

Commentary on VONEX from State One's Chairman Alan Hill

Investments in these stocks should be deemed as speculative



Alan Hill
Executive Chairman, State One Stockbroking

In more than 40 years of investment analysis and research, rarely have I seen a comparable instance of potential high return relative to risk, as is now evident in the VONEX initial public offer.

VONEX is much more than a small Australian telco. It is potentially also a significant software development house focussing on telecommunications applications, with the potential and intent to develop its own globally significant products, based initially on those using its Oper8tor technology.

Our research values VONEX's traditional telco activity alone at an NPV of A\$105M, based on what we deem to be a reasonable assessment of future sales revenue flows. If our assessment of the potential of VONEX's other products is accurate, then we can add a heavily-discounted user-based estimated value of the Oper8tor operation at A\$31m. Potentially it could be worth very much more.

By the end of 2020 it is expected that the NBN will have been made available to at least 11.2 million Australian consumers, with 8 m of these forecast to be active by then. Australian internet consumers will be compelled to dispose of their old-style copper internet service and replace it with the fibre-based, Federal Government driven, National Broadband Network. In making the transition, consumers will have the option as to which provider they select. Obviously, many will opt to remain with Telstra, as the dominant carrier. Many will also select other options which they deem to be more innovative or offering better value or service. **There is no doubt that VONEX is already carving out a niche for itself in this market, with a proven ability to attract clients from Telstra.** Although the numbers are still relatively small, we understand that nearly 100% of VONEX's new clients are sourced directly from Telstra. Most importantly, there is still a very large part of the national pie still to be converted to the NBN, and hence available to VONEX. Once VONEX is listed on ASX (expected 12 June 2018), with an appropriate financial structure in place, we expect that it will take just 9 – 12 months for VONEX's cash generating power to become evident. Our confidence in this regard is based upon:

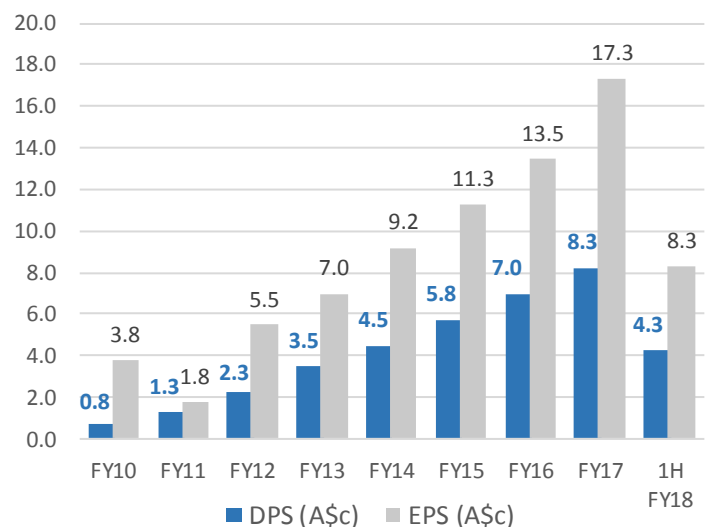
- ✓ The forced "churn" evident in the national broadband market – whereby consumers are forced to drop their copper-based connection to the existing internet communication to an alternative provider;
- ✓ VONEX having positioned itself in the market sweet spot - the small & medium sized enterprises sector, where prices are best & demand growth is strongest, while many competing companies are not well equipped to face the host of technical barriers; and
- ✓ VONEX developing relationships with other industry participants, including companies like In A Box (ASX:IAB) via VN8's wholesale white labelling business.

Based on what we have seen in depth with the ASX-listed MNF Group Ltd (previously known as My Net Fone Ltd) - a similar company to VONEX - companies in this space tend to be initially light on capital, but if well managed they can quickly convert this potential into a robust generator of cash.

With regards to MNF, it listed on the ASX at 20c on 18 May 2006. After struggling for about 5 years, the MNF share price rose strongly over the following 5 years, reaching an all-time high of \$6.90 in late 2017, for **a 34-fold gain relative to the IPO price. Clearly this represented a massive out-performance relative to the broader Australian equity market indices.** (For the sake of balance, I should also note that not all such stocks in this sector have fared as well.)

MNF Group (ASX:MNF) : EPS and DPS

Source: MNF, compiled by State One Stockbroking



Even more admirable has been the trend in MNF's dividend flow. The company paid its first dividends totalling 2 cps (unfranked) in the period 6/9/2010 - 19/8/2011, before subsequently **paying a total of 35.6 cps of fully franked dividends** (without faltering) in the 6-year period from 6/3/2012 - 5 March 2018. By any measure, that amounts to a quite exceptional return on equity. In our view this performance can be attributed overwhelmingly to MNF's success in setting itself up as a high profit margin operation, supported by low operating costs (in-house systems development) and low capital demand. It didn't take long for MNF to emerge as an operation with strong cash generating potential. Although VONEX has significantly lagged MNF in joining the ASX, there are many similarities between the two companies, both having been successful in developing their own unique software products, and hence both being providers of software to the industry rather than buyers, with the attendant high profit margin.

In its favour VONEX has developed a range of other social media and other assets which State One suggests could give it the potential to surpass MNF in many areas of software development, both on existing products and those still in development. Foremost amongst the suite of assets developed by VONEX are the globally patented "**Oper8tor**" programs. Under the supervision of the group's Chief Technical Officer Angus Parker, the technical team has been beavering away since 2004, developing a range of no less than 35 separate products applicable to the groups telecommunications sector, some of which may soon become household names. For commercial reasons, VONEX has withheld the names of many of these products, although it's not expected to be long before the details on some are made known. The market will be watching closely to see to what extent the inherent promise of these other projects is realized.

Please refer to our [Term Sheet](#) which summarises the Offer Details, Indicative Timetable, Company Background, Investment Case and State One's Valuation of VONEX

To view the VONEX LTD prospectus please [Click Here](#).

To view a demonstration of VONEX's social media product, please [Click Here](#). Investors wishing to secure stock should confirm their interest to the State One Executive Assistant, Linda Hill on vonex@stateone.com.au.

PLEASE NOTE THAT THE VONEX OFFERING IS DUE TO CLOSE NO LATER THAN 4th June 2018.

The offer of securities is made in the Second Supplementary Prospectus lodged with ASIC by VONEX Limited on 24/04/2018 ("Prospectus"). Anyone wishing to acquire securities should read the Prospectus in its entirety and complete an application form contained in, or accompanying, the Prospectus. An electronic copy of the Prospectus may be viewed at <https://investors.vonex.com.au/offer/>

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