

Conference Call Transcript

24 July 2018

Q1 RESULTS ANALYST CALL

Operator

Good day ladies and gentlemen and welcome to the Vodacom Group Ltd conference call for the quarter ended 30 June 2018. Vodacom Group CEO, Shameel Joosub, will host the conference call. I will read the forward-looking disclaimer before handing over to Shameel.

This announcement which sets out the results for Vodacom Group Ltd for the quarter ended 30 June 2018 contains forward looking statements. These statements have not been reviewed or reported on by the group's auditors with respect to the group's financial condition, results of operations and businesses and certain of the group's plans and objectives. In particular such forward-looking statements include statements relating to the group's future performance, future capital expenditures, acquisitions, divestitures, revenues, expenses, financial conditions, dividend policy and future prospects, business and management strategies relating to the expansion and growth of the group, the effects of regulation on the group's businesses by governments in the countries in which it operates, the group's expectations as to the launch and rollout dates of products, services or technologies, expectations regarding the operating environment and market conditions, growth in customers and usage and the rate of dividend growth by the group.

If you do not have a copy of the results announcement it is available on the investor relations website on www.vodacom.com. All participants are currently in listen-only mode and there will be an opportunity for you to ask questions later during the conference. If you should need assistance during the call please signal an operator by pressing star and then zero. Please also note that this call is being recorded. I would now like to turn the conference over to Shameel Joosub. Please go ahead, sir.

Shameel Joosub

Okay. Good afternoon everyone and good morning to our US callers. I'm joined by Till Streichert, our CFO, and Sean van Biljon, our Head of Investor Relations. Being quarterly results we will only focus on revenue and key performance indicators today. Safaricom is not reporting on quarterly results and we will therefore not be disclosing an update on their performance during this call and none of these numbers have Safaricom included. Till will quickly talk about the implementation of IFRS 15.

Till Streichert

Thank you Shameel. I will keep this short as you will be hearing much more detail in the coming months. On this financial year we together with Vodafone are implementing IFRS 15. We are implementing this standard on a prospective [?] basis. What this means is essentially in the current year IFRS 15 becomes the primary disclosure in our financial statements while the comparatives will be presented on the old IAS 18 basis. From a reported perspective we will talk about a like for like comparison based on IAS 18 until next year when we will have fully transitioned to the new IFRS 15 reporting. But more to come. Shameel will now take you through the performance measures on this basis.

Shameel Joosub

Thanks Till. Overall I am pleased with the results as the strong momentum from our annual results has carried us into the first quarter. The continued growth was driven by strong customer additions and improving customer mobile revenue growth trends in South Africa as well as M-PESA and data in our international operations. Group service revenue and revenue grew 4.2%. Normalised for translating currency effect growth was 5.2% and 5% respectively. We have seen strong customer growth of 10.3% and we have now more than 76 million customers across the group.

Let's look at the segments in more detail. Our South African operation continues to perform well in a challenging macro environment. Performance was supported by an improvement in customer revenue growth trends and strong customer gains. Contract customer revenue growth was 0.8% recovering from declines in the previous quarter. The improved performance in the enterprise segment supported this growth coming from recent contract sign-ups and improved usage. The contract ARPU decline moderated to -2.3% supported by higher ARPU notably in enterprise. Prepaid customer revenue growth was 5.5% supported by the 10% growth in customers for the segment. In total we added 1.5 million customers to close the quarter on over 43 million customers.

Our big data and personalised bundle strategy is performing well. We sold over 600 million bundles in the quarter, up 9% on the same quarter last year. 60% of these bundles are sold through our Just 4 You platform which presents customers with personalised offers. Data revenue was up close to 10% to R6 billion. Our strategy of making data more affordable for our customers has resulted in a 32% increase in data bundles sold and an overall effective price per MB reducing by 17%. Although a slight slowdown in growth we note that it is now on a much higher base as data now contributes 44% of service revenue.

Our focus on making data even more personalised is strengthened with the introduction of specific pricing for services and offer special options for apps such as WhatsApp, Facebook and other entertainment services. We can now combine these services together in the form of a Vodacom ticket whereby you can access the social media ticket, a gaming ticket, a video ticket or a music ticket at differentiated pricing.

We have now also official launched the first of our platforms with the official launch of video on demand by Vodacom. This is a combination of on demand and subscription services which will further increase customer reasons to consume and be entertained through Vodacom. I think the big difference in this platform is that unlike ShowMax and Netflix you can access cheaper content, R5 content and R10 content which are movies and so on, but you can also buy a subscription for the day, for the weekend, for the week and for the month which makes it materially different to what is out there today.

We spent R2 billion on capital expenditure focussing on new sites, upgrades and capacity to improve network quality and performance. This is seen us pulling ahead and leading on an Ookla speed test on 4G and speed tests on all technologies. So it reconfirms basically that we have again the best network in the country.

Our international operations continued to gain momentum. Service revenue increased 12.4% excluding foreign currency exchange effects and adjusting for the CDF and USD decoupling in the DRC. This represents good growth momentum in most of our markets. In Tanzania robust customer growth and ARPU stability was achieved despite the intensified pricing pressure from competitors. Tanzania is still a great [unclear] of M-PESA boasting 6.8 million customers as their merchant platform continues to gain momentum. A 4G spectrum auction was held in Tanzania during June where we secured 2x10MHz of 700 spectrum.

DRC has improved as the currency and economic environment starts to stabilise and we are seeing growth trends improving in the quarter. At the end of May we were awarded a 4G license and currently have 80 sites live in three major cities. We are quite pleased with the strong commercial performance in both Mozambique and Lesotho. The M-PESA ecosystem continues to widen as we add more products and services in all our markets. Our merchant platform in Tanzania has over 7,900 merchants actively trading on this platform. The service has also been introduced in Mozambique.

We now have almost 13 million M-PESA customers excluding Safaricom with revenues up 23.8%. M-PESA revenue now contributes just under 15% of international service revenue and is a priority for growth. We invested 552 million in these operations during the quarter to widen and strengthen our network position in each country. This excludes the 4G license in the DRC and the 4G spectrum in Tanzania which was a combined cost of only \$32 million. So just to be clear we secured both 4G spectrum in Tanzania as well as in the DRC for a total cost of \$32 million.

On the regulatory front, the white paper and the proposed amendment to the Electronic Communications Act in South Africa, we are expecting a revised draft to be tabled in cabinet in due course. Our position for competitive [unclear] and access to spectrum for incumbents remains unchanged. Based on market commentary we expect an auction or allocation process to happen soon and we are confident of a positive outcome.

On out of bundle rates in South Africa the intended date for implementation of the end user subscriber charter regulation by ICASA was originally targeted for 8th June. The effective date has been suspended pending the final determination of an urgent application launched by other operators in the high court. The challenge is not on the regulation per se but rather on the request to allow for additional time to ensure technical readiness. We remain committed in addressing concerns on out of bundle usage and improving the customer experience for our subscribers. Once implemented we expect a modest impact on data revenue growth as we expect this to be mitigated in the short term by continued uptake of data bundles and strong elasticity and demand for these services.

Rain and Vodacom agreement. I am pleased to confirm that our agreement with Rain which was previously challenged have been approved by the regulator, ICASA and the Competition Commission. I will remind you that the agreement allows for Vodacom to roam on Rain's data-only network thereby relieving some of our spectrum constraints for the medium term.

On the BEE deal there has been a lot of news flow on the BEE deal. The final terms were announced on the 4th July. The deal replaces the scheme which was to expire in October 2018. The new deal is at a relatively low discount when compared to similar deals and essentially we also avoided dilution of the South African operations for the group. This will see Vodacom South Africa's effective BEE ownership increase to 20% from 17% and help us to secure our current level three rating. Doing this transaction at a group level will allow for financial improvement in effective ownership benefitting from the flow through principle as the international and Safaricom piece become a bigger portion of the sum of the parts. The circular is now available on our website. This concludes my comments and Till and I are now ready for any questions.

Operator

Thank you very much sir. Ladies and gentlemen, at this time if you do wish to ask a question please press star and then one on your touchtone phone. If you decide to withdraw your question please press star and then two to remove yourself from the queue. Again if you wish to ask a question please press star and then one now. Our first question is from Cesar Tiron of Bank of America Merrill Lynch. Please go ahead.

Cesar Tiron

Yes, hi. Good evening everyone. Thanks for the call and for the opportunity to ask questions. I have three questions please. Apologies for that. The first one, could you please confirm that IFRS 15 has no impact on EBITDA and free cash flow? Second, are you still comfortable with your 2019 guidance of mid-single digit revenue growth as I see Q1 was only 5.2% and we haven't seen yet the impact of the loss of Cell C related revenues? And then the third question. Do you see an impact from the Rain launch last quarter? Do you have any insight as to how many subscribers you think they managed to attract? Thank you so much.

Till Streichert

Let me take the first question on IFRS 15. We are disclosing at Q1 not EBITDA and operating free cash flow. So in essence my commentary from the whole year numbers a couple of weeks back is in essence a reference point. First of all from a cash flow point of view cash is cash so there is no change between IAS 18 and IFRS 15. That is the one thing if you look at it on a contract by contract basis. On an EBITDA basis what I did say is that we believe it is neutral to slightly positive on a full year basis. And let me just unpack that to give you a little more detail. And I'm happy to also give further insight obviously when we come to the interim results when we disclose the full set of financials.

But the way it works is due to the timing of accelerating revenue in the direct channel and the fact that in the indirect channel due to the netting of the commission you now basically spread what you previously accounted for on day one. If you look at it on a contract by contract basis you would see an increase in profitability in fact. Now, as we are obviously recognising also prior history, basically the previous 24 month contracts, and have processed an opening balance adjustment you basically carry also the history of the previous contracts in your base. And hence taking that into account our view is it is neutral to slightly positive on an EBITDA level.

Shameel Joosub

Okay. In terms of guidance we reconfirm the guidance. Let me just say on the Cell C roaming impact we have found other wholesale revenues and are busy finalising that which we are confident will offset the impact on Cell C both in the short term as well as in the longer term. And also this year what will happen is it's a slow migration from Cell C, remembering that there is a floor until 2020 which they have to comply with until November 2020. And beyond because essentially the way we understand it the deal with MTN is 3G and 4G only.

In terms of the Rain launch I would say it has been a little bit chaotic for them in terms of what we can see because I think they have been trying to launch something that doesn't have contiguous coverage. So it has had an impact. We have not seen any big customer gains. I think they are having certain issues in terms of capacity because of the way they structured their deals. And they also have a service level agreement with us where they have to comply. So we are ensuring that we put the requisite pressure in ensuring that our service levels are not affected in any way.

Cesar Tiron

Thank you so much. Very clear.

Operator

Thank you. The next question is from Jonathan Kennedy-Good of SBG Securities. Please go ahead.

Jonathan Kennedy-Good

Good afternoon. Thank you for taking my questions. Just two quick ones from me on the prepaid subscriber growth. It seems to have rebounded quite strongly. I'm just wondering whether there were any specific deals that drove that growth and whether you see that kind of prepaid growth as sticky into the second half of the year. And also on data revenue growth in South Africa obviously coming off a little bit. I think you mentioned the higher base in the first quarter last year which we agree is obviously higher. But can we see any kind of rebound in data revenue growth in light of the regulations that look to be imposed in the second half?

Shameel Joosub

Okay. I think firstly from a prepaid subscriber part from a customer add perspective very strong, so we're quite happy with that. I would say very strong performance in terms of voice in the prepaid segment. A slight weakness in terms of data. Part of the issue that caused the slowdown is effectively some price changes and some price movements in terms of making sure that we were competitive in certain of the price points. So I would say more from a data revenue perspective. Is there an opportunity to rebound? I would say yes. But we are being a bit conservative there because we still have to look at offsetting the impacts of the ICASA regs as and when they come into effect. I would say on a normal basis without the ICASA regs we are working on plans to recover it.

We have a number of different plans, one to drive up active users, another one to faster convert to smartphone devices, bigger conversions to 4G devices and so on. So looking at non-users, upsell on existing users. There are a number of different programmes that we have put into action to try and make sure that we can further accelerate the data growth. However we are also planning to try and manage the ICASA offset whilst maintaining guidance. We have got some pressure points. The big one I would say is managing the ICASA thing while staying with guidance. So we are also looking at an outperformance in the internationals as well.

Jonathan Kennedy-Good

Thank you.

Operator

Thank you very much. The next question is from Madhvendra Singh from Morgan Stanley. Please go ahead.

Madhvendra Singh

Hi. Thanks for the call. A couple of questions from me as well. Firstly on the voice revenue trends if you look at the different quarters the rate of decline is actually quite volatile. This quarter actually is quite strong with only 2.8% decline. Could you please shed some light on why it is so volatile? What is the sustainable level here? Should we just look at 2.8% decline going forward around that level, or do we expect to go back to under the 5% number which you have as a target? And secondly on the data out of bundle restrictions I'm just wondering what the exposure is now on out of bundle data. And have you started implementing ICASA's new directives? Thank you.

Shameel Joosub

Firstly on voice I think what we have seen a little bit of the volatility come through from is Just 4 You and some of the bundles and so on. What we are doing is we are carefully managing the voice decline to keep it at below 5%. And obviously we are trying to make sure that it trends below 5%. So the overall plan is data higher, voice under 5%. But obviously if we can keep the voice lower and basically the data a bit higher then we achieve the overall result. So if I were you I would be preparing more around guidance in terms of the overall revenue. But I would also be looking at the improvement in customer revenue. I think that was quite encouraging in the quarter where you saw a nice step up in the customer revenue and improvement in trend in customer revenue. And what

we are trying to ensure is the overall customer revenue impact. It went from 1.6% in the fourth quarter to 3% in the first quarter.

In terms of the ICASA implications what we are doing is readying for it. We are also asking for clarity which we may seek even through the court if needs be in terms of the exclusion of contract, enterprise and some of the daily and weekly bundles from there. We have written to ICASA and we are awaiting a response. That said we are making sure that the systems will be ready. I think obviously it is taking a while for it to even come to the courts. So it will be delayed for a while.

What we are doing in the meantime is trying to make sure that we get as many people in bundle as possible, so targeting the customers to try and convince them to move to bundles so we can deal with some of the issues, approaching our enterprise customers, making sure they have opted in to out of bundle or chosen to buy another bundle called a safety bundle and so on. So we are trying to minimize the impact. An example would be customers experiencing out of bundle today are being approached with a three for five, so for R3 you get 5MB which reduces the effective rate on the out of bundle. So that is how we are trying to manage it. We will continue to manage it, fix the journeys, make sure that everything is happening before we do the final switch on once ICASA finally sorts it out.

Madhvendra Singh

So what is the exposure to out of bundle now?

Shameel Joosub

Sorry?

Madhvendra Singh

What is the exposure to out of bundle?

Shameel Joosub

12% of the revenue.

Madhvendra Singh

12% was the number for the last quarter as well.

Shameel Joosub

It stayed more or less the same.

Madhvendra Singh

And just going back to the first question. Just 4 You has been so successful in this quarter. What changes on a quarter to quarter basis that the same success level is not dissimilar to what you achieved in this particular quarter? Was there something different done on the Just 4 You which drove this managed decline in the first quarter?

Shameel Joosub

On Just 4 You obviously we are continuously improving it and adding more points, for example we have added now WhatsApp bundles for the hour, for the day, for the week, for the month, Facebook and so on. So there are specific bundles which have gone into Just 4 You. But also things like creating bigger bundles on both voice and data for the day, for the week, for the month. So we have improved the product offering if you like that goes as an input into Just 4 You. And we also look for more data points to try and increase it. The other big thing I would say is upsize upsell. So because

you have just bought 100 minutes would you like 200 minutes for only X Rand more? We call that upsell, so effectively trying to upsell the customer to a bigger bundle if you like.

Madhvendra Singh

Okay. Thank you.

Operator

Thank you very much. Ladies and gentlemen, again if you wish to ask a question please press star and then one. The next question is from Preshendran Odayar of Citi. Please go ahead.

Preshendran Odayar

Hi guys. I've just got two questions. One is around the Tanzanian minority buy-out that you guys said you were looking to buy out the minorities. What is the progress on that? And secondly on the fibre partnership I know the last time we met you guys you said that you were still in discussions about finding a partner to roll out fibre with. I just want to know an update on that please. Thanks.

Shameel Joosub

Okay. Till, do you want to take the Tanzania one?

Till Streichert

Happy to answer that. Look, we are still in progress with that transaction. As you know as part of the IPO we were obviously interested in simplifying our shareholding structure and increasing it back to 75%. We currently have filed our application and are waiting for the requisite regulatory approvals including FCC and Bank of Tanzania. So that's the update at the moment on that transaction. But we are pursuing it obviously and pressing ahead with it.

Shameel Joosub

Just to be clear it is about 12% of the effective ownership.

Till Streichert

That is correct. Remember we are in essence holding 49% of Mirambo already today hence our current ownership is comprised of a direct shareholding and an indirect shareholding through Mirambo. And what we are planning to do is acquire the Vodacom Tanzania Plc shares from Mirambo to increase our direct shareholding back to 75%.

Shameel Joosub

And to be clear the acquisition will not be higher than the listing price.

Preshendran Odayar

Okay. Thanks.

Shameel Joosub

On fibre and the partnership let's just say discussions are going well but we are not yet in a position where we can announce it. We would have liked to have been able to announce what we are going to do in that space sooner. To be honest there have some delays. So we should hopefully be able to do so soon.

Preshendran Odayar

Okay, cool. Thanks very much, Shameel and Till.

Operator

Thank you very much. Our next question is from Ziyad Joosub of HSBC. Please go ahead.

Ziyad Joosub

Hi everyone. Thank you for taking my question. I have just one question please. In the release you mentioned that contract customer growth was supported by an improved performance in the enterprise segment. When you say improved performance is that an acceleration from the 12.6% year on year growth that the enterprise segment did last year, or is it just positive growth from where we were next year? Essentially have we seen enterprise growth accelerate or is it the same level? Any guidance.

Shameel Joosub

I think what we say there we're talking specifically on the mobile side. The fixed side continues to do well but the mobile side if you remember last year was flattish because of the discounts on the national tender. What you are now seeing is an acceleration of growth as we now pass through those comps if you like in terms of the discounting. And you're starting to see some of the ARPU increases, the additional revenue that flows from the national tender, continued growth in customers and so on all coming through in the enterprise segment. And that's working well. Also we started to migrate Transnet but there are still lines to come which still have to move over from MTN which basically comes through in Q2 and in the rest of the year.

Ziyad Joosub

Got it. And at this stage do you guys have an estimate for how much enterprise makes up of total service revenue in South Africa?

Shameel Joosub

Currently it makes up 25% of revenues which includes wholesale in there as well. And that will continue to grow.

Ziyad Joosub

Thanks very much. Thank you.

Operator

Thank you. The next question is from Dalibor Vavruska of Citi. Please go ahead.

Dalibor Vavruska

Good afternoon. Just two quick questions if I may. One is on the regulation. I think you said that you are expecting a positive outcome soon. When I look at the filings some of the operators including Vodacom mentioned that you prefer this hybrid model. So I'm just wondering how you see a positive outcome around that hybrid model and if you can elaborate a little bit what you think the outcome of this discussion may be. And secondly in terms of the competitive environment I'm just wondering how much your main competitor, MTN, is progressing in terms of how much you feel that you still have a leadership in terms of network and everything, and to what extent it may become more balanced in terms of the power of the two competitors. And that also includes the enterprise market because obviously you have been extremely good and successful. I'm just wondering if you see some competitive pressures especially from MTN on that market or not yet. Thank you.

Shameel Joosub

Okay, so firstly on the spectrum side we don't have anything in writing yet so one doesn't want to oversell it or over-emphasise it. But I think one positive is that the rhetoric around the whole spectrum part has changed. It is now moving more into the space of the hybrid model which essentially is that the industry will get spectrum and there will be some spectrum set aside for a

wholesale open access network. That could take the form of an auction, or I would say an allocation at a price is what one is expecting in terms of what I think will happen. So you are seeing that. You are seeing better coordination and I would also say a better realisation by the new regime that this issue needs to be sorted out and sorted out quickly.

So I think we are encouraged by a number of positive engagements in this respect. There is an amendment going to cabinet in the next week or so which will hopefully reflect these changes. But as I said we don't have anything in writing as yet. I think we can only fully comment once we have the confirmation in writing. But generally I would say let's say the noise level has gone down and you're finding a more balanced approach coming to the fore. Let me just also say that in our engagements with government we are seeing a very strong push for investment and we're seeing a very strong push for job creation. I think there is the recognition that for the one to succeed the industry needs spectrum as well. So you also need for the industry to continue to create jobs. I think that's the one positive. And also I think government is also pushing us to say in terms of your discussions on fibre, guys, are you going to be investing there as well. So there is support in all sectors that creates more jobs and leads to more investment in the country, which is a big change from the previous regime to be honest.

On MTN specifically I think just to be clear the latest results that have come out from Ookla, from My Broadband and so on we are beating MTN again. It is a close fight. In fairness to be honest even though we will win this round it is a little bit of an ego thing, or a lot of an ego thing if we're truly honest about it. That said it does create a certain level of energy within the company because Vodacom doesn't like to lose. What Till and I are carefully managing is making sure the investment goes in the right areas though, and that we don't land up putting money in the wrong areas and that we're getting our return on investment. It is not just about chasing it. In terms of perception we still have a big gap between us and MTN with a ten point lead in customer NPS which is very strong. We have also started to re-emphasise our best network messaging and doing a lot more above the line and below the line in that respect. So I think that will also further strengthen our claims. And we're also working on ensuring that we have more proof points in terms of best network.

My summary if I watch the market, I think MTN if I look at their results over the last couple of years I don't see them gaining the benefit of all this investment. And so you've not seen a big acceleration. And if you look at their service revenue growth they have not outpaced Vodacom at all in the last three or four years in the level of growth. So they are not able to monetise it and I think in my view the Cell C part was a little bit of desperation. If you can't fill it in the retail part you fill it in wholesale. So they discounted to try and get the Cell C traffic so they can show some kind of return on their investment.

In terms of enterprise they are definitely trying to reconstitute their teams in enterprise. I would say the loss of Transnet is a big blow to MTN again because it is their biggest customer. And so I would say we are growing enterprise quite nicely. What we're trying to focus on now is the future in terms of how we scale cloud, IoT, big data as a service and security as a service more. And do we partner, build or buy in those spaces? So that's what we are currently working on. And also adding William Mzimba to the team he brings a lot of the service experience as well.

Dalibor Vavruska

Thank you very much. It's been very helpful.

Operator

Thank you very much. Our next question is from Myuran Rajaratnam of MIBFA. Please go ahead.

Myuran Rajaratnam

Hi guys. Thanks for taking my questions. I've got a couple of questions. If I can start off with a follow-on to Madi's question which is about the voice revenue growth being less negative. If I can ask it slightly differently, your effective voice tariff was down 20% in minutes if I remember reading correctly. Is this something that you see as being sustainable at these levels or was it a volatile quarter where you happened to have a 10% reduction. Basically I'm asking was this planned or was it as a result of all these promotions that you did, Just 4 You and so on?

Shameel Joosub

I think it is always planned. We don't operate like it may happen, it may not. It is planned. Effectively what we have been trying to do is to make sure that we continue to max out on voice in terms of trying to get more usage and so on out of customers. We are doing both in voice and data. I do think when you look at the segment there is also allocation in terms of as you do more converged offerings in voice and data, especially in the contract space. There is an allocation between voice and data that does happen. We do that on a fair usage or fair consumption basis. So we look at the consumptions and then adjust accordingly every quarter if you like.

The way I would liken the voice part to is to the contract part where you're starting to see... Remember we did this price transformation exercise of creating bigger bundles on voice and data for slightly more spend. We are about 46% through with it. We did say midway through the year we should start to see a changeover from being negative to positive. That has already started to happen. So you start to see contract customer revenue grow by 0.8%. That is both in the voice and the data space, so that also contributes to the voice trend.

Myuran Rajaratnam

Okay. Thanks for that. And the second question is slightly more engineering related. When you talked about WhatsApp specific bundles and Facebook specific bundles being URL specific does that mean you do an inspection to figure out what sort of traffic is going along that channel or is it from the initiation of the transaction set up that you know that it is WhatsApp traffic?

Shameel Joosub

So basically what it does is you're buying a bundle that is specific for WhatsApp. So you are buying a WhatsApp bundle or a Facebook bundle or a YouTube bundle. So it is URL specific only to be consumed on that URL. So it is from the set-up if you like. So you are buying a bundle specifically for that service. And these things are done to obviously encourage data growth. Sometimes it creates a little bit of softness initially and that is why you're seeing a little bit in the numbers sometimes. It creates an adjustment, but then you start to see much bigger usage because then people start to buy a bundle for WhatsApp, they buy a bundle for normal data usage, or they buy one for WhatsApp, one for Facebook and one for normal usage. These are the types of things that will help to grow revenue going forward. Then we've got others you can buy for gaming, for music and those types of things, or social which is two or three different services like Instagram, [unclear] and so on included in one bundle.

Myuran Rajaratnam

Sure. And my last question if I may. I think you might have answered it from Jonathan. It's a follow-on from Jonathan's question. Just for clarification, the good adds that you have had in prepaid, can you clarify which channel gave the biggest delta there? Where are all these new adds coming from? Which channel?

Shameel Joosub

It is coming from retail mainly. So you've got your retail coupled with your device sales. That's the one part. And then obviously the next channel is your wholesale channel. So it is retail, the likes of packs and so on, and then a little bit of wholesale, and then some of your franchise and your

dealers and all of that. it comes from across the board with the biggest impact being obviously in retail.

Myuran Rajaratnam

Thank you very much. Awesome.

Operator

Thank you very much. Ladies and gentlemen, a final reminder, if you wish to ask a question please press star and the one. Our next question is from David Lerche of Sanlam Private Wealth. Please go ahead.

David Lerche

Good afternoon everyone. Just one question from me. Can you talk a little bit about smartphone penetration and the progress that is happening there? It just seems that with the slowing data growth I'm a little bit concerned that we are reaching something of a ceiling in terms of smartphone penetration and that growth in the devices seems to be tailing off a little bit. If you could just give some detail around that please.

Shameel Joosub

Just to be clear there isn't a tailing off in terms of data devices as such. What happened in the quarter was that we had a bit of a mix change. More mid-tier and more low-tier phones. So what you're finding is that we still sold 2.3 million devices in the quarter which is quite strong, of which smartphones grew by 18% over the previous year. Total smart devices grew 14%. You still see a strong benefit coming through in terms of the number of smartphones being sold. Just to give you an idea, total smart devices was almost 1.7 million of the 2.3 million. So 72% of what we sold was smart devices. So it continues to grow strongly and you see that coming through in the number of 4G capable devices on the network which has also grown 44% over last year.

David Lerche

All right. Excellent. Thank you.

Shameel Joosub

Remember the big conversion now on devices is you're pushing for a conversion from 3G to 4G devices. So more and more of that will start to happen. There were 739,000 new 4G customers in the quarter.

David Lerche

Excellent. Thank you.

Operator

Thank you very much. Our next question is a follow-up from Ziyad Joosub of HSBC. Please go ahead.

Ziyad Joosub

Hi everyone. Just a quick follow-up on data conversions again. Could you maybe give us a bit more insight into what usage is on your My Vodacom app? And have you seen people topping up more with weekly data bundles rather than monthly data bundles? I'm just thinking maybe your data conversion is going down because a subscriber is not topping up once a month but topping up four times a month on a weekly basis and it is costing him a lot less. So he is getting the same data for a much cheaper price. Is maybe that creating some sort of drag on data monetisation? Just your thoughts on that please.

Shameel Joosub

So basically what is happening is you've seen a 10% increase in overall bundle sales. It has slowed a little bit from the normal trend in fairness, but you have seen a very strong growth in data bundle sales where data bundle sales have grown 32%. So data bundle sales grew 32%. Overall bundle sales grew 10%. So that's the one side. In terms of daily and weekly they continue to grow strongly, but remember we are positioning it as such. So what we do is we try and get customers on to dailies. Then we convert the hourlies into dailies, the dailies into weeklies and the weeklies we try and convert into monthlies.

I would say your strong growth is probably happening in the hourly through to weekly category. So you are right in saying there is an effective rate decrease that is happening there. But you are also getting more volumes and you've got more propensity for the customer to buy because if they have bought a gig for the week as an example... Just to give an example a gig for a month now costs R149 where you get one gig for the day and one gig for the night. A weekly bundle will cost you R80. A daily bundle will cost you R29. And an hourly bundle will cost you R12.

Ziyad Joosub

Understood. Shameel, is it safe to say that incremental growth is coming in these weekly and daily bundles but going forward these subscribers will obviously start moving into higher bundles? So basically you are acquiring these guys but they are also the guys with the biggest propensity to increase their consumption.

Shameel Joosub

I think what we will do is we will convert the dailies into weeklies and the weeklies into monthlies. The way I would think about it is you're changing behaviour. Then you create more certainty, longevity. You try and convert them into recurring bundles that would probably be more weekly and monthly orientated. And you would have to make sure that the price points are attractive to them to be able to convert them. So it is a very fine balancing act which the Just 4 You or the machine learning needs to balance. At what point do you convert the customer with a more aggressive weekly offer than a daily offer, if you see what I'm saying. That is the dynamic that is built in to the J4U platform which then targets the customer according to their profile in terms of where you get the best revenue out.

Ziyad Joosub

Understood. Thanks very much.

Shameel Joosub

Sorry, just to be clear, all bundle sizes are growing. The lower ones are obviously growing faster.

Ziyad Joosub

Thank you.

Operator

Thank you very much. Gentlemen, we have no further questions in the queue. Do you have any closing comments?

Shameel Joosub

To summarise we are pleased with our performance this quarter and encouraged by the projects that we have launched. Vodacom URL bundles and Vodacom ticket gives us more flexibility in terms of pricing which should help us to stimulate demand as we transition to the new end user

subscriber charter with the potential to have some short-term growth impacts. We are also encouraged that video has now gone live, so the video platform is now live as part of our reasons to consume. Remember we will have one for music, one for gaming, a financial services platform and so on which will help to continue to accurate growth.

We are also seeing some really positive parts coming through in our financial services strategy where that business has grown more than six or seven times since last year. So I would say in terms of the strategy some really good points coming through and we're quite encouraged with that. I would say the big one for us now and the big focus is managing the end user subscriber charter impact to ensure that we deliver the guidance in terms of revenue growth. So that I would say is the big focus.

As the BEE deal introduces a number of new parameters for modelling we would also encourage you to reach out to the investor relations team who are available to address any queries around the BEE deal. I think there is still some confusion around exactly what we have done. Finally, we will be hosting an investor day in September and it would be very nice if you could attend. We will communicate further details in due course. You can maybe touch and feel some of these different things that we have been talking about and get further insight into some of our products and services. Thank you for joining us.

Operator

Thank you very much, sir. Ladies and gentlemen, that concludes this conference call and you may now disconnect your lines.

END OF TRANSCRIPT