

AUSTRALIAN

RESEARCH



Contents

This is an extract from the March 2005 Quarterly Technology and Telecommunications Review

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People Telecom (PEO)



Company Overview

PEO provides a broad range of fixed voice, mobile and data products and services targeting the Corporate, SME and Consumer segments. In detail, PEO's products include data services (high speed connectivity, bandwidth, co-location, managed services and fibre); broadband and wireless broadband services, and; fixed line, mobile and VoIP telephony services, including enhanced billing services and sophisticated account management services. The combined entity has more than 40,000 business and, to a lesser degree, consumer customers across Australia, making it the 7th largest full service telecommunications carrier in the country, and operates nationally within all capital cities. PEO is a strongly service and marketing focused company and has state of the art back office, billing and service application systems.

Strategy

From a product and service perspective, PEO's focus has been to establish a full range of voice and data services to provide a more comprehensive and convenient service offering to consumers (product differentiation), generate additional revenues over a partly fixed cost base (economies of scope), and to reduce the inherent risk profile of the entity by diversifying earnings and reducing market segment exposure. From an operations perspective, PEO has invested in the development of state of the art back office, billing and service application systems in order to create a highly cost effective operating platform and to better serve its customer base. PEO has a strong customer service philosophy, which provides for low churn and a high referral rate.

Key Executives

Management has significant experience in the operation and management of telco. companies. Ryan O'Hare (CEO) co-founded PEO in 2000 and was also the co-founder of Australia's largest privately owned telco corpTEL communications. Wayne Wanders (CFO) has significant finance experience, including >10 years in the telecoms industry. Kazim Reza (COO) was the CFO of corpTEL since 1996 and has been the COO of PEO since inception.

Business Model

PEO has a relatively low risk business model characterised by high variable costs and relatively stable and recurring revenues. The variable cost nature of PEO's cost model largely stems from the adoption of a reseller model for most services other than particular corporate data services utilising its own WA CBD network and now nationally via its virtual IP network. The consumer services are now being sold on a contracted basis bundling Broadband, VoIP and Mobile, which will serve to increase the relative share of recurring revenues and further improve customer retention rates.

Catalysts

PEO posted strong 1H05 results, characterized by 50% yoy revenue growth, expanding gross profit and EBITDA margins, and a solid EBITDA turnaround, with a result of \$1.4M. Expanded S&M resources, improved wholesale buying power and a flat fixed cost base were the major drivers. These drivers will continue to exercise a strong influence in the 2H05 period. PEO plans to continue to aggressively expand its S&M resources, increasing its dedicated corporate sales representatives from ~50 to 60 by FY05-end. Further, with the pre-existing Swiftel broadband customer base now integrated in PEO's billing systems, PEO will begin marketing bundled product offerings to this customer group. This not only has the potential to generate significant additional revenues but higher margin revenues given PEO's largely fixed operating cost. PEO's 3Q05 cashflow is expected to represent a material improvement over 2Q05 given the absence of seasonal issues that adversely impacted the latter.

Key investment information

Market Cap (\$M):	\$52.2M
Capital Structure	
Ord shares on issue (M):	306.8M
Options ("in-the-money"):	0.0M
Convertible notes/oth (M):	0.0M
Fully diluted capital (M):	306.8M
Price as at 17 Mar 05:	\$0.17
12 month H/L:	\$0.25-\$0.15
Share Turnover (\$M pa):	\$11.1M
Official listing date:	Jan-86

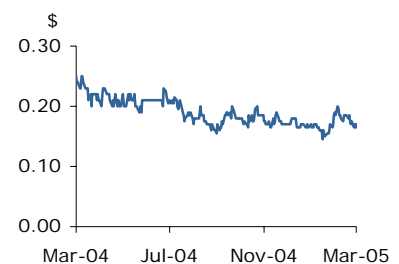
Substantial shareholders (%)

Brendan Fleiter	22.0%
Ryan O'Hare	16.0%
Colin Marland	15.2%
Barry Hamilton	11.0%

Balance sheet data

Net Cash as at 31 Dec 04 (\$M):	\$1.6M
Working capital ratios:	0.9x
Gearing:	0%

Share price performance



Source: IRESS

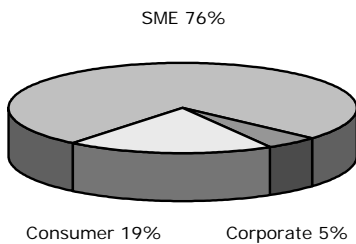
Company contact



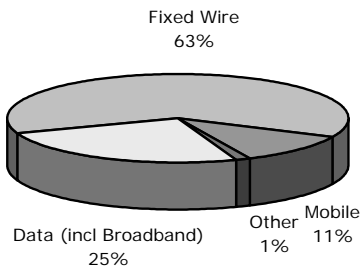
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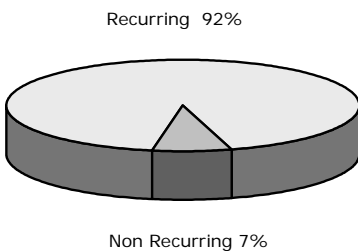
Revenue by Division



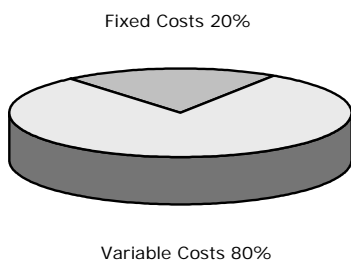
Revenue by Product



Revenue Profile



Operating Leverage



Industry Fundamentals

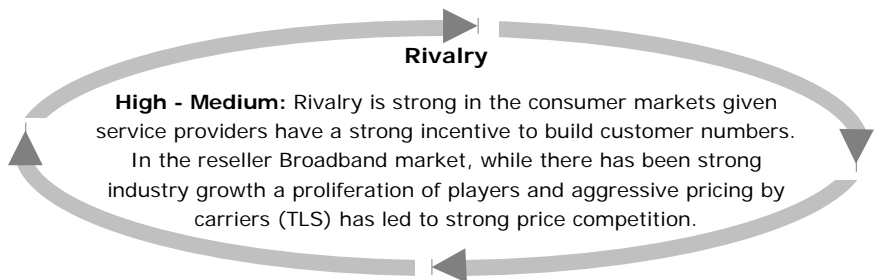
Similar to the industry in general, the reseller segment of the Australian telecommunications industry has experienced strong growth over the past decade due to factors such as industry liberalization, ongoing technological innovation and generally strong underlying consumer demand. Despite the growth, a proliferation of resellers has generated strong competition, primarily in the form of price and quality of service. The price competition has placed pressure on margins which, in turn has led to a consolidation of industry players. In such an environment critical success factors have included a broad and high quality product and customer service offering, customer scale, and efficient and scalable operating systems.

Power of Suppliers

Low - Medium: Key Suppliers: TLS (Broadband/fixed voice/CDMA), Optus (GSM mobile), Uecomm (fibre east coast) and Sprint (Bandwidth). Suppliers have limited pricing power in reality given the strong financial incentive to fill excess bandwidth capacity.

New Entrants

Low - Medium: The Corporate data market has high barriers to entry in the form of sunk network costs. Within Broadband, the financial ability to fund equipment and potential customer growth create some, albeit relatively low, barriers to entry.



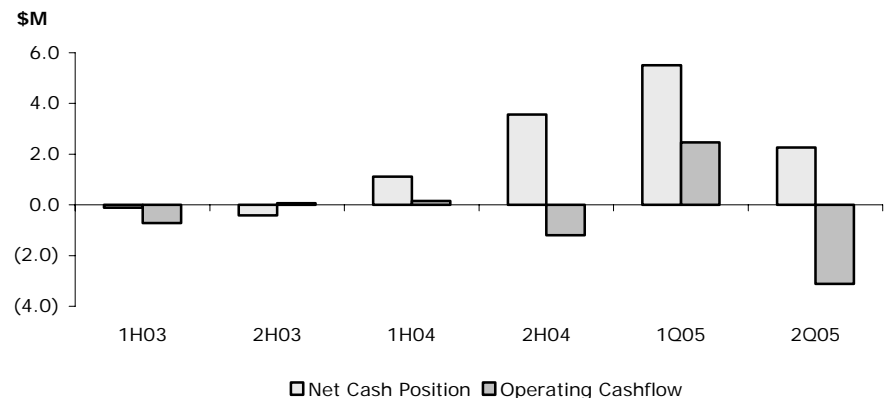
Substitute Products

Low: PEO's pure IP network for corporate data services represents a superior technological platform than legacy ISDN, Frame Relay technologies. Broadband and VoIP is a superior value proposition to Cable, Satellite, and Dial Up.

Power of Customers

High: Potential customers have choice in service provider and exercise strong bargaining power. SME customers also have choice in service provider, although switching costs for existing customers mitigate power.

Half Yearly Cashflow & Net Cash Position



Source: PEO / Aegis Equities Research



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