keen to convert their businesses when their contracts run out into the VoIP environment. They're very excited about the opportunities that can open up. So in summary there is no question that it remains a threat to the business if we don't do things right. I'm comfortable that what we're doing now are the right things in that environment. And we've stabilised our major customers and they're looking forward to remaining with us and going into that VoIP environment. So I'm comfortable with regards to the future of that.

**Nick Wentzel – Reunert Chief Executive**

Any questions from people dialling in?

**Operator**

We have no questions from the conference call.

**Andy Baker – Nashua CEO**

Is there only one person dialling in?

**Operator**

Apologies, sir. We have one question on the conference call.

**Question**

You mentioned the IT company is substantial. Could you just give us some sort of indication of what you consider substantial? And will it initially be operating as a separate company as well initially? From what I understand is the IT companies depend on the skills within them, so you've got to be quite careful how you deal with it.

**Andy Baker – Nashua CEO**

I think in terms of the scale all I can say is it is a significant business. I'd really rather not put an indicative number on the size of it. But it is several hundreds of millions of Rands of turnover. It's very profitable, very innovative with a good skills base. And the skills and products and solutions that they have in the business that we're looking at are very complementary to what we're trying to achieve. Will we integrate it? We certainly wouldn't integrate with any undue haste, because I think that would be silly. We need to make sure that we get the services to a point where they complement what we're trying to achieve within the Nashua Business environment and making sure that we close that gap so that we do have the holistic communication solution. But I wouldn't integrate it at a rate that would damage the business.

**Operator**

Our next question comes from Gareth Vorster from I-Net Bridge. Please go ahead.

**Gareth Vorster – I-Net Bridge**

Hi. Can I just confirm that you're basically embarking on the face of it on a rebranding exercise? Is that to be called Nashua One where you bring five independently-run groups into a one-stop solution?

**Andy Baker – Nashua CEO**

Yes. The group organisation will be called Nashua. There will be two sub-organisations. One will remain with the name Nashua Mobile.

**Gareth Vorster – I-Net Bridge**

Right, so your 160 stores. Okay.

**Andy Baker – Nashua CEO**

The other corporate side of the business will be called Nashua Business.

**Gareth Vorster – I-Net Bridge**

Did you mention any job casualties under this initiative? And if so, how many?

**Andy Baker – Nashua CEO**

We don't have a number on that, but clearly over a period of time as we put the shared services together at the back end of the business there will be some staff reductions. We don't have the numbers at this time. I do need to make this point. Nick and I have discussed this with a few people recently. Staff reduction and cost reduction is not the objective. It's a by-result that there will be some significant savings, but it's not the objective of the process that we're going through. I think that's quite key. The objective is about getting closer to our customers and making sure that the structure of our business reflects the customers' buying behaviour and the customers' needs. That is drive behind what we're trying to achieve. It's not about cost reduction. Nick has made the point to somebody when we were in London recently that if the process of restructure were to cost more we would still do it.

**Gareth Vorster – I-Net Bridge**

The purchase price you mentioned at the start of the presentation, was that R118 million of ECN?

**Andy Baker – Nashua CEO**

R180 million.

**Gareth Vorster – I-Net Bridge**

Thank you very much.

**Operator**

We have no further questions from the conference call.

**Question**

If you were to segment the client base that you are targeting relative to the client base that the incumbent telcos are targeting because they are also vertically integrating by building all these hosting centres etc. Basically they're trying to go for the same client offering relatively similar services. So if you segment your client base how different are they from the client base are trying to attract?

**Andy Baker – Nashua CEO**

Who is they?

**Question**

Telkom, Vodacom, all these guys who are building these [unclear] hosting centres.

**Andy Baker – Nashua CEO**

Well, I certainly think that our customer base would be very similar to MTN Business' customer base. I think that's fair to say. Vodacom Business' customer base. Telkom Business' customer base differs slightly. But there is an overlap, there is no question. We will be competing with MTN Business, Vodacom Business and Telkom Business. We will be competing if we're absolutely honest with a different product set. We will be competing with the likes of Dimension Data. Dimension Data are taking a lot of these converged solutions to market as we stand here today. We understand that.

**Question**

In the absence of a price advantage what is the compelling proposition that then converts the clients that would have gone with MTN Business to you?

**Andy Baker – Nashua CEO**

I think that our differentiator in the marketplace when we've been in an open, competitive environment has been around our attention to customer needs. Our size has given us an agility that the big players haven't had. Certainly in an open field environment we've won in circumstances where the customer has chosen a more dedicated and attentive engagement rather than a massive conglomerate where they can get lost in the fray.

**Question**

I presume going forward big buys with big cash flows can actually manage to do things like that, meaning they can manage to start doing better customer attentiveness as you put it. What happens when they pull the cost lever [?] relative to what you guys can do?

**Andy Baker – Nashua CEO**

In terms of other...?

**Question**

Similar services and offering them at a better price.

**Andy Baker – Nashua CEO**

I made the point that our unique selling proposition is not going to be around cost. It's going to be around adding value. What we've experienced in the environment at the moment is even given the opportunity of some of the big players in the market to save the consumer costs in terms of communication the big players haven't come to the fore. You only have to look at the margins that some of them are making. They've got operating margins of 30%, some of the network operators. They have an opportunity as we stand here today to kill some of the competitive operators in the market by dropping the price but they haven't done that. They haven't. We think the way of keeping quality, keeping customer attention, keeping the buying behaviour focussed as we're going to, making sure we have competitive pricing, we think is an operating area in the marketplace for us. And I don't think that the operators will cut and run in economic terms. If they do cut and run that's really up to them, but we really don't think they will do that. And if they do choose to do so I think long term it could hurt them very badly. If you think of the market size as well where they have 30 million consumers if we have a cost saving that we can offer to 3 million consumers, the cost to them to do it for 30 million consumers is going to be enormous. If you look at the network operators as they stand at the moment they're carrying the cost of the network that they have. A technical argument, it is actually becoming a disadvantage to have a massive network infrastructure because there is obviously a massive cost involved in that.

**Nick Wentzel – Reunert Chief Executive**

Any other questions? Johan.

**Johan – question**

[Inaudible question].

**Nick Wentzel – Reunert Chief Executive**

PanSolutions, that's right. Any other questions for us? Anything for Reunert? I think we are still sticking to our forecast that we said early March that the first half will be better than the first half. Nine months gone by, so we are still sticking to that forecast. It's tough out there. We are going according to plan. No other questions? Thank you very much. Thank you for those that dial in as well. Thank you.

END OF TRANSCRIPT