Blue Label Telecoms Interim Results Presentation 22 February 2012





Conference call transcript

22 February 2012

RESULTS FOR THE SIX MONTHS ENDED 30th NOVEMBER 2011

Brett Levy – Joint CEO

Welcome to you all, especially as I know you could be tuning into the Minister of Finance this afternoon, so I appreciate you coming and listening to us. I hope you enjoyed the video that we played while you entered the room - on Blue Label Mexico and our Blue Label Media - as we say, bringing products and services to you the customer, such is the Power of Prepaid.

I also welcome listeners via webcast and those who have dialled in. Thank you all for attending the Blue Label Telecom's half year results ended 30th November 2011 which we released on SENS earlier this morning.

Just to start with, some salient features for the half year ended 30th November. Revenue growth up 7% to R9.2 billion. Our gross profit increased 14% to R590 million. EBITDA was up 47% to R438 million. I want to emphasise that there was a once-off receipt of R79.4 million and if this is excluded, EBITDA would have equated to growth of 20%. Headline earnings were up 44% to R277,4 million and if the R79.4 million is excluded, this would have equated to an 8% increase.

Very pleasing for us was the cash generated for the six months at approximately R800 million. And we ended the six months with approximately R2.3 billion in cash, so extremely positive from that point of view.

In Mexico, when we spoke to you last we were at around 5,000 points of presence, so I'm really proud to tell you that we have in excess of 20,000 points of presence now, and rolling out between 3,000 and 4,000 POPs on a monthly basis, which will probably make it one of the quickest non-banking roll-outs of points of presence in the world.

I'm sure you have read about the specific buyback of Microsoft's of 91.8 million shares, equating to 12% of the company, at R4.25 a share, for which we paid approximately R391 million. The shares were cancelled and delisted on 1st December.

And we entered into a strategic alliance with Mobilitrix for digital couponing.

Moving now to South Africa. Revenue was up 7% to R9.1 billion. I think what we want to emphasize our three income drivers or pillars of Blue Label in SA. The first one is our commodity which makes up approximately 47% of total profit. Commodity is the trading of airtime, the trading of secure electronic tokens of value, anything that has a secured digitised pin.

The second is annuity, which makes up approximately 43% of total profit. Annuity is the income stream we receive on starter packs and through our mobile sites such as Look4me and Look4help. Our annuity receipt exceeds R20 million a month and is growing.

The third pillar is interest received, which makes up around 10% of total profit. A couple of years ago, interest received made up 50% to 55% of total profit. Importantly, you can see a switch from interest into annuity, into longevity and sustainability. We are not as reliant anymore on interest rates, rather we are more about getting cash settlements, so a change in the way the group makes money.

Electricity commissions received were up 37% from R30 million to R41 million, and I will touch a little bit more on that later.

Probably one of the negatives for the six months is that we downscaled our money transfer platforms to align more with the network's requirements. I think from a Vodacom as well as Blue Label perspectives we were far too aggressive in our expectations on the rollout of MPESA money transfers.

GP margins remained the same, they were stable and were maintained, and I will touch a little bit on that as well as we go on.

From a prepaid airtime and starter pack point of view, revenue was up 7%. And one of the strategic points that we made six months ago was that by May 2012 we want to reach 400,000 to 450,000 new starter packs distributed per month. This was really a big number for us and for the networks. And we can proudly tell you we are on track to reach that number.

Where the networks have seen tremendous pullbacks on their SIM connections and more importantly their net connections, we have seen significant growth for Blue Label. The main reason for that is we entered into a very rural-specific delivery in order to make sure that Blue Label touches every single part of the country.

The first part is we have 31 trucks which travel around rural areas. These are not ordinary trucks - we call them gig-rigs. Each truck takes upto ten weeks to adapt and equip, including opening up its sides. There are 12 people on each truck. We expect to double the number of trucks in operation by the end of May. This will give us the ability to go more rural and therefore access customers who may be finding it difficult to find connectivity, and more importantly, to find a convenient way to live in a connected world. In addition, we are deploying approximately 100 foot-soldiers who run in conjunction with the 60 trucks, so all in all around 700 to 800 people will be targeting the rural parts of South Africa. There should not be a part of South Africa that we do not touch.

One last thing there, you saw that the networks increased their prices in the past period. Importantly, we continue to stress that when the networks increase their prices it does not affect Blue Label's GP margins. In the last six months we saw three increases from each network totalling 2% each. Our GP margins were maintained. And not only that, if you look at the Rand equivalent we actually improved margins.

This pie chart reveals what is really at the heart of Blue Label, reflecting what we believe the market share of the networks in South Africa. Obviously it shifts with different campaigns, but Vodacom has increased slightly to 53%. MTN a little bit down to 34%. Cell C remaining constant at 10% and Telkom around about the 3% mark.

Moving on to our absolute winner which every six months is our stand-out product - Prepaid electricity. The commissions we receive was up 37% from R30 million to R41 million. The equivalent in turnover increased from R1.5 billion to R2.7 billion, but just to remind you, we act as the agent and not the principal, and therefore in our revenue line of R9.2 billion you will not see the R2.7 billion of electricity revenues. Obviously if it was together the turnover or revenue of Blue Label for the six months would have equated to about R11.9 billion.

We receive up to 2% net commissions from the municipalities. However, we are netting about 1.6% as an average across the board. We've also signed up a few new electricity municipalities in the last six months which now gives us additional direct contacts and relationships with SA's municipalities. The latest ones are

Bela Bela and Polokwane and a few days ago we were awarded the Witzenberg contract in the Western Cape.

Just to emphasise our UniPIN electricity pin, which is our offline pin. Up until a year ago if you wanted prepaid electricity you could only get it in an online environment. This obviously excluded a huge amount of our distribution channel because a lot of it is offline. A year ago we launched the UniPIN which now gives us the ability to vend electricity offline. Although coming off a small base compared to November of 2010 our revenue is up approximately 280% from R8 million to R30 million. But more important for us that redemptions are up over 775% from 32,000 to approximately 280,000 pins on a monthly basis.

As you know I like to show you this graph on electricity. If one excludes the June and July months which is winter and when electricity spikes, I can report that in December (which isn't on the graph) we've already exceeded R450 million – a new base for monthly revenue. And as indicated and promised to the market six months ago, we're on track to repeat this margin going forward.

To end off, no speech of mine is complete without telling you about all of our new and existing products. In December we increased our retail outlets from 27 to 197 outlets through the purchase of a specific chain of 169 outlets. So we are creating a nice footprint, not only having the back-end technology but now creating a great front-end presence in retail.

You've heard the buzzword around NFC, Near Field Communication. It's no longer a buzzword for Blue Label. We have 1,000 units out in testing and are very excited to see where this goes. Media advertising, which Mark will touch on more, and we have the Spinner product which now captures over 2 million spins.
SupaStakes football is a new product in the market. Our Senda Mobile Unit currently has 60,000 active users. We're in the process of registering about 95,000, which means in two or three weeks we will have 150,000 mobile users who can do everything that our vending machines can do.

And then the normal bill payments, our EFTs, financial services – which is a focus for us – our transport ticketing solutions, including Gautrain, then there is Lotto, which continued to grow, as well as our international calling card.

To end off, an update on our shareholding. Our strategic holders remain at around about 51% which has remained constant almost since the day we listed. For 'rest of the world' you will see a big decrease in the USA from approximately 19% to 7%, which takes into account the 12% buyback from Microsoft. So if you split our free flows of 47% you will see approximately 20% sits offshore and 27% locally.

As a whole for the six months management is happy with the cash generated and the product suit. And more importantly, the next six months look good for us. So thank you very much and I will hand over to Mark.

Mark Levy – Joint CEO

Thanks, Brett, and good afternoon everyone. I'd like to talk to some of the highlights in the International business segment over the last six months. I'm pleased to report that our strategic partners, Grupo Bimbo, have established a sound foundation in a very short space of time, accelerating the rollout of our points of presence throughout Mexico.

As you will recall, the Multilinks contract in Nigeria was cancelled in November 2010. Consequently in the current period the share of losses of R3.1 million are confined to the expenditure relating to the winding up of the operation. The arbitration process based on the cancellation continues with Africa Prepaid Services Nigeria, in which we have an effective stake of 36,72% interest, formulating and lodging its claim against Multilinks. I am pleased to report that the arbitration date has now been set down for November of this year.

Turning to Ukash which is based in the United Kingdom. It focuses on the digitisation of cash to be redeemed against products and services. Although our stake is only 15.75%, our share of profits for the period under review equated to growth of R2,7 million after eliminating the prior year adjustments, driven by volume and ARPU growth. For their six months ended 31 December 2011, Redemption values increased 89%, volumes were up 81% and profits were up over 1200%.

In January this year we disposed of 50.1% in Sharedphone International to the remaining shareholder, following ongoing declining revenues as a result of the demise of Sharedphone's competitive edge, which it historically enjoyed in the community pay phones business.

Moving on to India. Oxigen's strategic shift of evolving from a prepaid recharge platform to becoming a versatile payments solution provider continues apace. Just to put Oxigen in context. Oxigen provides over 90% of all mobile banking transactions in India through its connectivity with leading banks. However, banking penetration is still poor, with 52% of the Indian population unbanked, although this is weighted to about 72% in rural areas. This bodes well for our growth story in India, be it through the banked or unbanked channels.

Oxigen's key role in financial inclusion, delivered through its aggregation business, grew by 24% in the six months ended November, allowing for the extension of our products and services:

Domestic remittances are provided thro the State Bank of India, and via Yes Bank, remittances can now be made from a single bank to multiple banks. This innovation has been well received as it gains traction throughout the country.

Both SBI and Yes Bank offer business correspondent banking, which as you will recall allows our own retail outlets to become the bank's branch as it were, for which we provide full back-end technological support. Through SBI, our web-based, no frills banking system reaches over 1,600 customers and about 1,000 of those points are in unbanked rural areas. This means the unbanked customer using our banking kiosk system can transact with 150 million SBI account holders through a no frills account or through a Mobi merchant or MobiWallet or visa versa.

Through long-term contracts with SBI, Oxigen provides technology and marketing support for the MobiCash wallet.

Following Oxigen's appointment last year as a national service provider to Nokia Money, Nokia is extending its nationwide network of agents to the Union Bank of India's mobile wallet, called Union Money. Also in recent developments, Oxigen is now one of the first service providers to launch merchant payments with the National Payments Corporation of India, which allows for cost-effective payment solutions using mobiles, online as well as at Oxigen retail points through its GPRS Oxismart POS terminals.

The Oxismart POS terminal, which you will recall is the new ultra-low operating cost GPRS enabled terminal, is proving to be a game changer since its launch late last year. Oxismart provides reliable connectivity across the urban-rural footprint, as it is battery operated. We have already deployed about 6,000 of these devices and with demand still strong, we continue to provide banking services to the unbanked.

Blue Label's share of Oxigen's losses was R4.4 million, due to our increased equity stake and higher overheads relating to Oxigen's shift into financial services offerings in pursuit of its strategic plan.

Moving on to Mexico. Last time we saw you I stated that Mexico had become one of our most promising businesses through our strategic partnership with Grupo Bimbo. The strong distribution capabilities of Grupo Bimbo is starting to bear fruit as we are consistently roll out well over 2,000 points of presence per month in support of the provision of various prepaid products and services in Mexico.

At the end of January 2012 the footprint has grown to over 20 000 points of presence. This is expected to grow steadily in the months and years ahead. At the same time the technology platform has been scaled-up with the intention of supporting a significantly larger footprint across Mexico.

Our partner, Grupo Bimbo, is the largest bakery in the world and offers one of the most extensive physical distribution networks in Mexico, covering over 17,000 truck routes, which reach the target market of independent shop owners. As they say, where there's bread there will be airtime.

Blue Label's share of losses in Mexico was R8.5 million, attributed to the expansion expenditure in support of the concerted drive to roll-out more points of presence.

The business model in Mexico continues to be underpinned by a number of agreements with sales and distribution channels, independent sales organisations, service providers and key mobile network operators. Products on offer include PINless recharge, direct top-up and payment services. We are well underway to deliver our retail and financial services strategy.

Mexico's geographical location makes it an important springboard for prepaid products and services, as well as remittances into America and Latin America. We are just starting to deliver that strategy based on introducing self-service kiosks into independent supermarket chains.

The Technology segment is responsible for the group's core technology systems. The group's technology currently connects into some of South Africa's major banks, utility companies and telecommunication operators. This segment switches both debit and credit cards, electronic funds transfers and e-token for some of the country's leading retailers and petroleum companies.

Transaction volumes throughout the entire environment increased steadily in 2011 and continue to do so. We saw bulk distribution up 15% with volumes through our AEON on bulk distribution doubling. Similar volume increases of 100% were also recorded on electricity through Transaction Junction. In fact, in the last quarter alone Transaction Junction recorded a record growth of 10% growth through our Postillion Switch.

Moving on to our Mobile business. With over 5 billion mobile phones worldwide the market for services to these users is expanding rapidly. To meet this, we've developed an ecosystem enabling our customers to reach their customers through technologies like Near Field Communication and other products allowing the rapid rollout of mediated sales, banking, loyalty, ticketing transporting coupons and location-aware services, to name a few.

The Mobile Services Company is Blue Label's mobile services business and now incorporates our recently launched Media initiatives and Mobilitrix offerings.

Cellfind is our WASP, aggregator and Location-Based Services provider and continued to deliver annuity income. Strong growth has been specifically seen in two products, namely miStatement and miPayslip.

Media to us means media advertising, be it on our bulk printed prepaid vouchers, point of sale receipt vouchers, like till rolls, LED screens, or outdoor and billboard advertising. Our recent decision to enter this space more actively is expected to compound existing advertising revenues.

Just before half year end we entered into a strategic alliance with Mobilitrix, with the objective of accelerating our planned growth in loyalty and mobile couponing and voucher services, and to strengthen our customer retention and incentivisation capabilities. This will be supported by our best of breed technologies, providing an end-to-end reward service in a targeted, intelligent, personalised and measurable manner, available to retailers, manufacturers and media entities. As Mobilitrix states, Engage, Motivate, Measure.

Our last segment to report on is Blue Label Data Solutions, which continues its excellent performance through a binary strategy of diversifying its product range, which now comprises of list & contact data management, target marketing, geo marketing and analysis, and enterprise applications. The further strategic element is to build sustainable business relationships with clients, and entrench direct marketing strategies into their businesses. Just to give you a passing sense of BLDS's deep capability, it can access about 35 million unique cell phone numbers, about 18 million financially active people, about 180 000 companies and so on.

The Velociti Call Centre continues to provide business processing outsourcing by offering inbound and outbound sales and customer services. During the review period, in spite of difficult conditions, Velociti increased its seats from 700 to 850 following a number of successful campaigns with numerous mobile phone operators.

Thank you. I now hand over to Dave to take you through the Financials as well as talk to the Prospects.

Dave Rivkind – CFO

Good afternoon ladies and gentlemen. The financial results for the interim period ended 30 November 2011 reflected growth in revenue of 7% to R9.2 billion and gross profit of 14% to R590 million, supported by an increase in margins from 6,00% to 6,38%. Overheads were contained at 6% growth.

Profitability was enhanced by a once-off other income receipt of R79.4 million resulting in an EBITDA increase of 47% and net profit after tax of R272 million. This equated to a growth in profits of 41%.

Headline earnings per share increased by 44% to 36.74 cents per share and by 8% after elimination of the once off income receipt.

This profitability in conjunction with stringent asset management resulted in a cash generation from operations of R795 million. These results were achieved in spite of a R10 million negative turnaround resulting from the winding down of the Africa Prepaid Services Nigeria operation.

Moving on to the income statement. The revenue of R9.2 billion does not include the turnover of Oxigen Services India, Blue Label Mexico and Ukash, as these associated companies are equity accounted. The predominant contributor to group revenue and profitability remains the South African distribution segment.

Gross profit. The increase in gross profit margins from 6% to 6.38% incorporated IFRS adjustments. On elimination of these adjustments gross profit margins equated to 6.08%. This compares to 5.8% for the year ended May 2011. This growth in margins was largely attributable to the stabilisation of the initial problems incurred on the implementation of RICA.

EBITDA. The EBITDA increased by 47% to R438 million due to both growth in trading performance and the extraneous income of R79.4 million. On exclusion of this income, growth in EBITDA equated to 20%.

As the predominant contributor to group profitability, it remains prudent to elaborate on the South African Distribution segment of the group. Revenue comprised sales of physical and virtual prepaid airtime, commissions on the distribution of prepaid electricity and compounded annuity revenue generated from starter packs. The increase in revenue to R9 billion was predominantly volume driven by all of these components.

Commission earned on the distribution of prepaid electricity amounted to R41 million against R30 million in the comparative period. This commission was on revenue generated of R2.7 billion on behalf of the utilities companies equating to a growth of 80%.

Gross profit margins, inclusive of IFRS adjustments, equated to 5.54%. This compares to 5.2% for the comparative period and 5.19% for the year ended May 2011. On exclusion of IFRS adjustments the gross profit margins for the current period equated to 5.24% against 5.3% for the comparative period and 5.09% for the year ended May 2011.

EBITDA increased by 14% to R394 million, accounting for 90% of group EBITDA.

Moving on to share of losses and profits from associates. Ukash, in which the group owns a 15.75% interest, continues to increase profitability both through volume growth and increases in ARPUs. The prior period included the recognition of a deferred tax asset, of which the group's share amounted to R3.7 million. On a comparative basis, the current share of earnings of R2.3 million, whilst reflecting a decline of R1 million, collates to a growth in share of profit of R2.7 million on elimination of the extraneous credit pertaining to this deferred tax asset.

Oxigen Services India. BLT's share of losses increased from R2 million to R4 million which were exacerbated by its increase in shareholding from 37.22% to 55.83%.

Although revenue increased by 52% at consistent margins, increased overheads relating to the implementation of a financial services offering onto the existing footprint eroded its performance in the short term.

Share of losses from joint ventures. The current share of losses of R8.5 million relates to our 40% shareholding in Blue Label Mexico. The increase in losses from R6.3 million to R8.5 million were attributable to expansionary expenditure in support of a concerted drive to accelerate the point of sale devices roll-out in conjunction with Grupo Bimbo.

The growth of R89 million to R275 million from continuing operations equated to 48%. However the net profit attributable to equity holders of parents reflected a growth of 41% due to the impact of the negative turnaround of R10 million resulting from the winding up of the APS Nigeria operations.

After adding back the amortisation of intangible assets, the core earnings of R282 million equated to a growth of 37% and core earnings per share of 37.38 cents.

Headline earnings per share increased from 25.45 cents to 36.74 cents, representing a growth of 44%. On exclusion of the once off income receipt, the growth in headline earnings would have equated to 8%.

Moving onto the balance sheet. Total assets increased by R634 million to R5.7 billion. Material increases included the purchase of starter pack bases for R121 million, additional funding of R74 million relating to the increase in shareholding in Oxigen Services India and a prepayment of R391 million for the purchase of Microsoft's 12% shareholding in the group.

During the current period stock levels were reduced by R345 million, equating to an average inventory holding of 14 days. This stock turn was still in excess of historical averages of 12 days due to inventory being bolstered in November in order to cater for the festive season. Debtor's collection period averaged 24 days and creditor's payment terms averaged 49 days.

Moving on to the cash flow statement. Cash flow of R795 million was generated from operating activities, which was applied to the funding for the additional shareholding in Oxigen Services India, the acquisition of starter pack bases, the prepayment for Microsoft's 12% shareholding in the group and a dividend payment of R107 million. The net increase in cash on hand of R72 million accumulated cash resources to R2.3 billion at 30 November 2011.

As far as dividends were concerned, no interim dividend has been declared. Having said this one must take cognisance of the fact that the R391 million of the funds generated applied to the purchase of the Microsoft shares has resulted in shareholders increasing their shareholding in the group by 13.62% of their respective holdings of each shareholders.

As far as Prospects are concerned, continued focus on the marketing and distribution of prepaid starter packs is expected to compound existing annuity revenues.

Commissions generated from prepaid electricity sales are expected to continue to increase both organically and through contracts with additional electricity providers.

The mobile segment is expected to compound its advertising revenue on bulk printed prepaid vouchers and point of sale receipt vouchers.

The distribution capabilities of Grupo Bimbo are expected to filter down to a significant gain in the momentum of the roll-out of point of sale devices.

Oxigen Services India has developed a robust foundation and is poised to embark on an aggressive foot print expansion which will incorporate banking services that will service the vast unbanked population in India.

The strategic alliance established with Mobilitrix is expected to accelerate growth in loyalty and mobile couponing services in order to strengthen customer retention and incentive capabilities.

Thank you. The floor is now open to questions.

Ruby

Mr Levy and Mr Levy, the commentary section and prospects, I would just like to very briefly quote from what is stated. Prepaid starter packs are set to compound existing annuity revenues. Next line. Prepaid electricity are expected to continue to increase. Mobile segment is expected to compound its advertising revenue. And so on and so on. In other words, a very healthy picture going forward. Given that, why do you feel it necessary to hold so much cash?

Dave Rivkind – CFO

First of all I think it is very important that we're sticking to a policy and which gets debated at every board meeting, which was initially to declare a dividend. We brought it one year early from 2011 to May 2010 at a cover of around three to four times. The first thing is that we stick to the policy of declaring a dividend at year end. I think the next very important thing is that we believe we did much better than declaring a dividend for our shareholders and this was by purchasing back the 12% shareholding of Microsoft at a price of R4.25, laying out R391 million. We believe this was a much better return than any dividend for shareholders. We try not sit on too much cash. Remember, not all the cash is free cash. A lot of it is used for the day to day running of the business. But we had an exceptional or unusual six months of generating cash. And we continue taking a look at mergers and acquisitions, so a very heated debate is held at our board meeting about what we should do with cash. I can only assure you that before our financial year is up, which is May, the board will debate it thoroughly and we will either return what we think should go to shareholders or continue looking at mergers and acquisitions.

Ruby

I have no quibble with anything that you've said. My issue is simply the amount of cash that you hold at present. But since we have a promise that it is going to be reviewed at your next board meeting I will leave it at that. May I also ask, on page six, financial position, I notice that trade and payables feature under non-current liabilities and also under current liabilities. Under non-current there is an amount of R71 million. Why has that been separated from the greater amount of R2.5 billion under current liabilities?

Dave Rivkind – CFO

The R71 million relates to the long-term portion of the 8ta hybrid contract. This is a new initiative that we embarked on this year through which to date we've distributed 100,000 packs. The liability to Telkom is basically R100 million over 24 months that is payable. That would equate to obviously the long-term portion of that contract which is eight months, which would be in excess of 12 months from the current period.

Ruby

I'd like to come on to the Multilinks arbitration which is set down for November of this year. In terms of the agreement with yourselves and Multilinks can one expect that if a decision were to go against Multilinks that they would meet their commitments in terms of that arbitration, or would you still find that you may have to go to court to have it reinforced?

Brett Levy – Joint CEO

Ruby, obviously there is a lot of strategy in involved in terms of an arbitration or even legal proceedings, so we can't really divulge much more than saying we've going to arbitration and we will let that run its course and see what happens.

Ruby

The arbitration committee itself. Does that comprise Nigerians?

Brett Levy – Joint CEO

The arbitrators were selected and agreed upon by both parties.

Ruby

Thank you. A moment please, if you will bear with me. Oh yes, I'd like you to spell principal correctly in future. There was mention made about slower growth and it was linked with MPESA. From the little that I know MPESA is run by Nedbank and Vodacom. What is the reason for the slow growth in that particular activity?

Brett Levy – Joint CEO

I think it is made up of a number of items, but three major things come to mind. The first problem was in matching the rules of financial services (such as Nedbank) with those of a telco (like Vodacom) in legalising merchants, which created a massive delay initially. There were too many requirements for the informal market which altogether created a stumbling block for seven or eight months. The second part of it is South Africa and its banking infrastructure is a lot more developed than in Kenya or Ghana. I think everyone has realised that MPESA in South Africa will never be like MPESA in Kenya, but there is definitely a place for it here. What we've done from a Vodacom, Nedbank and Blue Label perspective is downscaled it to a much more realistic rollout with an appropriate marketing campaign.

Jonathan Kennedy-Good – SBG Securities

Good afternoon, it is Jonathan Kennedy-Good from SBG Securities. I just wanted to ask a question on Mexico and India, two very large markets. The loss is slightly wider, and I guess you're going to invest more in both markets. Could you tell us a little bit more about how you see the investment profile over the next 18 to 24 months if possible? Whether you see those losses widening as you build scale in those operations and where there are margins that are improving already perhaps, if you could tell us a bit more about that.

Mark Levy – Joint CEO

Let me talk about India first. Our core focus is to mitigate our risk from being a one-product business i.e. moving away from mobile and trying to find other products and services. Less than 60% of our revenue now comes from mobile and banking is almost equivalent to that. The margins in India are very slim. You're talking about 1.5% and 2% gross margins in telecommunications with even lesser margins in the banking space. So this is a volumes game. As long as you grow equipment or find products or visa versa the focus of our group is simple. We continue to build footprint in order to deliver different products and services, and hence the reason for us winning a client like the State Bank of India. To put that into context, they have got 150 million banking customers, 20,000 physical branches. India still has a banking penetration of just 48%. And they honestly believe they have failed to a degree, so they need to partner with companies like ourselves, so we are starting to deploy banking solutions in our environment. We don't foresee exacerbated losses in India. The business is sufficiently capitalised for this specific rollout. Because our base is still growing, by a couple of thousand a month, and generating income already, we maintain an EBITDA positive scenario. If you wanted to see more profit we can just slow that down completely. Short term profit will definitely impact on long-term strategy.

Mexico is very different - for us it is an untapped market. Currently we're rolling out more than 2,000 POS a month. That was an average from May to December. But if you consider that our partner there, Grupo Bimbo, has 17,000 truck routes, then one device in each truck per month, we could be deploying over 17,000 devices a month. That would be by far the most extensive rollout of POS devices globally. So our intention is to aggressively pursue the rollout, aggressively find additional products and services to go into that environment. Yes, there will be a cost of capital to expand, but the margins in Mexico are probably equal to those of South Africa, so there is still room to breathe compared to India's very slim margins. So yes, while Mexico is still in an aggressive capex rollout you will see more expenditure and losses because every device that you put out has an operating cost associated with that.

Brett Levy – Joint CEO

Can we check if there are any questions on the conference call?

Operator

There are currently no questions from the conference call.

Brett Levy – Joint CEO

Thank you. Thanks a lot to everyone.

END OF TRANSCRIPT