

Question and Answer

Operator

[Operator Instructions] First question comes from the line of Sameer Chopra from Merrill Lynch.

Sameer Chopra

BofA Merrill Lynch, Research Division

Thank you for a good set of results from the connection numbers. I had a couple of questions. One, you made a comment that the mobile market is shrinking and I was wondering if you could give us some color around that? Second one is around the guidance has been maintained even though the Lightbox investment has been stepped up. Is it fair to say that the fixed price increases are offsetting the Lightbox investment? And then the last one was around, if you could -- maybe I missed this on the call, but what percentage of the fixed line customer numbers are now unbundled?

Simon Moutter

Former MD & Executive Director

On mobile market, what we're referring to there is, the publicly available information, and we source mostly from IDC, right, Jolie, as it indicates slight contraction on overall market revenues. Jolie, we got a figure there that you can see just handy?

Jolie Hodson

CEO & Executive Director

Yes.

Simon Moutter

Former MD & Executive Director

Yes, slight contraction in overall mobile market revenues. So, sort of, we're gaining, but in a slightly shrinking market, which is indicative, I think, is both our CEOs -- divisional CEOs indicated value increases inside plans and price reductions in some parts of the market as well as heavy competition there. So that was the color there. On Lightbox, look, we have upped the ante and invested more, but that cost as been covered by the Turnaround Programme initiatives, it's got nothing to do with broadband pricing. And we've got a terrific program, and as we always cast, the Turnaround Programme was about freeing up cash partly to sustain price reductions and offer value -- more value to customers, but partly to fund the investment in the future. And that's how we look at the model and we would not have upped the ante on Lightbox if we could not have funded it out of the Turnaround Programme. In terms of the fixed customers on bundles, Chris, do you have any info to hand on that?

Chris Quin

Former Chief Executive of Spark Home, Mobile & Business

Sameer, Chris Quin speaking. So our primary focus on fixed, in particular, is the value, so that's why I was referring to the 46% of customers on \$85 and above. Our market share in mobile, as we said, we think we're near 40% of our revenue now. We're closer to 50% of the broadband market. One of the reengineering drops that is being done right now is moving to a single customer database to improve our accuracy at knowing this, but there is a reasonably strong correlation between fixed and mobile customer sets. So you can assume it's somewhere in those numbers. And our focus has been on the individual value, so making sure we're focused on value in mobile and broadband. However, we have started offering incentives for customers to be on both. And you'll see it in particular in the naked broadband bundles, where with mobile, there's a slightly different price to without. And this is obviously a key focus for us as we go forward in valuing our loyal customers and growing our base, pulling those together. You would be safe to assume somewhere in that early 40s to mid-40s is that bundled mix.

Operator

Your next question comes from the line of Arie Dekker for First New Zealand Capital.

Arie Dekker

Crédit Suisse AG, Research Division

Just 2 or 3 questions. Firstly, just can you clarify, did you mention that you had 25,000 fiber subscribers now you will see[ph] ? And can you just give us some update on how far away you are from having a retail product?

Simon Moutter

Former MD & Executive Director

Fiber, 21,000 UFD fiber customers. Arie, we have obviously lots of other fiber customers in our business data portfolio at UFD at same [ph] number and we expect to be in market with that service in, sort of, the last quarter of this financial year. We are advanced testing and things today.

Arie Dekker

Crédit Suisse AG, Research Division

So that will be some costs that drops out as well in FY '16?

Simon Moutter

Former MD & Executive Director

Yes. We hope to see that as a follow-on from it. Chris doesn't need to sell a copper line alongside a fiber product once we've got that in service. So yes, you can be sure the HMB team will be onto that pretty quickly once we've got the fiber voice product bedded firmly.

Arie Dekker

Crédit Suisse AG, Research Division

Do you envisage any one-off costs in rolling that out?

Simon Moutter

Former MD & Executive Director

I'm not aware of any significant. Chris?

Chris Quin

Former Chief Executive of Spark Home, Mobile & Business

There is a technical transition cost in the process of changing that out. That is -- it's Chris speaking, sorry. That's in our forecast. So as part of our plan, where we're of, the return we get for making that shift in lowering the input cost and the one-off cost to make that change from a customer point of view.

Arie Dekker

Crédit Suisse AG, Research Division

And I'm sure that's a no brainer. Just in terms of the strategy turnaround, sort of, coming to an end, reengineering, obviously, sort of, as you mentioned Simon, halfway through and introducing Digital First, can you sort of -- and I know there's a lot of the benefits of these programs flowing back into the business and investment. But can you just sort of give us sort of a sense of in terms of that \$200 million to \$300 million of benefits that were sort of earmarked from these programs? How you're tracking against that?

Jolie Hodson

CEO & Executive Director

Arie, it's Jolie here. In terms of the benefits, we are tracking well on tracking that \$200 million to \$300 million. We believe by the end of FY '15, we will be close to that \$300 million mark, combination obviously of P&L and CapEx. So it's a focus on cash rather than just P&L.

Arie Dekker

Crédit Suisse AG, Research Division

All right. You mean CapEx benefits?

Jolie Hodson

CEO & Executive Director

Yes. It's in terms of reduction in CapEx envelope over time, so it's down to that sub \$400 million so effectively the last piece of that will come through in FY '16. But in terms of the broad, the \$300 million, are we there or thereabouts over the next 12 months, yes we are.

Arie Dekker

Crédit Suisse AG, Research Division

Okay. And then just the last question on Lightbox. And as you mentioned, you're upping the ante and it's a hotly competitive market. I guess, we've got a couple of established players in Sky and Netflix looking at being in the space and more recently even Fitch sort of mentioning that they may be coming over to [indiscernible]. In terms of -- could you just, sort of shed a little bit of light on what you sort of see for Lightbox over the next 12 months? Whether you got any reference points in terms of where you want the business to be and just the capability that you guys are developing in that space?

Simon Moutter

Former MD & Executive Director

Arie, I'm reluctant to say much, not because I want to hide it from investors, but I do want to hide our ambitions and our strategy from our competition obviously. So clearly, as we always said, our ambition here is to be part of the disruption, to be on the right side of disruption for once now -- for once in our life and to see if we can gain a position. And I think, so our eyes are on over the next 2 or 3 years where we think the market and customers will dramatically alter the way they consume video entertainment services and the shift from broadcast and satellite pay-TV to Internet delivered, that our objective is to create a sustainable position. We have some metrics in mind for that and probably provide a bit more color on that at the full year. We won't tell you exactly where we're tracking. But it will be a fast-changing market and that's the sort of market that means you're going to have to adjust quickly to what the trends are, to what the consumers want, to what they're willing to pay for. And so we've started with a proposition that we observed to be selling around the world, which is TV box sets, good quality ones and an sVOD service that we've created a platform and a concept that can do many more things than that and we started -- and we created a little option by moving alongside the Coliseum team to have a look at sporting content. So we'll keep our options open and follow what works here over the next 2 or 3 years. So it's about all I can say at the moment, Arie.

Operator

The next question comes from the line of Tristan Joll from UBS.

Tristan Joll

UBS Investment Bank, Research Division

Just a few questions. First of all on headcount. I was going to ask you about FTEs going up sequentially 53, but Jolie's comment that 300 is going to come out in the next couple of months, kind of solves it. So I had 3 things: one, in your reported number for the half, can you just confirm the \$5 million of severance payments was in there? And then secondly, I just wondered if you could confirm what you said back in August was that you'd expect later to be \$18 million or \$20 million down year-on-year excluding acquisitions, you still tracking towards that?

Jolie Hodson

CEO & Executive Director

Tristan, Jolie here. The first question around severance cost and the [indiscernible] they're actually higher number than they are in the half if you look at the shift year-on-year it's 5, so it's around 8 in the half. And in terms of are we still on track to that number, the full, yes, we are, the reduction.

Simon Moutter*Former MD & Executive Director*

And then Tristan, Just the first half increase is masking really a significant decrease. Because in the first half, we had the best part of 200 people join the organization with Appserv and the in-sourcing of the Alcatel-Lucent team. So the fact that we're up slightly is masking a neat -- real reduction of more like 150. But in that order, yes.

Tristan Joll*UBS Investment Bank, Research Division*

Yes, that's understood. Okay. And just on mobile, service revenues are flat. ARPU [indiscernible] down 9%. I understand that from the previous results, some of that has to do with types of account and financing options on handsets. Are those changes washing through? So, I mean, I suppose what I'm asking you is, when you look at 9% after you decline, how much of that relates to, I suppose, accounting oddities versus actual changes in mix and price pressure on the enterprise channel? Can you give us a sense of that?

Chris Quin*Former Chief Executive of Spark Home, Mobile & Business*

Tristan, Chris speaking. Partly, I think as you said, usage revenues are flat to slightly up. ARPU down 9%. I think you can probably deduce from that, that a lot of the ARPU effect we are seeing is essentially out of the device approach changing. And essentially, what we are seeing in the market is, I'm sure many of you are seeing is, that pricing staying similar, but the inclusions within pricing are going up quite considerably. So the upgrade parts are getting tougher to position in market and then offsetting that for us is our rise in connections of 108,000 or so for the quarter -- for the half, sorry.

Jolie Hodson*CEO & Executive Director*

And Tristan, Jolie here. I think also the impact of enterprise, as Tim mentioned earlier, has had an impact on the usage, largely offsetting the growth in the consumer service revenue. And we will cycle that as we go through this year, expecting I think to be more like a decline ongoing with 3%, so we will see it will move through that phase.

Tristan Joll*UBS Investment Bank, Research Division*

Okay. So what you're saying is that you would expect -- you're saying you would expect ARPUs to drop at 3% next year?

Jolie Hodson*CEO & Executive Director*

From a business perspective, if we pull the 2 apart, what's impacting it is, Spark Digital has been the biggest driver of that service revenue decline. A lot of that is to do with all the government pricing and all the elements that have gone through that. We're now getting close to cycling 12 months of it. So that will have not had -- have as much decline in the second half of this year as we shift into next year, as it did in the last sort of 12 months.

Tristan Joll*UBS Investment Bank, Research Division*

Okay, all right. That's helpful. And then finally, I understand the sensitivity around Lightbox, but just on the costs. You've given us \$35 million run rate. Can you just remind us what that's going to be up from last year? And can you give us a sense of how much, if any, will be capitalized?

Simon Moutter*Former MD & Executive Director*

We indicated that at the full year that we'd spend 20-ish in the year or so of cash. That number now is more or like \$35 million and roughly \$5 million is CapEx.

Operator

Your next question comes from the line of Blair Galpin from Forsyth Barr.

Blair Galpin

Forsyth Barr Group Ltd., Research Division

Just a few easy questions. Firstly, Chris, I'm not sure if you have guided, but what's the naked numbers that you've got?

Chris Quin

Former Chief Executive of Spark Home, Mobile & Business

I didn't give those numbers. So 21,000 fiber, 45,000 VDSL. I don't actually have the number of those that are naked connections to hand, Blair.

Blair Galpin

Forsyth Barr Group Ltd., Research Division

That's fine. And Jolie, in terms of the wholesale backhaul drop-off use that you mentioned, how much of \$33 million relates to that one-off contract and slightly come off over the next about 12 to 18 months?

Jolie Hodson

CEO & Executive Director

Can't tell you complete value of that, but what I can say is the transition's probably been slower in the first half than we anticipated. It will -- but we will -- it will transition either the second half we'll see more and I think in the first part of FY '16 come off.

Blair Galpin

Forsyth Barr Group Ltd., Research Division

And so it's largely off by the end of FY '16?

Jolie Hodson

CEO & Executive Director

Yes.

Blair Galpin

Forsyth Barr Group Ltd., Research Division

And I suppose the final question. Reengineering costs, sort of, I think you're sort of halfway through that. So we expect to drop off FY '17, is that clear?

Jolie Hodson

CEO & Executive Director

Yes. That's right. FY '16, we will still have investment, but then it will go to a much more normal course of business.

Operator

[Operator Instructions] We have a follow-up question from the line of Tristan Joll from UBS.

Tristan Joll

UBS Investment Bank, Research Division

I just wanted to follow-up on that data question. You had \$33 million in the half for managed data and connect. Are we saying that, that number could be \$25 million in the second half? What will be a decent [indiscernible] once the contract's reversed?

Jolie Hodson

CEO & Executive Director

I can't give you that specifically, Tristan, but I think in the realms of it, type of reduction is reasonable for the second half.

Tristan Joll

UBS Investment Bank, Research Division

And then on an ongoing basis, I suppose, you're looking at over a period of 2 years maybe, you're looking at that revenue line having half or something along those lines?

Jolie Hodson

CEO & Executive Director

Yes, that will be safe.

Operator

[Operator Instructions] Your next question is from the line of Chris Keall from Nvia [ph].

Chris Keall

Simon, it's been announced that recently you've chosen some common technologies and chosen some platforms with Telstra and that Telstra has taken on some of the corporate customers associated with that, removed since from the Australian market. Can you speak to how your relationship with Telstra is at the moment and will probably go [ph] in the near future?

Simon Moutter

Former MD & Executive Director

Yes, Chris, we -- our main competitor in telecommunications in this market, Vodafone, operates on both sides of the Tasman and clearly, sort of, aligns itself in that manner. And so naturally, when we are looking for options to align ourselves in Australia, we would align toward Telstra. And we have a healthy working relationship with them. They -- we have struck a dealership arrangement with them in Australia to wind out our remaining obligations which were part of the Gen-i Australia group, as we've been exiting that business. And we do very carefully consider in our technology choices, the options to ensure that we're aligning with Telstra because that will give our customers a better Trans-Tasman experience if we make it easy, if we're operating in the same spectrum bands in mobile, if we develop, we're aligning our data networks to work well and interconnect easily with [indiscernible]. So while there's no formal partnership or anything of those sort of nature, it just makes logical sense to us to be aligned to a significant player in Australia where a lot of our customers travel and do business.

Operator

We have a question from the line of Raymond Tong from Goldman Sachs.

Raymond Tong

Goldman Sachs Group Inc., Research Division

Just a few questions, just on 4G versus 3G, just wanted to get a sense from you in terms of the usage between the 2 different products? And also is there any differential between 4G and 3G, I understand it's still quite early days? And just in terms of your plans for, I suppose, 4G coverage of the country going forward, what are you, at the moment, where do you plan to get to, I suppose, in the medium term and just later that [indiscernible]?

Simon Moutter

Former MD & Executive Director

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Yes. Look, on 4G versus 3G, where we've enabled 4G services, we're seeing quite more rapid transitional data services from 3G to 4G than we expected actually. And so in the year it's available, we're moving up around the 30% mark of data traffic already shifted across the 4G. So that's terrific. And invalidates [indiscernible] I don't have any info on ARPUs, I'm afraid, I really wouldn't have any idea of that. At this moment, we don't charge for it secretly or anything like that. So it's not a metric that we've looked at. On coverage, as I said in the early briefing period, we are overtaking Vodafone in this market, who had an earlier kickoff on 4G, we're in the process of overtaking them on coverage, and sort of, in very round numbers, we're moving through the sort of 2/3 of the population being -- having 4G available to them now.

Raymond Tong

Goldman Sachs Group Inc., Research Division

And Simon, what do you think is your 4G penetration as it stands at the moment?

Simon Moutter

Former MD & Executive Director

4G penetration? Sorry, I don't have the answer to that. That might -- that's something we could have a look at and see if we do have it.

Operator

We've got one question from the line of Peter Wise from IDC.

Peter Wise

I just wondered if you could do some commentary on the wholesale business, particularly given the UBA and UCLL changes. Have you had to, sort of, pass it on to the wholesale customers and just overall sort of comment on how that's, sort of, affecting the wholesale business?

Simon Moutter

Former MD & Executive Director

Look, in wholesale, clearly, those changes impact wholesale. And by necessity, we would pass through, as far as our contracts with customers allow, any increase on the input costs. So that's something that's being worked through with each wholesale customer at the moment, Peter.

Operator

Thank you. We've got no further questions, so back to you, Mr. Moutter for closing remarks.

Simon Moutter

Former MD & Executive Director

Great, and thank you very much for your time on the call this morning, and we look forward to the next update with our full year results in August. Cheers.