Question and Answer

Operator

[Operator Instructions] Our first question today comes from the line of Sameer Chopra from Merrill Lynch.

Sameer Chopra
BofA Merrill Lynch, Research Division

I have 2 questions. One is around the cost-out for next year. You have an aspiration for, I'd say, a net cost of sales reduction, call it, around $50 million or thereabouts. I was wondering how much of this relies on the UBA cost reductions? And how much of this is through natural efficiencies? And the second question is the repricing in the large corporate and government space for mobiles largely done? Or do you still think there's quite a lot of pricing pressure coming through in mobile at the large end of town?

Simon Moutter
Former MD & Executive Director

Okay. I think, Jolie, you take the first of those. And Tim, you can respond on the second. So Jolie?

Jolie Hodson
CEO & Executive Director

In terms of the cost of sales. Effectively, we have -- we plan to grow both in mobile broadband and IT services, so we have growth sitting there. Offsetting that is procurement and efficiency savings. And then we've accounted for the UBA or reflected the UBA based on the initial pricing plan. So that sits over and above the efficiencies that we'll have from the Turnaround, but -- that is reflected in that number.

Timothy M. Miles
Former Non-Executive Chairman of Revera Limited and Non-Executive Chairman of CCL Group

So the -- Sameer to answer the second part of your question. A large part of that has gone through, but there is more to come with government. On the upside, there is the opportunity to offset some of that with work in machine-to-machine and do the job at monetizing data. So it's not that we're feel way [ph] through it, but it's not all finished yet. There'll be some more in this year.

Sameer Chopra
BofA Merrill Lynch, Research Division

Jolie, can I just ask a follow-up just in case the Commerce Commission sticks with the old UBA pricing. What's kind of the risk to the guidance here?

Simon Moutter
Former MD & Executive Director

Actually, there is -- the decision is final. So it's not a -- there is no -- it's completed the prices. It just happens on the 1st of December, yes. And congratulations to you for being one of the early analysts who pick the strong growth story we're going to put out today.

Operator

Our next question comes from Tristan Joll from UBS.

Tristan Joll
UBS Investment Bank, Research Division

Just [indiscernible] to Jolie, hope just given a normalized view of the guidance. So if we add back $4 million of rebrand costs on to this year's number, you get to $940 million normalized EBITDA. If we then grow that at 1% to 3%, $915 million to $968 million, and then you're saying you take 12 [ph] of rebrand costs out. [indiscernible] you're guiding to a reported EBITDA of $938 million to $956 million. Is that about right?

Jolie Hodson
CEO & Executive Director

Tristan, I think what we've provided you, it is a base in terms of the adjusted EBITDA of $936 million. And yes, that includes $4 million of rebranding cost. I think the range we've given is a low single digit. Probably not going to talk further in terms of guiding that within a specific number.

Tristan Joll
UBS Investment Bank, Research Division

Okay. There's nothing wrong with it logically?

Jolie Hodson
CEO & Executive Director

Yes. It's being returned [ph] at the half.

Tristan Joll
UBS Investment Bank, Research Division

Okay. Then just with labor expectations, I guess -- obviously, you have a very good run here. The question I have really is around where we go from here? So you're sitting at a normalized level of around about $260-odd million, and I guess, sequentially, labor didn't actually move half sequentially half-on-half. What are your labor expectations for next year?

Jolie Hodson
CEO & Executive Director

We laid that out on our in terms of Slide 19, we've got a labor reduction sitting there. And as I indicated, we've also got the insourcing of our network operations, which is a $16 million insourcing, it leads to a greater reduction in our network operating costs. So we've got 2 forces at work there. So we've got some further reduction in labor cost, offset by insourcing. But you can see the net position of what we're expecting on that on Slide 19.

Simon Moutter
Former MD & Executive Director

It might be worth for me to state we benchmarked very well now relative to the competition in New Zealand. Sorry, I think, for investors to note, we've come down an awful long way on staff numbers in the past 18 months. And by our analysis, we're benchmarking very well. So the mission gets harder from here. And if we're going to have an organization that has a high level of productivity on revenue dollars per FTE, we've got to implement that through digitization and automation and those programs, particularly, are founded on things like reengineering of the network and creating new business models, all of which take a bit of time. So you're getting into the higher hanging fruit, should we call it.

Jolie Hodson
CEO & Executive Director

Sorry, another point I'd make just or 2 [ph], and the Spark Ventures has obviously gotten growth as we invested in new businesses as well, which we've put out to the right on the Page 19 as well.

Tristan Joll
UBS Investment Bank, Research Division

Yes. So the slide's saying sort of, I would think, $19 million to $20 million of incremental labor cost, x Spark Ventures. Is it any of your horrible [ph] pay with Spark Ventures?

Jolie Hodson
CEO & Executive Director

With the -- I mean, you can see it on the -- you can see on the slide, obviously, Spark Ventures includes a number of different elements of operating costs content. But effectively around that mid-teen with the insourcing.

Simon Moutter
Former MD & Executive Director

You'll have to make any [indiscernible], Tristan.

Tristan Joll
UBS Investment Bank, Research Division

Okay. All right. Sorry, I didn't mean to be too picky. And then just finally, given that you got the Spectrum payment made now, I'm just interested on what will you see D&A for next year. It's come down a bit in the half. Do we look at the trend with the half level of D&A as normalized? Or does it go back up?

Jolie Hodson
CEO & Executive Director

Yes, we're not expecting D&A to reduce next year. As you say, we've got the Spectrum amortization. And also, as we go through different cycle changes in terms of technology, in terms of as our cycles speed up, we -- if anything, we'd see a slight increase in depreciation and amortization.

Operator

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

Blair Galpin
Forsyth Barr Group Ltd., Research Division

I have 2 questions, 1 for Chris Quin, another 1 for Jolie. First, what are you expecting [indiscernible] you got Lightbox, you got probably increasing video sale demand, increasing broadband uptake. Do you see the chance to change people's behavior with the rights of, say, boost plans that you try to upgrade up from a Spark perspective? Secondly, Chris, I mean, in terms of the guidance, I think you've touched on the UBA and UCLL reprice points. Jolie, do you sort of see the passthrough of that being users?

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

So Blair, Chris speaking, just to answer your first question. Look, we're pleased that we've changed the revenue decline from what was 8% to around 4%, pleased with holding the base and getting nearly half of the base onto plans that are bigger than the standard $75 mark. It is a really competitive broadband market out there, and we intend to keep winning our customers and keep rewarding the customers that are with us. I do think, similar to mobile, the value-added services, particularly Lightbox, and then the ability to give customers more speed, more capacity, more ability to use broadband are all opportunities that we are very focused on to add value. We're not really pursuing the boost plans option. We don't see that as particularly clearly valuable to customers at this point. And we're more focused on some of the quality of service and the content that is made available over broadband. Getting fixed back to growth will always be a challenge with what is happening with voice. Although overall voice minutes are growing, it's falling -- continues to fall reasonably significantly in fixed, and voice minutes grow in mobile. But we will continue to work very hard on getting as much value out of the fixed portfolio as we can. But customers are getting incredible value. Sort of 2 years ago, you were paying $30 to $40 more a month for what you get now for the same. So it is a competitive market. We're pleased to be in it and to be holding our place. And we are very focused on the mix in value.

Simon Moutter
Former MD & Executive Director

Yes. Sorry, just if I can add there that the specific issue on boost plans, Blair, is that we've just been beta testing Lightbox nationwide across a number of ISPs from everywhere in New Zealand. And we're not having any trouble getting HD through the current network, so we're not really clear that -- it doesn't seem apparent to us that the boost product is needed to deliver an outstanding television experience across the E&T [ph] at this point in time. And Chris, on sort of UBA passthrough issue, I think we've known about the price of -- just as a comment there that...

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

Just I think the comment on UBA, so it's clear what the regulatory outcome is, and that it's final. That has been clear for some time. And I think you would all note that in the New Zealand market, the intensity of competition in fixed and broadband, in particular, has been intense for the last couple years. And our results in the last 2 or 3 years have been marked by the fact that we chose to compete. I think most providers have anticipated this change. And if I look at the value that customers have been receiving with what's happened in unlimited services being available, and naked broadband services being available, and then just purely a $75 plan today would've been $105 just over 2 years ago. All of those things would tell you that a fair amount of value has already passed to customers. And that has been anticipated, really, in a lot of the market activity.

Operator

Your next question comes from Greg Main from First NZ Capital.

Gregory Main
Jarden Limited, Research Division

A couple questions. First, you sort of mentioned about the trends changing cable in your CapEx expenditure. I think it was for FY '15. Can you give us an update of what's kind of happening there because there's some speculation that maybe Telstra is not going to participate in that?

Simon Moutter
Former MD & Executive Director

Greg, Simon. It's TGA [ph] -- look, I'm not prepared to talk about who's -- what each of the partners are doing, but it's still progressing through its approval processes. Our desire is to invest in and get on with the build of this program and -- this cable system. And we are waiting decisions from the partners in that program. And hopefully, there'll be some news on that in the not-too-distant future.

Gregory Main
Jarden Limited, Research Division

All right. But would you be prepared to take through 50% of it or 2/3 if it's required? Or...

Simon Moutter
Former MD & Executive Director

If we needed to, we would increase our position on it. But we prefer to have a number of players investing in this with us.

Gregory Main
Jarden Limited, Research Division

All right. Okay. And then looking at the New Zealand business as it is now, as you're extremely focused on, is there much more of that business, that is basically noncore? Will you stretch to look to maybe sell and reinvest some [indiscernible]?

Simon Moutter
Former MD & Executive Director

Not a lot. In divestment, we -- Jolie's -- now that we've sort of got a capital in motion, I mean, she'll -- at some point, I'm sure Jolie have another relook and make sure with -- find down to what we really are focused on. But we haven't got anything else in motion at this point.

Gregory Main
Jarden Limited, Research Division

All right. Let me just now take this to mobile. Obviously, we've sort of seen what's happening within the numbers. Last time, you talked about the impact of DY [ph] devices on the service revenues, et cetera. Can you just kind of like talk through how that may have impacted the ARPU and mobile revenues first half?

Simon Moutter
Former MD & Executive Director

I think, Chris, you should take that -- the trend to open-term plan, which we have lead has been very successful in improving performance and margins. But Chris, if you wanted to comment a little more on that.

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

Yes, so the trend towards the mix of open term and customers are to purchasing a mobile device from us either directly or on a financed basis has continued. And we're very pleased with that because when you look at a mobile margin point of view, it's up just under 5% over the whole year, and that's contributed significantly to the growth in EBITDA. And of course, it does give you a bit of a skewed picture of ARPU. So in the lower entry-level open-term plans, up to $10 lower in terms of pricing and $20 lower in our high-end plans when you take the device out of the mix. However, the thing that we're focused on is total revenue growth at 11.4% on the Home, Mobile, Business segment for the second half and then very pleasing and very strong mobile margin growth. And we are now within 1% or so of global benchmark in terms of our sales and retention costs and investments in mobile growth. So that mix, we feel, has very much worked, and our customers are appreciating very -- they like the freedom. And the churn analysis we've done on it would indicate that it actually is positive from a churn point of view. So all of those factors would lead us to keep believing that this is a good strategy, and we'll -- we intend to keep showing it.

Operator

[Operator Instructions] Your next question comes from the line of Paul Brunker from JPMorgan.

Paul Matthew Brunker
JP Morgan Chase & Co, Research Division

Just on the balance sheet, can you give your thoughts. You obviously got -- the Spectrum build has gone through, but I still think that gives you about -- where you got that $670 million of net debt on that base, I wouldn't make it. EBITDA in the mid-90s, I think, is now sustainable and global, and [indiscernible] you got high powered [ph] ratio, but your CapEx is set to drop below your depreciation. And so it seems to me like you've got a bit of scope there in the balance sheet. Just give me your thoughts on how you're thinking about deploying that capacity? And completely unrelated question, on Lightbox, what are your thoughts about bundle strategy and whether you'll go unmetered with Lightbox?

Simon Moutter
Former MD & Executive Director

Jolie, I think if you'd pick up on the capitals, and then I'll deal with the Lightbox.

Jolie Hodson
CEO & Executive Director

So in terms of the balance sheet, we do have headroom. If we look at our metrics, around about $250 million. But given where we are in the turnaround of our business, we'd like to -- and the fact that we are investing in new areas like Lightbox, other growth areas and ventures, we would like to retain that flexibility. We see that our preferred method of distribution is dividend and increasing it on a sustainable basis. That's not to say that, at some point, if we didn't feel that we had the right use for this money, that we wouldn't consider another alternate return of capital. But at this point, that's not on our agenda.

Simon Moutter
Former MD & Executive Director

I think we just -- fundamentally, we don't -- we're in midstream in a multiyear turnaround program. And I think if we're coming out at the end of it, and we got a much -- we've got a clear path, we're growing again, and we have a sense of being stable and on track, then our views on leverage would change. But right now, it gives us a bit of room to flex and try to chase a bit of business outcomes on Lightbox, being one good example, where, clearly, we're investing today to build a business that will be worth, we hope, a significant amount in many years' time. And so that takes some resourcing. It takes a bit of risk appetite and the willingness to back a strategy that's pretty bold and relies on disruptive trends in the market. With regard to Lightbox, it is an over-the-top service. So it is designed to be available to all New Zealanders irrespective of which ISP you take your broadband service from. That's fundamental to it. However, we will look to gain some portfolio effect in Home, Mobile, Business -- Spark Home, Mobile & Business will have some news for customers around how that product will be available to them on favorable terms. We won't be unmetering. Unmetering it, that's an over-the-top service, and I think today, with our large gigabyte allowances and, particularly, the trend now toward unlimited, the issue of metered versus unmetered becomes largely irrelevant in the broadband future. So that's not our intention to go down that path.

Operator

The next question comes from the line of Richard Eary from UBS.

Richard Eary
UBS Investment Bank, Research Division

Just 3 questions from my side. Just on mobile, you obviously talked out positively in terms of the margin expansion coming through. Can you just sort of comment in terms of what's happened in terms of churn rates on the business? And when we look at the ARPUs, obviously, there's a mix issue that's coming through and, obviously, changing, basically, some of the ARPUs from previous sort of business or contracts. Can you give us a feeling in terms of when you think those mobile ARPUs will stabilize and then comment on churn. That's the first question. The second question, I think, Jolie, you talked, obviously, about this year of carrying more sort of procurement benefits coming through the cost base. And I think, Simon, you talk about getting to the upper end. You, obviously, have the ability to take the labor out. I'm just wondering, as we step forward, not into '15, but in '16 and '17 and beyond, do we need to see a sort of a reengineering of the base to take more cost out? And if that is the case, does that change the CapEx envelope? Or can you do that within the existing envelope? And then the third question, just going to Lightbox, I mean, you've put out some subscriber numbers out in the pack, and there was obviously some cost numbers in there. Do you -- I don't know whether it's too early to just saying [ph] what your breakeven aspirations are for this business and whether that's sort of a churn related or revenue up-sell basis.

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

So Richard, Chris here. I might start on your mobile question. And I'm sure if Simon or Jolie want to add anything, they will. Look, in terms of -- I think the question about when will ARPU decline, fleshing out, or what will the direction of that be. There are several factors at play. So obviously, there are different market pressures and different things going on between the Spark Home, Mobile, Business market and the Spark Digital market. Secondly, the impact of open term and not having devices included in the ARPU, if you like, particularly the Home, Mobile, Business market means, actually, our belief is ARPU, if you like, is increasing even though the total number is not increasing because when you extract the device, which is a little more difficult to do across all the plans, you would see that. Our revenue growth of 11.4% is an indication. And the margin growth of just under 5% is an indication. We know our acquisition costs, a lot of good focus on the value in that area has occurred. And in terms of churn, the overall comment I would make is the year has seen churn, in general, lower. It is highest in prepaid, and that is pretty typical across telco. And the churn difference between contracted or open term is minimal. In fact, it's slightly in favor of open term. So those are sort of the indications. We intend to keep growing our mobile revenue and our mobile margin. But the way in which customers wish to buy now and their desire for open term is something we've recognized early, and we'll continue to work with them and recognize on. Their demand for mobile data continues to increase markedly every year. And the key for us is to focus on how we give them much more value but also recognize that they're getting a lot more value, and that is a fair way to approach and pay for that.

Simon Moutter
Former MD & Executive Director

Tim, I'll just ask you to comment on the -- on Spark Digital in terms of churning. But it's really -- we're not -- churn is neutralized. Churn here is not very nice.

Timothy M. Miles
Former Non-Executive Chairman of Revera Limited and Non-Executive Chairman of CCL Group

No, there's been no meaningful change. Churn is not worse. We see the same or a little bit better. We've actually increased our actual subscriptions over the year.

Simon Moutter
Former MD & Executive Director

It's mainly price pressure.

Timothy M. Miles
Former Non-Executive Chairman of Revera Limited and Non-Executive Chairman of CCL Group

It's mainly price pressure and moving, in the last year, particularly the customers moving to the all of government plans.

Simon Moutter
Former MD & Executive Director

Yes. And then sort of finally, I think, from the overall portfolio, Richard, you're right in noting the mix. The mix will shift because one of the areas of underperformance in -- so if we think about key markets for our aspirations for growth, one of them is prepaid and where our share is lower than we like it -- we would like it to be. So as we gain share in prepaid, by definition, we'll pull the overall ARPUs down because they are materially lower than the postpaid base. And on the procurement benefits, I think that now that the question was, is there a sort of CapEx envelope risk to achieving longer-term efficiency? And the only answer I'd give you right now is not that I can see today, it's -- with the replatforming we've got underway and reengineering, which we indicated would be broadly a $200 million program over 3 financial years. We're 1-and-a-bit years into that, we're on track for that. It does get us to what you would expect to be sort of benchmark level for a world-class telco at the end of it, so it's not obvious to me that we would need a lot more.

Jolie Hodson
CEO & Executive Director

If you look at our capital envelope, it was laid out that includes the investment both in this year and the following year in terms of that program. So...

Simon Moutter
Former MD & Executive Director

Yes, yes, so -- but it does underpin a more productive and more automated future. This -- we've always seen that. That's -- and until it's done, it's hard to get all of the benefits and...

Jolie Hodson
CEO & Executive Director

And there will be further benefits that flow into set standards, the activity that we complete through the back end of this year, we get the full benefit through that next year.

Simon Moutter
Former MD & Executive Director

Yes. And then finally, on Lightbox, a breakeven view, look, I'm just not replete [ph] to say at this point. It is too early, and we -- to be fair, we're launching a new venture. We don't even -- we don't know what customer appetite will look like yet. And we're going to have to feel our way as we go a little bit -- and we'll likely, if it's very successful, to increase the resource. And if we apply to this business, if we get a really strong uptake, we'll increase our efforts, not just sit on our coattails.

Richard Eary
UBS Investment Bank, Research Division

Can I just ask a follow-up on -- with regards to the digitalization, the cost base. Is that -- in your view, is that a material step-change down from what the numbers are today? Or is that just a sort of continuation of, obviously, the cost-out reductions around...

Simon Moutter
Former MD & Executive Director

We would believe but not be able to substantiate that there are material benefits in the cost structure as we advance a more automated and more digitally oriented business. Absolutely large numbers, but we're not at a point where we could lay the amount against the timeline in a series of investments. But clearly, that's -- we spend a lot of time working on those.

Operator

Your next question comes from the line of Ian Martin from CIMB.

Ian John Martin
CIMB Research

I have a question, just going back to the previous question on the broadband strategy focusing on value and to the extent which it relies on the UBA price dropping, I think it's in the 1st of December, but I think the substance of your previous answer was that it's already factored in. It's going to happen, and so it's -- the markets already factored it into pricing strategies and pricing structures and so on. I just wondered, if that's the case, where's the business plan? Where's the incentive to migrate people from copper onto fiber?

Simon Moutter
Former MD & Executive Director

Chris?

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

So I think in terms of -- if you mean from a customer point of view, I'm not concerned about the attractiveness of fiber to customers as it becomes available. And we're well over the 10,000 mark in terms of fiber customers now and well over the 35,000 mark in terms of VDSL customers, which we regard as a base that is sitting, very willing to go to fiber as it becomes physically available to them. In terms of the economics, as we go forward, look, there not -- there isn't disincentive between copper and fiber. Once we get to this new regulated price structure, they both -- there is opportunity to extract value from both. And there is no question that customers who move to fiber also tend to move to the larger plans, to value speed, to value capacity or unlimited, and to also consume more of the sort of services that we're intending to offer, like Lightbox and other plans we have under the Spark brand. So I think there's a good balance of driver for customers to want to go to fiber as it's available and a good driver for us to want to have them there. And it works from a point of view of our margin and on maximizing value out of the fixed portfolio. And look, it's also clear, from a point of view on what we'll offer the base service over time to customers, fiber is one that is being invested in. Our main focus is in availability and the simplicity of the provisioning process for customers, particularly in small and medium business, we were quite excited about the opportunity.

Operator

The next question comes from the line of Hamish Fletcher from New Zealand Herald.

Hamish Fletcher

A question for Simon. I know you mentioned that as the customer numbers at Lightbox took off, you'd look at increasing investments in the service. Are you able to break down any numbers on what the plan is aimed on Lightbox is for this financial year?

Simon Moutter
Former MD & Executive Director

Hamish, what we've said at the half year that we would spend around $20 million on the service in its first year of life, and that's a number that includes the content cost but also it's operational cost and it's marketing and other expense. We -- our plan, as it's evolved, is broadly in line with that, and we wouldn't add any new news to that.

Hamish Fletcher

And so is that for FY '15? Or would some of that...

Simon Moutter
Former MD & Executive Director

That's the current view on FY '15. And as I said before, if it takes off, we'll probably increase the investment in content to drive it even further.

Operator

The next question comes from Greg Main from First NZ Capital.

Gregory Main
Jarden Limited, Research Division

I have just one follow-up question. Can you just give us update of the voice over fiber?

Simon Moutter
Former MD & Executive Director

Yes, sure, Greg. We have had our technical teams working this year on how we deploy our BroadSoft voice-over-fiber platform, which currently provides voice-over-fiber services to our medium to large business customers. We've been working on utilizing that platform, which is the best platform for voice-over-fiber in the world today, into the mass market. We have a plan for that, that has been technically trialed and proven. And we await a business case with the definitive implementation timelines and costings from our Spark Connect team, which is imminent. So we're not far away from locking in on that program. And I think, indicatively, on timing, we're talking about months, not years.

Operator

The next question comes from the line of Arie Dekker from Deutsche Bank.

Arie Dekker
Deutsche Bank AG, Research Division

Just a few questions from me. Firstly, just on mobile, can you just take me through in terms of -- about how you sort of see the quality of the revenue buckets, obviously, up sort of 5% or 6% overall, but services revenue was up 1.5%. I guess I've always sort of focused on that as being the higher-quality bucket. Can you just give -- sort of expand on that?

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

So Arie, Chris speaking. Look, depends on which market segment numbers you're looking at. But in general, we would comment that, yes, the revenue growth, in total, in Home, Mobile, Business has been -- or even I think across the business has been just on 5%. And a portion of that comes from the fact that we have shifted the focus on devices from discounting within the plan to essentially treating it as part of mobile revenue and having customers purchase those and own them. I think that improves the quality of the revenue from the point of view of it's improving margin, and it's improving the churn and the life of each connection and also encouraging customers to choose the network they want to be on rather than the phone deal they wish to take. So once those numbers will be correct in terms of the looks [ph] between the revenues or close to correct. The real issue in terms of quality as we see that as a sustained ongoing trend, not something that will disappear in terms of the revenues and margins growth that you are seeing in our total mobile portfolio because it really is reflecting a new and a different way of doing mobile business with our customers that's been sustained for a couple of years now.

Simon Moutter
Former MD & Executive Director

And the other way too, Arie, is we actually -- we've got growth in services revenue now without what was never was a service revenue. It was just a device charge. So actually, you can read underneath there that the revenue for the real services is growing quite strongly.

Arie Dekker
Deutsche Bank AG, Research Division

Sure. And when you measure market share gains, which, obviously, is an estimate of, say, 200 basis points up, is that on services revenues or on overall?

Simon Moutter
Former MD & Executive Director

We've found it extremely difficult to get a bearing on services revenue. There's too much guesswork involved in it. From the basis of third parties, they do it in their own look-see. The only really reliable facts we can get on any -- on other parties' revenue in New Zealand is the total revenue. So we've moved to that as the best proxy for how we're going.

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

So it is total revenue, Arie. And everybody includes the hardware and services revenue on that number.

Simon Moutter
Former MD & Executive Director

Yes.

Arie Dekker
Deutsche Bank AG, Research Division

Yes, so it's off the total revenue. That's good. In IT services, obviously, there was some revenue growth in there. But when I look at Revera, which pretty much was a full year impact in FY '14 from FY '13, sort of contributing about $50 million revenue it was doing when you acquired it at the end of FY '13. Can you just sort of explain what's going on there in terms of underlying growth? Because I guess by simplistically stripping out the $50 million that, that contributed, there seems to still be a little bit of underlying decline. And just what you sort of expect in FY '15, was it a full year of Revera in terms of no IT services revenue growth?

Timothy M. Miles
Former Non-Executive Chairman of Revera Limited and Non-Executive Chairman of CCL Group

Sure, Arie. Well, first of all, we didn't have a full year of Revera in the numbers. So you're right or about right. Obviously, for the revenue number, you're assuming a full year view, and it wasn't. But to answer your question, just to give you some sense, so what we saw was, obviously, big growth around Revera. We expect to see a pretty big uplift in data centers because, as you know, we've been building data centers, and some of those are only now completing. In our professional services business, we've deliberately, actually, went for less volume but better quality. So we actually saw a very substantial uplift in profit in our professional services business, albeit off a low base. But actually, we were much more selective. And actually, went after quality of professional services rather than a -- than just sheer volume. And the other thing you will see and need to take out of our IT services is that, of course, we have reduced our operations substantially in Australia and in the prior year, much of that would be IT services, and in the year just gone, obviously, much less. So overall, you're seeing -- we're seeing good growth in procurement. We're seeing very good growth in margin in our professional services. We think we could get much more volume if we wanted, but we're really interested in quality. And we're seeing good growth, obviously, in cloud. And we're expecting to see a further pickup in there and in data centers in the year that we're now in. So overall, it is -- the message is there is real growth there.

Simon Moutter
Former MD & Executive Director

And that's consistent with the story we told a year ago that we had quite a bit of repositioning that we wanted to do around what was then the Gen-i business as we sort of reset the focus, moved to cloud and more networks seemed to view of IT. And so there's been a lot of work terms, you had to focus on sort of resetting the model. And we've had a view that let's get the margin and performance sorted before we really wind up the machine on sales. And I think that's -- the outlook for next year is definitely to carry that forward now with both sales and continuing effort on the margin.

Arie Dekker
Deutsche Bank AG, Research Division

So -- and in terms of that rate positioning for lower margin, IT services revenues, including the professional services, that's pretty much flowed through, and it's got sort of a base for performance FY '14 set to grow?

Timothy M. Miles
Former Non-Executive Chairman of Revera Limited and Non-Executive Chairman of CCL Group

Look, inherently, Arie, the only piece of business we do that is inherently lower margin is procurement, and we do that recent service for our clients. The actual professional services business, inherently, is a good margin business. But we had some issues around the quality and the execution of what we were doing. And in the last 12 months, we've made big improvements on that. So there was, actually, in our professional, I won't give you the actual number, but I would tell you their professional services EBITDA year-over-year was up 300% off a low base. So -- and we have potentially more room to go there. So inherently, it is a good business. If won, it prosecutes the right thing and executes well.

Arie Dekker
Deutsche Bank AG, Research Division

Got it. Great. One final question. Just in terms of the business as usual CapEx and your guidance there, what's driving the declines there in the business as usual CapEx and the outlook?

Jolie Hodson
CEO & Executive Director

In terms of if you look at FY '15, Arie, we've got, obviously, the data center coming online, which drops out in '16. We're investing in the IT stack, which is a still out of a kind of strategic project over the 3 years, and that will enable us to, I suppose, retire from our bare existing systems. And we're just making, I guess, right choices about how and we best apply that CapEx to the areas of growth that we want to achieve. So in terms of that sustainability of the envelope, we have got quite a focused process on how that investment's being made.

Simon Moutter
Former MD & Executive Director
Thank you, operator, and thank you, all, for coming on the call. We appreciate it and look forward to meeting up with some of you over the coming couple of weeks. Cheers.