

## Chairman and CEO's Report 2017

The 2017 Financial year has been one of significant change and opportunity for our business that has enabled us to build a solid foundation for long-term sustainable growth. During the period, we completed an important merger transaction that has combined three businesses into a single integrated entity:

- Bendigo Telco - Our existing consumer and business customers.
- VicWest Telco - Geelong and Ballarat based consumer and business customers.
- Community Telco Australia (CTA) - Business customers in Tasmania, NSW, and QLD.

As a result of this merger, the Bendigo Telco Group now has significantly increased scale and a broader geographical footprint that positions the business for strong future growth. Additionally, as part of the merger agreement, the Bendigo and Adelaide Bank signed a new five-year contract with Bendigo Telco that will enable us to provide their wide area network requirements through 2021. This long-term supply agreement extension is a demonstration of the significant relationship that Bendigo Telco continues to enjoy with the Bank. For all of our customers, this increase in the scale of our business will mean: enhanced customer support, better pricing on products and services, and access to new technology while continuing to deliver a community dividend.

As with any merger of this complexity there have been a number of challenges to overcome. These include the technical requirements of moving thousands of new services to our billing system as well as the need to assimilate many new staff members into our organization. There have also been additional costs incurred during the period associated with the completion of the merger transaction. These additional costs have had an effect on the profitability of the business for the full 2017 financial year, resulting in a final after tax profit of \$915,948. Our Board of Directors has declared a fully franked dividend of 8.0 cents for the latest half, making the full-year dividend a payment of 11.0 cents for the complete financial year. Our average dividend yield over the past 5 years has been 9.07% fully franked.

### **Some of the key milestones at Bendigo Telco during the year have been:**

- Completion of the merger agreement between Bendigo Telco, CTA, and VicWest that has added significant scale to the business.
- The signing of a new Wide Area Network agreement with Bendigo Bank enabling us to provide their core networking infrastructure for an additional five-year period. This contract amounts to more than \$20M over the five-year term.
- Following the completion of the merger, Bendigo Telco leveraged its additional scale to undertake a review of its supplier pricing. This process has resulted in significantly reduced wholesale costs that will materially improve the profitability of the business.
- Expansion of the business beyond Bendigo to include additional new markets including Ballarat, Geelong and Tasmania.

- Migration of a significant portion of our installed base of customers from legacy internet technologies such as ADSL to the new National Broadband Network (NBN).
- A continuation of the cost control focus that has enabled management to make significant savings within the business over the last financial year.

### **New Customers and Business**

As a result of the merger, the Bendigo Telco Group can now count amongst its customers many well known Australian brand names. We have expanded our market reach in a range of areas including the health care, primary production, and manufacturing segments. Bendigo Telco Group is proud to be able to serve our new customers which are themselves important parts of the communities which they support. In addition, towards the end of the financial year, Bendigo Telco was successful in securing the Bendigo Banks telephony business under a new 3 year contract which provides a further endorsement from our largest business customer.

### **Industry Trends**

The NBN Co.'s National Broadband Network continues to have a profound effect on the entire telecommunications industry. This is particularly important for Bendigo Telco as the NBN roll-out now has significant momentum in all of our key marketplaces. Customers are now making the decision to switch from their traditional analogue voice and data service to the new NBN offerings. Our investment in becoming a direct wholesale partner of NBN Co. enables us to provide our customers and local communities with a premium NBN experience while retaining sound margins for the business. In other areas, we are able to leverage our wholesale relationships with partners such as Telstra and AAPT to deliver NBN connectivity Australia-wide.

More broadly, we continue to expect that the extension of the NBN footprint will have a negative impact on industry-wide Telco margins as profitability is decreased in order to fund the NBN network roll-out. To meet this challenge, Bendigo Telco has invested in direct 'Business to Business' connections to NBN Co. that streamline the NBN service ordering process. This will enable us to be a more efficient and cost-effective provider of this service for our customers.

The trend also continues, especially amongst our business customers, for the transition from analogue voice to 'voice over data'. This evolution enables our customers to have a single network rather than separate data and voice networks. Bendigo Telco, through a range of wholesale relationships, ensures that we can deliver these new services to our customers with increased flexibility and lower costs while protecting the margins that we retain for our business.

Bendigo Telco continues to look for opportunities in the telecommunications sector where we can add value for our customers. We are investing in products that will enhance our capability in a range of 'cloud' areas such as 'backup as a service' and 'infrastructure as a service'. We favor the development of products in arenas that require deep technical knowledge and that have the potential to lower the cost of business for our end-user customers.

### **The Merged Business Going Forwards**

The task of integrating the various aspects of the merger deal into an integrated whole is now behind us. We have built a stronger business that has sound growth potential in a broad spread of marketplaces. We are a fully independent telecommunications business with the ability to deliver advanced technologies to our customers and communities. Our additional scale has already shown itself to be very significant in achieving lower supplier prices that will make a positive difference to our retained earnings.

## Acknowledgements

Across our entire business – we are focused on serving the communities of which we are an important part. The business has been through some very important changes recently that establish the foundation for our success over the long term. I would like to thank our Board of Directors, Management, staff and customers for the enthusiasm that they have shown for our work as we have completed this transformation. The team is confident that we can look to the next financial year with strong prospects as we strive to meet the needs of our current and future customers.

We leave FY 2017 with the prospect of a bright future ahead underpinned by our commitment to deliver the best in telecommunication products to the communities that we serve.



Don Erskine - Chairman



Jeff Jordan - CEO