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Lodgement of Open Briefing

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Uecomm Limited recently raised its guidance for EBITDA for the current year ending December 2003 to a range of $18 million to $22 million from "at least $17 million," but your revenue guidance of $55 million to $60 million for the full year is unchanged. What's the reason for this?

CEO Peter McGrath
We first released our full-year forecast mid way through the first quarter. Since then, we've continued to sign sales contracts at a healthy rate and to connect customers to our network in accordance with our initial expectations. We've also held our cost increases to less then 15 percent, as we'd indicated previously. So we'd reached a point where we were comfortable releasing a more specific EBITDA forecast to the market.

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Your guidance implies second-half EBITDA of $9.5 million to $13.5 million on revenue of $29 million to $34 million, both up strongly from the first half. To what extent is the guidance based on sales already contracted and to what extent does it rely on winning new sales over the second half?

CEO Peter McGrath
To a large extent our revenue and EBITDA forecasts are based on existing contracts or contracts sold in the first half, and our expectations regarding when

they'll be provisioned. We recognise connection fee revenue when a customer's connected to the network, and from that point on we receive monthly recurring revenue by way of either ongoing service fees or usage fees.

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To what extent do the connection fees cover the actual cost of connecting up new clients or services?

CEO Peter McGrath
In many cases they'll cover the initial connection costs. Each quote is prepared to cover, on a discounted cash flow basis, the full cost of connecting the customer, providing the ongoing services and also giving us a return that meets our business hurdles. We look at each deal on its own merits, and it has to be commercial to go forward. So to the extent that there are upfront costs, they're either covered in cash terms by the customer's upfront payment, or by the revenue generated over the life of the contract.

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You had deferred revenue of $12.2 million on your balance sheet at the end of June, up from $7.8 million at the end of December 2002. How do you define deferred revenue and when will it be booked through the P&L?

CFO Peter Dawson
We only recognise revenue when a customer has been connected to the network and we start providing services. So payments we receive for services that aren't yet provided are classified as deferred or unearned revenue. In terms of connection fees, we cap the amount we recognise upfront at 20 percent of the total contract value.

And just to clarify, if the connection fee element of the contract is 5 or 10 percent of the total contract value, that's what we bring to account. But if the connection fee component exceeds 20 percent of the total contract value we cap the amount we bring to account as connection revenue at 20 percent.

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Uecomm's cash flow from operations was $12.2 million in the first half, compared with negative $2.0 million previously. What's the outlook for cash flow going forward?

CEO Peter McGrath
Our expectation is that cash flow will continue to be strong as we connect customers to our network and increase our monthly recurring revenue.

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Your spending on network and IT upgrades is expected to total about $10 million in 2003. Why are upgrades necessary, will they be ongoing and what level of annual spending is required?

CEO Peter McGrath
We're targeting ongoing spending of $5 million to $10 million per annum for core network and IT upgrades. It's what you could call maintenance capex that's required each year to upgrade sections of the network as equipment needs replacing or new technology becomes available. As a telecommunications provider, we can't maintain a fixed position for our network and are continually striving to offer our customers a state-of-the-art quality network.

This year we're expecting capex of approximately $40 million, $30 million of which is demand-led capex, with the remainder being the maintenance capex spending. Going forward, we expect capex to be in the range of $20 million to $25 million per annum, including $5 million to $10 million of maintenance capex.

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During the first half, Uecomm drew down $7.2 million from its $80 million funding facility, bringing the total now drawn to $42.2 million. You've indicated that the accumulated drawn-down is likely to total up to $55 million at year-end, leaving $25 million available. Will this be sufficient? What are Uecomm's funding options going forward?

CEO Peter McGrath
If our EBITDA increases from the $18 million to $22 million forecast for 2003, and if capex is in the range of $20 million to $25 million per annum, our funding requirements for future years will be low, reducing to zero, based on the business as it stands today. One of our key goals is to be free cash flow positive as soon as possible. And by that we mean being able to fund all capex and all other outgoings from within the business. We're well on the way to achieving that. As we've advised the market, we expect to be profitable before tax for the full year as well as for the first half.

Keep in mind that if we draw down up to $55 million from our facility, it still leaves us with $25 million or so that we're able to draw on until June 2006. And we have until June 2007 to refinance or renegotiate the facility. We're in a significantly stronger position than we were in a couple of years ago and will evaluate alternative funding options as we move forward.

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Uecomm booked a tax credit of $2.6 million in the first half, compared with a payment of $0.5 million previously and you had deferred tax assets of $8.9 million as of the end of June. Off balance sheet you hold a further $27 million in tax losses with a future tax impact of about $8 million. When are you likely to be able to bring these to account?

CFO Peter Dawson
The current accounting guidelines permit tax credits to be brought to account only when the company is virtually certain of recovering the tax losses. We review the amount of tax losses that meet the virtual certainty test every six months, and we'll bring the remaining benefits to account as appropriate.

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New majority shareholder Alinta has stated it is not a “natural owner” of Uecomm and would not be a long-term shareholder. What implications does this ownership uncertainty have for Uecomm at an operating level?

CEO Peter McGrath
We continue to be very successful in the marketplace, winning business and delivering reliable high quality products, and our ability to do that is not dependent on our shareholder composition. So the change of ownership has had no real impact at an operational level. During the first six months of the year we signed $33 million in sales contracts, approximately the same level we signed in the first half of 2002. We also reported growth in revenue and in EBITDA and a profit after tax.

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Who are the potential “natural owners” of the business and what options are there for Uecomm given continuing speculation about rationalisation in the telco sector?

CEO Peter McGrath
Although we haven’t seen much rationalisation to date, a number of parties might potentially be interested in owning a stake in Uecomm, ranging from institutional investors and financial investors to organisations that might consider our business complementary to their existing operations. Or any combination of these. As a company we’re always interested in considering opportunities with organisations operating in similar markets, to the extent we see them as interesting businesses worth combining with. But in terms of a likely outcome, it’s too early to say.

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Thank you Peter and Peter.

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