

One to Watch

Swoop

Meeting with CEO Alex West

9th October 2023

Venn Brown sat down with Alex West, CEO of Swoop, to discuss the current state of the business and what the future holds.

Thanks for meeting with us today, Alex. To start with, can you give us a brief overview of Swoop?

Swoop is a challenger in the internet and telecommunications industry. We operate under two distinct brands: Swoop and Moose Mobile.

Swoop is a premium provider of residential and small business broadband. We deliver our services primarily over our fixed wireless broadband network, which covers underserved areas in regional Australia. It's important to note that we focus on regional and rural areas but not remote locations. We're also an NBN reseller, again focusing on the more underserved outer metro and regional areas but providing national coverage.

We strategically deploy our infrastructure in areas where NBN has not laid fibre and doesn't plan to provide it for several years. The NBN publish their rollout plans, allowing us to plan our infrastructure rollout and marketing efforts effectively.

Moose Mobile is our mobile phone offering that we acquired late last year. The brand caters to price-conscious consumers, emphasising affordability and quality customer service.

For those who aren't familiar, what is fixed wireless broadband?

Fixed wireless broadband is a type of internet connection that delivers high-speed internet to homes and businesses using radio signals transmitted from fixed base stations or towers. Instead of relying on physical cables like traditional broadband, fixed wireless provides a radio link between our broadcast towers and the customer's location, making it a flexible and efficient way to bring internet access to areas where laying cables might be impractical, costly or where the cables or copper wire are unreliable or don't provide adequate performance. This is regularly the case in rural and regional areas where services, including the NBN, rely on copper wires that are 40, 50, and sometimes more than 60 years old.

Swoop Holdings

ASX:SWP

Sector	Communication Services
Date	9th October 2023
Share price	\$0.225
52-week range	\$0.18 / \$0.43
Market cap	\$46.7m
Free float	45%
Dividend	-
Yield	-

Year-end 30 June	FY20	FY21	FY22	FY23
Revenue	\$9.2m	\$22.4m	\$49.0m	\$75.0m
EBITDA	-\$0.0m	\$0.2m	\$11.1m	\$13.2m
EBIT	-\$3.7m	-\$6.0m	-\$2.2m	-\$5.5m
Net profit	-\$5.1m	-\$13.8m	-\$4.9m	-\$37.5m
Earnings per share	-\$2.68	-\$0.14	-\$0.03	-\$0.18
Operating cash flow	\$1.2m	-\$1.1m	\$8.9m	\$13.8m
Free cash flow	-\$2.2m	-\$7.1m	-\$9.1m	-\$3.0m
Cash & equiv.	\$2.6m	\$17.5m	\$32.0m	\$19.0m
Net debt	\$3.3m	-\$9.6m	-\$22.0m	\$8.5m
Net debt / EBITDA	-127.4	-53.3	-2.0	0.6
Dividend per share	-	-	-	-
ROA	-21.1%	-17.3%	-3.7%	-30.2%
ROE	-35.2%	-27.8%	-5.1%	-60.2%

3-year Price Chart



Analysts

Andrew Wilkinson awilkinson@vennbrown.com

This technology performs exceptionally well in regional areas with minimal interference and low population densities.

Figure 1: Swoop has over 155,000 services in operation, including mobile, NBN and fixed wireless broadband



Source: Swoop

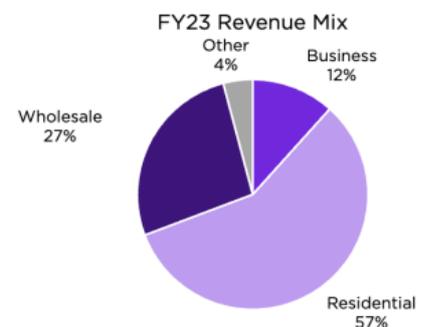
Is your broadband price competitive?

Yes, we aim to be very close to price competitiveness in the market. To provide some context, our pricing strategy is structured to offer slightly higher speeds for similar or even lower prices compared to our competitors. For instance, we have a 70-megabit plan priced similarly to a 50-megabit plan offered by others or a 120-megabit plan at a price point comparable to their 100-megabit plan. What sets us apart is our ability to reliably deliver on these promised speeds. We target areas where existing infrastructure falls short in delivering the advertised speeds, such as providing 70 megabits where customers can typically only get 20 to 30 megabits on legacy copper connections. This reliability and performance at competitive prices are key elements of our value proposition to customers.

Figure 2: Residential sales represent 57% of annual revenue

Revenue and other income (\$000)

	FY22	FY23	Change
Business	9,773	9,102	(7%)
Residential	19,551	45,038	+130%
Wholesale	19,702	20,819	+6%
Other	2,660	3,223	+21%
Total	51,686	78,182	+51%



Residential revenue growth reflects Moose acquisition and organic SIO growth of +15% from Jun-22.

Source: Swoop

Figure 3: Swoop’s broadband antennas are attached to rooftops, water towers and free-standing tower



Source: Swoop

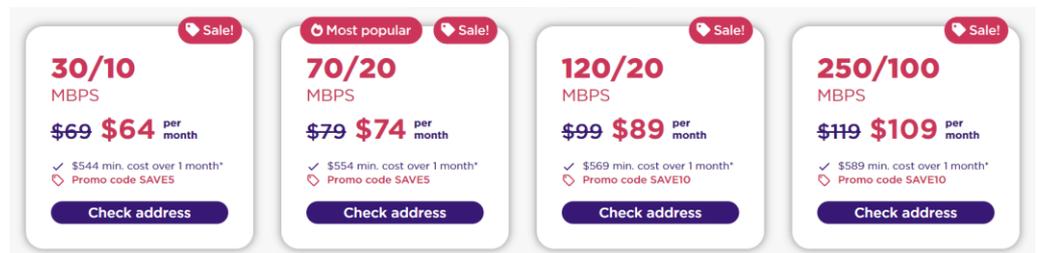
But you also sell NBN as well. Could you explain the reason behind this and how it fits into your strategy?

Selling NBN services is a strategic move for us. It ties into our “land and expand” approach in specific areas. When we direct our marketing efforts to targeted regions where our existing fixed wireless infrastructure is available, we aim to capture as many customers as possible. However, there may be instances where we can’t provide fixed wireless service to everyone interested. In such cases, customers who have engaged with our marketing, visited our website, or called us might find that fixed wireless isn’t an option for them due to various factors like location or network capacity constraints. At this point, we offer them NBN services as an alternative. While the margins on NBN services are not as high as on our fixed wireless offerings, they still contribute to our overall profitability. To provide some perspective, we typically generate a gross margin of 70 to 80 percentage points on a fixed wireless service compared to 20 to 25 percentage points on an NBN service. This difference in margins reflects our strategic approach to cater to a broader customer base while maintaining profitability.

Broadband and telephony are incredibly competitive markets. How do you, as a smaller player, compete against the giants like Telstra, Optus and others?

The broadband and telephony markets are highly competitive; however, our primary competition isn’t usually Telstra and Optus. Since we focus on rural and regional areas, we don’t typically compete with Telstar and Optus. It’s more common for us to compete with Starlink. Starlink, while technologically competitive, tends to be more expensive. They charge as much as \$150 upfront, and it can go up to \$900¹ in areas they aren’t targeting aggressively. Additionally, their monthly fees are around \$140, compared to our typical \$75 for equivalent speeds.²

Figure 4: Residential sales represents 57% of annual revenue



Source: Swoop

We also differentiate ourselves by not directly competing in the mobile space, particularly with the 5G rollouts by Telstra and TPG, which primarily focus on capital cities and larger areas outside of them. We concentrate on areas that they are not currently prioritising. Our niche is in areas with legacy technology where we can offer a reliable broadband service.

Moreover, we often gain support from local councils in the areas we expand into. They not only become customers for our backhaul services but also help us generate interest from residents through town hall meetings and expressions of interest. This proactive approach ensures a smoother installation process, as we typically have a backlog of customers by the time we start installing. Our business model allows for a payback period of around 14 to 15 months per town or tower, with a cash margin of approximately \$60,000 per installation once we’ve established a presence in an area. This combination of factors helps us compete effectively in these markets, even as a smaller player.

Right, so in many instances, are you still going head-to-head with other broadband providers?

When it comes to NBN services, we do compete with other providers, but in many instances, within our primary focus areas, we’re not directly competing with other broadband providers. We prefer to identify and operate in areas where the competitive landscape is less crowded. We intentionally target areas where we’re less likely to face competition, and if NBN is

¹ Starlink’s standard residential package costs \$139/mth plus \$599 + \$30 upfront for the headware and shipping. The higher performance business offering which Starlink claims supports speeds of 40-220 Mbps download and 8-25Mbps upload, starts at \$374/mth and goes up to \$2,233/mth plus \$3,740 + \$155 upfront for the hardware and shipping.

² According to a speed test report published by Ookla, during the last quarter of 2022, Australian Starlink users experienced median download speeds of 106Mbps, upload speeds averaged 11.4Mbps and an average latency of 66ms.

planning to roll out fibre in a particular region in the near future, we'll likely avoid expanding into that area. It's not that we can't do it, but it would mean competing mostly on price with other providers entering the market.

In most capital cities and their surrounds, we offer fixed wireless and NBN services. In regional Victoria, particularly Gippsland, we provide both NBN and fixed wireless. We offer NBN services nationally, but our fixed wireless coverage is not nationwide. We have a strong presence in the fixed wireless enterprise market up and down the east coast of Australia. We offer NBN and fixed wireless services in Newcastle; however, we focus more on the small business segment rather than residential customers. More recently, we've extended our NBN services to regional South Australia, where we already had a significant fixed wireless infrastructure in place. This strategic approach allows us to tailor our services to different regions and market segments.

When we enter a new town, people usually have either NBN satellite or NBN fixed wireless. In the town centres, what's most common is NBN using the original copper to the home, some of which, as I mentioned, is 50 or 60 years old. NBN isn't looking to upgrade much of the copper in regional areas, and there is no Federal or State funding for towns that have copper. Government funding is typically only provided for fixed wireless in areas that have existing fixed wireless or satellite. So you've got a lot of areas that are somewhat ignored. The governments or bureaucrats say it's good enough, but it's unreliable. Connections degrade or are completely cut when it rains or for other random reasons. Speeds are inconsistent and most of the time, they're well below the sticker speeds.

What you need to remember is that NBN did a fantastic job of convincing Australia that everybody deserved broadband, and for 90-odd per cent of Australia, they provided it. But that last 10% (and probably more) aren't getting it. Most of the infrastructure is being put into capital cities and the major areas outside of capital cities, not the regions we target.

So, in short, we're targeting areas that either don't have NBN or have a subpar version of it. We're offering a high-quality service, which is faster and more reliable than the alternative for a comparable or sometimes cheaper price.

How do you focus your marketing budget? Because NBN is Australia-wide, you've got hundreds of thousands of businesses to market to?

Our marketing strategy varies across our different offerings and locations, but it's always centred around maximising our impact and leveraging our existing infrastructure. As I said previously, our NBN offering is nationwide, but we strategically pick areas where we already have infrastructure. This approach allows us to not only offer NBN services but also provide higher-margin services in those regions.

We aim to capture a better "share of voice" in the markets we serve. For example, Sydney is an incredibly crowded market with huge advertising costs, so we don't focus there. Instead, we allocate our resources to areas where our brand recognition is growing and where we currently operate. These areas tend to have low advertising costs, but you need to understand that the effectiveness of marketing activities varies across locations. What works in Sydney doesn't work in regional areas and small towns. In these areas, where trust in telcos is low, especially for new entrants, you need to be seen. We use traditional methods such as back-of-bus advertising, billboards, and direct marketing like direct mail. It may seem old-fashioned, but it works in these areas.

When we're relatively new in these areas, we need to invest in building our presence, but in those areas, customers tend to be extremely sticky, so we have very low churn, well below the industry average. Over the last two years, our churn on fixed wireless has averaged 4.8% per year, compared to the industry average of around 20%. And most of our churn occurs because our customers move house to an area we don't support.

To sum it up, our marketing strategy focuses on areas where we already have infrastructure and customers, with a preference for non-mainstream capital cities and regional areas where advertising costs are more manageable and local advertising can be more effective.

I understand you also work a lot with councils?

Yes, we actively seek council support in the regions we expand into. Our approach involves engaging with local councils to get their backing and participation. These councils often become customers themselves, utilising our internet services to cover their backhaul needs. We also generate considerable interest from residents through activities like town hall meetings and other community engagement efforts. This proactive approach results in a well-prepared rollout strategy. By the time we're ready to install our infrastructure, we already have a significant pipeline of potential customers, significantly shortening the installation timeline. Typically, we achieve payback within approximately 14 to 15 months after launch. On a per-town or per-tower basis, we realise a cash margin of around \$60,000, so it's pretty profitable.

What size towns or regional areas do you target?

Our targeting strategy encompasses various town sizes and regional areas. For instance, we cover Gippsland, which includes around 10 to 20 towns. In the case of regional South Australia, our focus is on approximately six to seven larger towns. We do operate in Perth and its outskirts, extending up to around a two-hour drive from the city. We also have a presence near Geraldton. Historically, we concentrated on larger regional towns with populations of around a hundred thousand people or more. However, we've learned that achieving coverage in such towns requires the installation of numerous towers, and the return on capital isn't as compelling.

We've found that smaller towns with populations of around a thousand people offer better penetration and more favourable returns on invested capital. We conducted trials in five such towns over the last two financial years (FY22 and FY23) and achieved a remarkable 20% penetration within the first two months. So that's where we're focusing our efforts in fiscal year 2024 and into 2025. We've identified 50 to 100 areas that meet this profile and plan to deploy 10 to 20 installations throughout 2024 and 2025. This expansion strategy is designed to generate cash flow that reaches approximately 60,000 AUD per installation, totalling around 1.2 million AUD after all expenses are covered with that cash allowing us to continue the rollout.

How many of the places where you have the service have you got both NBN and fixed wireless?

Our service offering varies across different regions. In most of the capital cities, we provide both fixed wireless and NBN services, with Perth being one of the largest markets where we offer both. In regional Victoria, specifically Gippsland, we offer both NBN and fixed wireless services.

We have a strong presence in the fixed wireless enterprise market up and down the east coast of Australia, where we also offer NBN services. In Newcastle, we provide both NBN and fixed wireless services, but our focus there leans more towards the business segment, particularly small businesses, rather than residential customers.

Recently, we introduced NBN services into regional South Australia, building upon our existing large fixed wireless infrastructure. Adelaide, in particular, has been an area where larger telecommunications companies have historically not prioritised residential service offerings. The South Australian government's efforts have attracted larger telcos, but there remains an underserved residential market. We have a large presence outside of Adelaide, in the surrounding regional areas, thanks to an acquisition of Beam, which has since been rebranded as Swoop. We are now expanding our services into Adelaide itself to address this underserved residential market.

We also have a lot of staff in the regional areas we focus on, which also makes a difference. In Sydney or Melbourne, no one cares where you're from, but in many parts of Australia, you really need locals selling to locals.

Eventually, the big guys are going to get to those areas, aren't they? How do you compete with them then?

Indeed, we anticipate that the larger telecommunications companies will expand into these areas eventually, and we're putting plans in place for when that happens. We estimate that we have around five years of rollout and cash resources, followed by another five years. Depending on the specific region, we have a 10-year runway before we foresee significant competition from these major players.

While we have a strategy for this scenario, I'm not prepared to disclose it publicly at this point. It's a matter that's five to ten years away, and I prefer not to signal our intentions to competitors at this stage. What's important is that we have confidence in our existing infrastructure. If, for example, our fixed wireless technology is likely to be replaced by fibre, you'll probably find us transitioning to fibre sooner rather than later to maintain our competitive edge. It's worth mentioning that when it comes to fibre, I have been involved in the construction of some of the larger fibre networks built in Australia over the last 25 years. Swoop's founders, my chairman and deputy chairman were all founders of some of the largest fibre companies in Australia. We have that skill set.

What's the limiting factor in the speed at which you roll out new services?

The primary limiting factor in our rollout speed is ensuring everything functions properly and reliably. We take great care to ensure that our services work as intended before launching in a new area. Additionally, there's a practical limit to how quickly we can get local councils to approve our rollout plans.

Typically, the rollout process takes us around four to five months, and we're currently working on getting the necessary approvals from local authorities, which is often the most time-consuming part. Attempting to rush this process can be counterproductive because it can lead to challenges in getting customers on board as quickly as desired. Building towers, while not without complexities, is relatively straightforward and can be done pretty quickly. However, getting customer buy-in doesn't happen overnight, especially in regional areas.

People in regional areas tend to have a different pace, and trust is a significant factor. Building trust and rapport with potential customers often requires spending time with them, patiently explaining our products, and being present in the community. Word of mouth becomes a powerful marketing tool once we've established this trust and have a few satisfied customers.

Do you own all your own infrastructure?

We own all the active equipment [antennas], but in most situations, our equipment is installed on someone else's rooftop or water tower rather than free-standing towers. It's one of the reasons that our installation costs are so low. A new rooftop or water tower installation costs just \$20,000, including the equipment, power, labour and everything else. Occasionally, we'll build the 60 metre tall free-standing towers, but these towers are most often funded through Federal and State government grant programs. The free-standing towers, generally built for mobile phone networks, cost at least \$100,000 and go up to three or four hundred thousand depending on the location.

Do you have to buy spectrum to operate wireless broadband in the same way mobile networks buy spectrum?

It's a bit technical, but keeping it simple, no we don't need to buy spectrum. The fixed wireless broadband operates under a "class licence" or "apparatus licence" regulated by ACMA³, but is self-controlled by the industry. The licence allows us to use a specific band of spectrum and doesn't require us to pay the hundreds of millions or billions of dollars that mobile network operators pay for their spectrum. There are some specific circumstances in which we buy spectrum, but it's not required for our general fixed wireless business.

What's your biggest opportunity for growth?

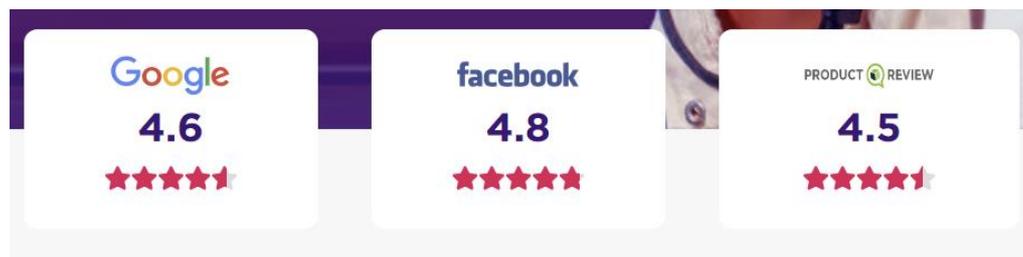
We have four significant growth opportunities that we're focused on right now. First is the expansion of our fixed wireless services in regional areas. We see continued growth potential in this space and will maintain our focus on it.

Second, we're going to continue to expand our NBN reselling, particularly as there's a shift in technologies with the move to FTTP⁴. We are strategically targeting these areas within our existing customer bases to capitalise on this transition. A lot of customers aren't happy with their existing NBN; it can be a combination of things, but customer service is a key aspect, and that's an area of focus for us. The new technology offering provides a great selling opportunity for us because customers are looking to potentially upgrade their services which is a great time to encourage them to switch providers too. Swoop has a 4.5 star rating, which is a leader in the telco space and compares favourably to Telstra and other providers.

³ Australian Communications and Media Authority (ACMA) is the regulatory body governing broadcasting, radiocommunication and telecommunication in Australia.

⁴ NBN is launching NBN fibre which is a program enabling customers to have fibre installed directly to their premises, entirely removing the use of the legacy copper wires. This replaces the fibre to the node (FTTN) architecture which required the "last mile" of the connection to customer's homes use legacy copper wires. This new service significantly increase both the potential speeds available to customers and the reliability of the service.

Figure 5: Customers appear to appreciate Swoop's focus on customer service



Source: Swoop

Third, our mobile business is also experiencing significant growth. The acquisition of Moose Mobile meant we recently introduced mobile services to our existing customer base, consisting of approximately 30,000 residential users who were not yet using our mobile services. Simultaneously, we're tapping into a market of 110,000 to 120,000 mobile users who do not currently have a broadband service with us, so there are great cross-selling opportunities with all our products.

Lastly, we've expanded our presence in the small and medium-sized Business (SMB) sector by offering fixed wireless, NBN and voice products. Each of these areas presents unique growth prospects for the business, allowing us to diversify and tap into various market segments.

So with the NBN and Moose Mobile, you're still focusing on areas that aren't super competitive.

We're focusing on areas that we are already in. Moose Mobile is a national play that will continue to drive our user base since it's one of the few brands that have won best value and customer service from Canstar. So it's reasonably well respected from a consumer space. It does quite well on product reviews. But in terms of the Swoop mobile brand, we use that in areas where we already have a presence and brand recognition and which, as we've already discussed, are areas with less competition.

This comes with obvious advantages but also some challenges, given we use the Optus network, so we run a risk that it may not be as well served in some areas. People in regional areas distrust Optus. Overall, the Telstra network still performs better in most areas, but that performance is deteriorating. I have two phones, one using Telstra and the other using Moose Mobile, and there are definitely regional areas I visit where Moose Mobile performs better than Telstra.

Acquisitions seem to be a key part of your growth strategy, can you talk more about this?

Since June 2021, we've made eight acquisitions, the largest of which was Moose Mobile. Each acquisition has brought us new customers, infrastructure, or both. What's great is that every one of them has grown since we bought them, but acquisitions always include challenges. I think the hardest thing has been the integration of people. People from nine different businesses all at varying stages of their respective life cycles coming together over a relatively short period.

Overall, we're happy with all of them, but we're also constantly reviewing our portfolio and assessing what we have, what opportunities does each present, and would parts be better off in someone else's hands. We haven't yet found that's the case, but that will always be

something we consider; if someone can make more money from an asset or business than we can, we'll take the cash and put it into something else.

The board is probably fairly advanced in that sort of thinking in terms of capital management. We're in a good cash position, and we're focused on how to best deploy that cash to maximise our long-term returns.

Figure 6: Since June 2021, Swoop has invested \$52 million in acquisitions

Name	Product	Geography	Segment	Infrastructure	Purchase Price	Announced EBITDA	Date Completed
Community Communications	Fixed Wireless (FW)	Perth	Residential	14 Towers	\$0.3m	\$0.1m ¹	June 2021
Beam	Fixed Wireless (FW)	Regional SA	Residential/SME	65 Towers	\$6.7m	\$1.6m ¹	June 2021
Speedweb	Fixed Wireless (FW)	Regional VIC	Residential	51 Towers	\$1.75m	\$0.5m ¹	July 2021
Countrytell	FW/Fibre/ Data Centres	Regional NSW	SME/Government	33 Towers/Data Centres/CBD Fibre	\$4.2m	\$1.0m ¹	July 2021
Voicehub	Voice	National	Wholesale	-	\$6.0m	\$1.5m ¹	November 2021
iFibre	Fibre	SA	Wholesale	Metro Fibre	\$1.5m	\$0.15m ¹	February 2022
Luminet	Fibre	NSW	Wholesale	Metro Fibre	\$8.0m	\$0.8m ¹	April 2022
Moose	Mobile MVNO	National	Residential	-	\$24.0m	\$3.5m ¹	November 2022
					\$52.45m	\$9.13m¹	

Source: Swoop

That raises an interesting point: you did a share buyback during the year, that's pretty unusual for a company of Swoop's size. What prompted that?

It was purely opportunistic. We repurchased shares at around \$0.39⁵, which meant we were trading on a two-times price to EBITDA⁶ multiple. We took the view that it was a great investment in the future and would improve our EPS⁷.

So what's the biggest risk to Swoop achieving your three to five year goals?

Our most significant risk remains execution, as is the case for many companies. While we have ambitious plans and strategies, there's always the risk that executing them, particularly in terms of rolling out new towers, might not proceed as smoothly as we hope.

Additionally, we face integration risks related to the acquisition of eight companies. Ensuring a seamless integration process, where we retain customers and minimise attrition, is a key challenge.

Technology rollout and customer acquisition will continue to pose challenges. It's important to acknowledge that these are inherent risks in a competitive market. In the NBN reselling space, for example, there are approximately 143 resellers, and while not all are strong

⁵ Between August 2022 and July 2023, Swoop repurchased 9.4 million shares for a total of \$3.7 million, at an average price of \$0.40 per share.

⁶ EBITDA = Earnings before interest tax, depreciation and amortisation. EBITDA is a loose but commonly used proxy for operating cash generation.

⁷ EPS = Earnings per share

players, competition remains fierce. We are one of the largest NBN resellers, probably the next biggest, outside the big six.

In the business services segment, we do pretty well, maybe in the top five or six resellers of business NBN services.

What's the most misunderstood part of the business?

To be honest, it's what you asked at the beginning. Most investors don't know what we do, or they might know about one or two parts of the business but not all of it.

Beyond that, there's a significant misconception regarding the size and opportunity within our regional, high-margin fixed wireless product segment. Some assume that there aren't many potential customers in these areas or that competition is too fierce, but the reality is quite different. As I've explained, there isn't much or any other competition in most of the areas we operate. And in the more populated areas, like the outer areas of Adelaide or Perth, despite some competition, we're growing quite nicely.

Following that theme, then, what do you wish more investors knew?

Well, how undervalued we are would be the first step. So we're trading on a four to five times price to EBITDA multiple at the moment compared to our peers that are trading on eight to ten to twelve times, so there's significant upside to our share price. We have plenty of cash and we're still growing.

Share price performance



Source: Factset

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