

Conference Call Transcript

23 July 2020

Q1 INVESTOR CALL

Operator

Good day ladies and gentlemen and welcome to the Vodacom Group Ltd results conference call for the quarter ended 30 June 2020. 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 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. Please go ahead, sir.

Shameel Joosub

Thank you. Good afternoon everyone and good morning to those joining the call in the US. I'm joined by Sitho Mdlalose, our interim CFO, and Shaun van Biljon, our Head of Investor Relations. Being quarterly results we will only focus on revenue and key performance indicators today. As with prior quarterly results, Safaricom does not report on its performance, therefore we will not be disclosing an update on their results during this call.

Our results for this quarter were impacted by the COVID-19 pandemic both positively and negatively. The South African business was resilient and delivered strong growth in service revenue despite the price reductions introduced on 1st April. Our international operations were however impacted by the lower economic activity, free or discounted peer to peer transfers on M-PESA and customer registration requirements in Tanzania. Having a diversified portfolio resulted in the Group benefitting from currency changes, pushing revenue up by 5.6% and service revenue up by 7.6%. Normalised growth was 1.3% for revenue and 2.6% for service revenue.

Let's take a look at the South African segment. Service revenue increased 6.4% driven by strong customer revenue growth of 4.3%. This was supported by the good uptick in data demand with this increased usage offsetting the impact from the price reduction on our 30 day bundles from 1st April. The demand for data increased in the quarter as people worked, entertained and studied from home during various phases of the lockdown period. Data traffic doubled in the quarter and usage per smart device grew 75% year on year and 22% from the March 2020 quarter to 2.2GB per user. There are now 13.2 million 4G devices connected on our network, an increase of almost 30% year- on-year.

The overall trend in the contract customer segment improved with revenue growing at 3.4% and customers up 2.9% to 6.1 million customers. We offered a number of tailored products to support businesses to work from home and to assist schools and universities to continue education initiatives. Performance in the prepaid segment also improved with customer revenue growth of 5%. The significant growth in ARPU of 20.8% was aided by the lower customer base in the quarter due to store closures and movement restrictions which led to decrease in gross connections during the period while you would still have had the churn from prior periods taking effect.

The higher spend was partly due to telcos benefitting from a larger share of wallet during the lockdown period and our deliberate approach to increase active days and pick up opportunities specifically around working and educating from home. Our growth in data bundle sales were driven by both lower data prices during the quarter and lockdown related increase in demand. Following our price changes since the beginning of the year we note that most customers continue to spend at similar or better levels than previously, benefitting from higher allocation of data at these price points.

On enterprise and wholesale segment, which now accounts for 27.2% of service revenue, this grew by 13.1%. This was driven by an increase in the take-up of MBB contracts and APN access as well

as national roaming revenue. Please be reminded that from next quarter the transition between roaming partners will be in the base so growth will be moderated during the year. We were able to increase our homes and businesses connected to just over 79,000, up 121%.

Financial services recorded R540 million in revenue in the quarter, growing by 10.9%. The airtime value via the app almost doubled from the last quarter as customers are using this more convenient means to recharge and make bill payments. We advanced R2.8 billion in airtime via the Airtime Advance platform to 9.3 million customers. 38% of all recharges happen through Airtime Advance. Insurance growth continues with revenue increasing 8.2%. We also entered an exciting new partnership with Alipay to further financial services strategy which I will talk about towards the end of the call.

Our international operations were impacted by the subdued economic activities as a result of slowed trading activities during the pandemic. We also discounted peer to peer services and M-PESA to enable social distancing as a method of contactless payment, which had an impact on M-PESA revenue growth. In Tanzania the barring of services to customers due to the biometric customer registration requirements in Q4 last year impacted its service revenue growth as expected. Data continues to perform well supported by network investment and the extension of 4G. This culminated in service revenue growth of 10.7% for the portfolio, emphasising the rand hedge benefits from these operations despite a decline of 5.3% on a constant currency basis. Our international operations contributed 30.2% to Group service revenue.

Data customers increased 5.2% to 20 million, representing 53% of our customers with data services. Data traffic was up 44.3% in the international segment driven by the need to work from home. Mobile financial services revenue from M-PESA reduced in the quarter due to low economic activity and movement restrictions in several of our markets. Active M-PESA customers increased by 3.5% to 14.7 million. M-PESA revenue grew 17% and declined 3.1% on a normalised basis, representing 18.7% of service revenue. We expect this to recover as free services are reduced in the next couple of months and economies start recovering. We processed \$3.5 billion in value of M-PESA transactions per month during this quarter. As a reminder, these M-PESA numbers exclude Safaricom, so this illustrates the scale of what we have on M-PESA outside of Kenya. We invested R803 million in capital expenditure in the quarter as we expanded our 4G rollout. We now have just over 2,900 4G sites across our international operations.

Before I conclude for questions I'll just give a quick update on some of the regulatory matters. One of the most pertinent issues in Tanzania has been biometric customer registration. After barring 2.9 million customers last quarter we reconnected 745,000. Since April the Tanzanian regulatory authority suspended further services barring due to the COVID-19 pandemic. Currently we have 1.9 million SIM cards generating more than TSh4.0 billion or almost R30 million per month that remain non-biometrically registered. We await further instructions from the TCRA with regards to barring of services to the remaining non-biometrically registered SIM cards.

There were further regulations on SIM card ownership on 1st July 2020. The TCRA issued a public release a public release that required customers who biometrically registered more than one SIM card per service provider to verify their SIM ownership by 31st July 2020 through their mobile phones. A customer may request an approval for additional SIM cards through service providers' retail outlets, and we have just gone live with an automated USSD solution where customers can initiate their approval from their phones. This is a better process than the manual process originally envisaged and a better outcome than what was originally anticipated.

In South Africa to support the increase in network demand ICASA allocated temporary access to spectrum which is available until the end of November or can be extended until just before the auction takes place. We have used the temporary spectrum to alleviate capacity issues where possible and the 3.5GHz allocated spectrum to fast-track our 5G launch and support the initial rollout. This is assisting us in getting real world learnings of this new technology before a permanent spectrum allocation later in the year. ICASA is also making progress in allocating high demand spectrum. By all accounts from public statements made by them they are aiming to complete this process by the end of the year while the WOAN licensing will only happen in the following year. We expect the ITA in the next few weeks which will provide more clarity on the spectrum lots and pricing.

And finally, I'm happy to announce our partnership with Alipay to launch a super app in South Africa which will allow customers to pay via the app, make peer to peer money transfers, borrow via the app, invest, do online shopping, stream music, watch movies, play games, book travel and movies, hail taxis and Ubers without leaving the app, all enhanced with in-app advertising, promotions, gifting and more. This is the first time Alipay with 1.2 billion users worldwide has partnered with a company they don't have equity in. Overall this will help us to accelerate our financial services strategy in South Africa. This concludes my comments. Sitho and I are now ready for any questions.

Operator

Ladies and gentlemen, if anyone would like to ask a question you are welcome to press * and then 1 on your touchtone phone. If you however wish to withdraw the question you may press * and then 2 to remove yourself from the question queue. If anyone would like to ask a question you're welcome to press * and then 1. Our first question is from Preshendran Odayar of Nedbank CIB.

Preshendran Odayar

Hi. Afternoon Shameel and team. Just three quick questions from me. Other non-service revenue, can you give us a bit of colour on what's in there and what's driving that 76% increase and what is in those numbers? The other two questions I have, one is can you give us some colour on what happened to voice usage in the quarter considering this is the first quarter reported in South Africa in lockdown? So what has happened there? And then the last question is can you tell us how much enterprise is contributing to South Africa's service revenue in these quarterly numbers? Thanks.

Sitho Mdlalose

Hi. Thanks for the question. So non-service revenue is really driven by two elements. So the first is we had a 22.5% decline in our equipment revenue which was as a result of lower sales during the lockdown period on our handsets. That did pick up towards the end of the quarter, so we're happy with our exit rate. And the second element of that which partly offset if you're looking at that from a quarter on quarter basis is an increase in our site rental which is coming through from higher sites that Rain have with us. We have moved up from about 3,100 sites in prior quarter to 5,300 sites. On voice what we saw is firstly as we went into lockdown in April we saw voice dip slightly. However post that what we've seen for the quarter as a whole is that voice did pick up, and on a year on year basis for Q1 our voice revenue was up 5.0%.

Shameel Joosub

I think the important part is that in the months of May and June we saw our highest voice revenue that we had for a period of over 17 months. So for some reason people decided to talk a lot in May and June, and that seems to... So in April they weren't talking as much, but then they suddenly started talking a lot more in May and June. In terms of enterprise the enterprise and wholesale segment constitutes 27.2% of service revenue in the quarter, and that grew by 13.1%. remember in those numbers is also the impact of the roaming revenue which came in from July last year, or the uptick of having Telkom fully on board came in from July last year, so the numbers in the quarter both for enterprise and overall is boosted by that. So the growth rates will taper down slightly by about 1.3% as we go into the following quarter because of the lapping of roaming revenue.

Preshendran Odayar

Thanks very much gentlemen.

Operator

Our next question is from Jonathan Kennedy-Good of Standard Bank.

Jonathan Kennedy-Good

Good afternoon. Just on this non-service revenue growth which I think was 76%, and you mentioned Rain and the increased site rollout. Should we expect a similar kind of increase in the cost of roaming going forward as you experienced in the revenue line? That's question one. And then I just want to get a sense from you on the capex side with the data traffic growth what capacity is looking like and does it affect your absolute rand capex envelope for the year. And then just one other thing. With the prepaid subscriber numbers declining and the daily active users stable or slightly up, should we expect lower subscriber acquisition costs as a result of declining gross connections? Is this a change in how connections are churned in the market, or is it just a lockdown impact?

Sitho Mdlalose

Thanks. I'll take those. I think with Rain what you will see while we have the other revenue and the other income will equally have a cost coming through, a cost line flowing through on direct cost which largely from an EBITDA perspective will be neutral, however provide a slight drag on margin, potentially something around 0.3% on a full year basis in terms of the incremental Rain sites that we've taken on. With regards the prepaid what we did see was ultimately as Shameel said towards the start of the lockdown period due to some of the mobility issues, store closures etc. you did have low gross additions. And as a result that does give us some of the acquisition cost savings. However, what we have seen is all of that starting to come back May into June, and July looks fairly strong as well. So the exit run rates are back to normalised levels of what we'd expect on our gross connections.

Shameel Joosub

On prepaid it's still slightly lower, but we're also seeing lower churn than what we would normally experience across the base. Also important to note when we look at the customer base and why it's down it's because remember you've got this high gross effect, what I call the washing machine part. What COVID has done is help to solve some of those issues. Although you have the churn coming through from previous quarters the lower gross will also result in lower churn in the later quarters. So you had less fictitious SIMs, and therefore you've also seen a nice jump in the... Firstly, it's

important to note that the 30 day active customer base has continued to increase as you would have seen in our announcement. So that's the one part. But also it has given rise to a jump in ARPU of 20%.

Jonathan Kennedy-Good

So as you say these gross connections coming down, could there be lower customer acquisition costs going forward, or is that not a permanent feature of the market now?

Shameel Joosub

No, so what has happened is you will have a bit of lower gross connections in contract, but what we're also doing is making sure that we're increasing our in-contract customer base which then also has an impact on churn reduction. So what we're saving on the one side we are investing into retention to make sure that in the end we have positive customer base growth.

Jonathan Kennedy-Good

Thanks. And then just a follow-up on the data traffic impact on capex.

Shameel Joosub

So your capex for the year will probably be at a lower rate than the normal capex that we invest in South Africa specifically. We've toned down the capex a little bit this year given some of the issues that we were anticipating with COVID that so far haven't materialised.

Jonathan Kennedy-Good

Right. So network capacity is fine despite the traffic growth?

Shameel Joosub

So capacity-wise we basically front ended some capex investment to make sure that we could cope with the capacity. We're using a combination of additional capex investment or let's say our normal capex investment for capacity. We are also using the Rain spectrum or the Rain roaming, if we can put it that way. And we're using the temporary spectrum all to cope with the additional traffic.

Jonathan Kennedy-Good

Great. Thank you.

Sitho Mdlalose

Just to add to that on the capex, equally in this quarter – just a reminder – we have invested to make sure that the availability of our network remains high. So our battery rollout programme to ensure that we can cope with any further Eskom load shedding.

Operator

Our next question is from Slava Degtyarev of Goldman Sachs.

Slava Degtyarev

Thank you very much for the call. A couple of questions. Firstly how do you see competitive environment during Q1? Has that become more rational and is there any increased competition as lockdown measures are lifted? Secondly on your opportunities with regards to the Alipay agreement, what are the most exciting pillars within that agreement in your view, and would you expect any impact to be visible already in the near to medium term? Thank you.

Shameel Joosub

Okay. So I think in terms of competition I think a lot more rational. I mean firstly us and MTN having both reduced prices I think we both have to deal with that issue. COVID gave us an in-built elasticity. So normally remember what would happen is you would go negative and then you recover it over a period of four to five months. You try and get that usage back. COVID has had the effect of despite the price drops giving us enough traffic increase to offset those impacts. That was quite positive and quite strong. But generally the market seems to be a lot more rational during this period. Telkom has actually pushed some prices up, and Cell C I think has its issues, so no more aggression or no more aggressive offers or anything coming from that part. Also remember us and MTN have moved a level down in terms of pricing, so any pricing gaps that would have existed have been narrowed between us and the smaller competitors. So that's one. And I think that's probably played in our favour as well during the quarter. Being more competitive during a crisis I think turned out to be a very good thing.

In terms of the Alipay agreement I think hugely exciting for us. We now have access to the best tech in the world. And this super app will have the ability to aggregate a lot of the different services. From the app you will pay, you will lend, you will save, you will invest, you will get entertained. So the way to think about it is multiple different merchants exposing their services through the app. It will be zero-rated within the app and you'll be able to access all kinds of things. The beauty of this service is that you never leave the app. We haven't done a deal with Uber yet, but just using Uber as an

example, you will be able to book an Uber from the app itself without leaving the app. you will also be able if you don't have money we could advance you the Uber ride.

So these are the types of services. Payments and lending will be into everything, but it's a full ecosystem and lifestyle app. Very interesting. If you haven't had exposure to Alipay or WeChat Pay it's interesting to download one of those, or Paytm which is an Alipay partner to actually see how the app works. So you will also shop from the app, so your online shopping, everything from clothing to groceries to merchandise will all be done from the app itself. So a very rich ecosystem all boosted by very good data analytics, pop-up promotions, gifting. We did some serious homework in terms of identifying what the best tech is and then decided to implement the full platform in South Africa. And we're looking at implementing elements of the platform on top of our M-PESA platform as well.

Slava Degtyarev

Okay. Thanks very much.

Operator

Our next question is from Siphamandla Shozi of Coronation Fund Managers.

Siphamandla Shozi

Good afternoon guys. Great update. My question is I guess probably a little bit harder to even know what the answer is, but let me just try. You've had this benefit now of the past quarter of COVID with people working from home and traffic almost exploding in your network. Now, this other leg which you talk about, which is the economic leg where people don't have jobs and they don't have income, you don't know when that is going to come through. But you've had a few weeks of the economy opening up and all of that. So my question is have you seen a slowdown or almost like a cliff in terms of traffic or in terms of ARPUs which gives you an idea of what's going to happen over the next few months given the fact that the competing services for the consumer's wallet will also increase as we have opened up? Just a bit of colour of how you are thinking about it in terms of the economic challenges.

Shameel Joosub

I think with caution. What I'm going to say now I will caveat with caution. What we've seen so far in July is not a slowdown. The trends seem to continue. That said, remember that you have to back out at least 1.3% of roaming benefit in the quarter. That's one. But I think the important thing is so far so good. Trends are continuing and I think it's also important to just note a few things. Consumer wallet spend, what has changed is where people were spending the money on travel and driving to

work and these types of things, the new modus operandi of staying connected is data. So you have to connect somehow to connect to the world and continue to work. So that's the positive part and from that perspective I think it has been strong.

What we've also done proactively from the start is look at the opportunities around the pandemic. And one is what I call hyper-personalisation, so segmenting the base a lot more, and understanding if a person is 10 days active, 15 days active. We are busy implementing this across all the markets and then more targeted segmentation and offers to those customers. Also products like Airtime Advance are now 38% of our revenue. It also helps where people are using advances to access airtime. So it has been very positive in that respect. And we try and make sure that we find new initiatives to continue some of the momentum.

I caveat quite heavily because you don't really know what's going to happen on the positive front. Alcohol being banned is positive. Some of the social grant benefits that are being given to people is positive. The interest rate continuous cuts including the ones today are positive. On the negative side, job losses I would say is probably the biggest impact and what that impact would really be. I think we are claiming a bigger share of wallet at this stage and hopefully that continues. So we're making sure we can pick up all the opportunities around it, but it's a little bit uncertain still to be honest.

Siphamandla Shozi

Okay. Just a follow-up on that. Maybe if you can comment roughly on the debtors or contract book in terms of cancellations and non-payments, that sort of thing. And then lastly is Cell C going to cancel in terms of roaming? There were rumours of that. Just maybe an update on that. Thanks.

Sitho Mdlalose

Thanks. Maybe let me take the first one on bad debt. I think what we're seeing is obviously quite a lot of pressure particularly in the enterprise segment on small to medium enterprises. Obviously they have suffered quite a bit under the lockdown regime. So a few of those who haven't been able to trade in various sectors are obviously under massive pressure. We are seeing that pressure come through in terms of ability to pay. We are obviously working with all our customers in trying to set appropriate payment plans where possible and see how we can be creative around ensuring that they're able to continue to receive the services that they require to get back on their feet while making it sustainable for them to pay in the long term. On our consumer customers we have noticed

a slight increase in pressure on settling accounts. It's not incredibly higher than our expectations at this stage, but we expect it will play a little bit of a feature as we go into Q2 and as we close H1.

Shaun van Biljon

What was the second part of your question, Siphamandla?

Siphamandla Shozi

It was Cell C roaming agreement, whether you're going to get more out of it. I remember there was talk that you might. Just maybe an update on where that is.

Shaun van Biljon

Siphamandla, the Cell C is still quite open at this point. Once we've got an update that we can go to the market on that we'll let you know.

Siphamandla Shozi

Okay. All right. Thanks guys.

Operator

Our next question is from Dilya Ibragimova of Citi.

Dilya Ibragimova

Hi. Thanks for the opportunity. I had a question on the Alipay partnership that you've announced. Maybe just structurally have you done it between the South African entity and Alipay or is it something you are doing via M-PESA Global? It's interesting that you having the M-PESA as a tool for P2P you're going for a very techy franchise. Do you see an opportunity for M-PESA maybe to learn and adopt some of the tech side from the partnership you're announcing, whether you see this as an opportunity for M-PESA to step up on the technological side as well? Any comment would be appreciated.

Shameel Joosub

Perfect. I think twofold. Remember M-PESA is now jointly owned by Safaricom and Vodacom. We bought that from Vodafone and that's where we develop a sense of product road map, optimise capex and so on. So that's the first part. The second part is the deal that is being done is a South African deal and not for M-PESA, but there will be elements that will be used in M-PESA. I will explain the difference why, but let me first explain what we've done. So in South Africa of course the

way we've structured the deal is by putting in the best tech. But this opens up a lifestyle platform and a super app capability which is not what M-PESA does today.

The difference between the two, this is an open service. I call it like an iOS or a Google Store with multiple different players selling their products through the platform. And you're always taking your cut, if we can put it that way. And it's a very rich experience, high data analytics and so on. So part of the logic is that we try the services in South Africa first. Because we didn't have an M-PESA platform in South Africa it is much easier to do the transition to say let's implement a full platform. Also smartphone penetration in South Africa is a lot higher. What we've been doing over the period of the last two years is also building some of the underlying capabilities that will help complement the end platform.

An example is we've launched VodaLend. Another example is that we have our own android point of sale device in the market from which you can lend from the device, you can vend from the device and so on, and most importantly you can do payments from the device. We have our own payment gateway that we've established. So these things help to create a lot of the success. And of course we're now building all the lending products and options and so on from there. So that gives us the ability to leverage this platform given the smartphone penetration in the country a lot higher. So that's the one.

The second part is on M-PESA. What we've done is firstly we want to upgrade the current platform from what we call G2 to G3, which is a Huawei platform that will be upgraded. Effectively on top of that we will then implement what we call the mini apps capability from the end platform or from the Alipay platform, and that will give us a similar type of experience to what we have in South Africa. But also it will give us clear learnings. If the platform works we can then share best practise between the two. And I think that's going to lead us into a very good place, but also I think the way to think about it is what we do in South Africa is where the evolution of M-PESA will go to, which is the whole lifestyle capabilities.

Dilya Ibragimova

Okay. So just to confirm, so the end vision for M-PESA is still to have it as a product across the Sub-Saharan or East Africa footprint and to evolve it into more open and lifestyle product in future?

Shameel Joosub

Correct. So M-PESA will evolve to what we're launching in South Africa. We're evolving M-PESA of course, the lending part, all of those things like Songesha and Fuliza we're now launching in all the markets, overdraft facilities, expanding our merchant capability in all the markets and so on. But we're using the lifestyle full platform capability that we're launching in South Africa almost as a learning to what we're going to do in M-PESA in the rest of the markets. But we see it going the same way. Open, thousands of vendors selling through the platform as opposed to what we do now which is we have a few vendors for each service.

Dilya Ibragimova

That's very clear. Thanks very much.

Operator

Our next question is from Sunil Rajgopal of HSBC.

Sunil Rajgopal

Hi. I just have maybe two questions. One is a clarification on the voice revenue trends in South Africa. If I heard it right, was it 5% year on year growth in terms of the voice revenues? And regarding that, what are you seeing in terms of the voice trends starting from July and how do you think things will pace out for the year? Secondly on Alipay, is there something more that you can add in terms of economics or how we would monetise the partnership? And also how should we be thinking about the logistics side within the super app when you put in all the applications of e-commerce? Is Vodacom also thinking about going into logistics business?

Shameel Joosub

So let me start with that one. No, we're not going into logistics and so on. It's a marketplace actually. So firstly like all your online platforms will be able to sell their products through the platform. You will be able to look at a product, look at the advertising, see a video on the product, and then decide to purchase the product but also lend against the product. So you will be able to pay it off in instalments and that type of thing. So that's the one. The actual delivery and so on still happens through that channel, through the particular retailer. An example would be if you had a grocer like Pick 'n Pay or Woolies on the platform the ordering and everything will go through the platform. So it's essentially creating a mini app which allows them to expose all their products within our platform. It creates an experience where you don't leave the platform. The actual deliveries and so on will still be done by the respective partner. And these are proven use cases that have been adopted across Asia through the Alipay. Remember they've got multiple countries in which they've

launched Alipay into with different partners from India to Pakistan to Bangladesh to Korea to Thailand and so on.

Shaun van Biljon

Sunil, we don't disclose the separate revenue lines anymore in terms of revenue and data since we went to IFRS 15. But Sitho will give you colour on the voice traffic trends that he was discussing earlier.

Sitho Mdlalose

Sorry Sunil. That 5% is actually voice traffic has gone up 5% for the quarter. So that's really obviously got stronger in May in June and quite weak in April, but we came back and rebounded in May and June. That's on voice traffic, the 5%.

Sunil Rajgopal

Sure. And what have you seen starting in July in terms of how voice traffic is shaping up? Any colour on that would be useful. Thank you.

Sitho Mdlalose

It's still early, but I think what we're seeing is we're seeing the trend holding on voice traffic. I think both on voice and data we seem to have reached a bit of a plateau in terms of the initial growth that we took on pre-lockdown going into lockdown. So the trends are holding at 20% above your pre-lockdown volumes.

Sunil Rajgopal

Sure. Thank you.

Operator

The next question is from Shamiela van der Wal of Oasis. Shamiela, your line is live.

Oasis

This is Shamiela van der Wal from Oasis and I have two questions. My first question is regarding if the Alipay will be rolled out to all the markets of Vodacom or are they being rolled out in South Africa only? And my second question is if you cannibalise the existing dealer rules of M-PESA and the revenues of M-PESA and revenue cannibalisation of the existing user base or the revenue base.

Shameel Joosub

The line wasn't very clear. If I understood the question it was is Alipay being rolled out to all the markets and two, you were worried about the revenue cannibalisation on the services. Is that right?

Oasis

Cannibalisation costs of Vodacom by the Alipay services.

Shameel Joosub

Okay. Just to be clear, the Alipay services are not being rolled out in the other markets. Just to be also clear, there are no revenue shares on this. It's a pure vendor agreement, basically software and effectively with a normal purchased of software maintenance agreement around it. So there is no revenue shares whatsoever in South Africa or the international markets. The full platform will be rolled out in South Africa. Elements of it or specific services, which is of course much cheaper and so on, again on a software purpose will be rolled out in M-PESA. So there is no cannibalisation of revenue and there is no revenue share with anybody whatsoever.

Oasis

Okay. Thank you.

Operator

Our next question is from Ziyad Joosub of Nedbank. Ziyad, your line is live. It seems there is no response from that line. Our next question is from Myuran Rajaratnam of MIBFA.

Myuran Rajaratnam

Hi guys. Thanks for the opportunity to ask questions. I only have one question. I'm just trying to understand this interesting opportunity with the lifestyle platform and Alipay. Can you just elaborate it a little bit more? You might have mentioned it in answering the earlier question, but the questions weren't that clear to me. Is it still branded VodaPay or what happens to VodaPay in the meantime? Because it sounds like you're buying the software only from Alipay so it's still a Vodacom subscriber app if that makes sense. And is it exclusive to Vodacom? You want to take a cut from anyone who wants to use the app I presume, or are you only providing this as an exclusive app for Vodacom? Just a little bit more about the app if you don't mind. Thank you.

Shameel Joosub

Okay. So firstly it's a software arrangement with them and effectively you're right in saying that we're just getting the technology from them. The brand will still be VodaPay, but it will be a new VodaPay. Obviously what we have today is more a payment app or a simplified payments app. what

we're moving towards is a lifestyle app where everything comes together in one platform. And I think what we're launching more than the app is a platform, and therefore the richness of it will be there. The way you make money from it is basically there could be three revenue streams. We're still busy finalising that. But obviously payments if you're going through it we would want you to use our payment gateway and so on. That's the first part. Secondly, the lending opportunities that that will provide. And thirdly would be an agreement between the vendor or the merchant that when they sell their products through us we get a small cut.

In return they get the richness of the data analytics, daily offers, promotions, gifting, very sophisticated data analytics that will tell the customers what to buy and when and so on. For us we see it as a game changer. And if you've been to China and you try and use a card or you try and use cash you then quickly understand what the power of these apps is because people just don't accept cards and they don't accept cash. I would say it's transformational and very big in terms of the lifestyle services that will go through the platform itself.

So a big change from the current one to be honest. We've been working on this for the last two years. It's the first time they've done it with a partner where they don't have equity. In every other instance they have equity in those businesses. So we've been working with it. The current app was more a learning experience for the ultimate solution, which is what we are now going to launch. Just also to manage expectations, the launch will probably be in Q4. So we have only announced the partnership. Now all the hard work starts and we're basically making sure that we build everything. I mean we have a team of 100 people, mainly software engineers that are working on this solution.

Myuran Rajaratnam

So it sounds like an exclusive product for Vodacom subscribers.

Shameel Joosub

Sorry, to be clear, it's exclusive. The relationship is exclusive to us in South Africa, so it's exclusive from that perspective. That's one. And two is the service itself will be available to Vodacom customers and non-Vodacom customers. But of course if you are a Vodacom customer you will get the app zero-rated. If you're an MTN customer it will be sorry for you.

Myuran Rajaratnam

So just following up that, how does the user get money into the system? Is it similar to how it works in China, India, or is it slightly different? We have quite an entrenched banking system in South

Africa and salaries go into the banking system. Just your thoughts on that and I'll leave it there. Thank you so much.

Shameel Joosub

So you will have a linked card initially, so you can link a card. You'll have a virtual card that you can apply for as well. You'll be able to directly link it into your bank account. And shortly after launch you'll have what we call the store value, very similar to M-PESA. You will have that as well and you can top up your store value from moving money seamlessly from your bank account into it or even going to an outlet and converting your cash into money in the VodaPay wallet.

Myuran Rajaratnam

Thank you so much.

Operator

The last question is from Ziyad Joosub from Nedbank.

Ziyad Joosub

Hi Shameel and team. Thanks for the questions. Two questions from me please. The first one is on Telkom roaming traffic volume in Q1. What were the trends there and how should we think of this going forward? And then just a quick follow-up or clear-up maybe on the Alipay Vodacom super app. Can I just confirm that the app will allow optionality for the use of credit and debit cards as well as other payment platforms, or is it going to be an exclusive payment channel that needs to be used here? Thanks so much.

Shameel Joosub

So basically it's multiple parts. You'll have a store value which is where you basically move money into the wallet itself. That's one option. You can do a link card with a credit card or debit card. You can link an EFT. There will be multiple sources of how you can basically contract. So you can have a pass through directly into your card and so on or you could basically move money seamlessly from your bank account or your card into the VodaPay wallet. So a customer will have complete flexibility.

Ziyad Joosub

Okay. Perfect.

Sitho Mdlalose

On Telkom roaming we had a quarter on quarter step up from Q4 into Q1 and really what we'd expect is to maintain those levels. So we saw in essence a little bit of the step up in Telkom traffic to what we have seen on our own through the COVID period. So there would potentially be some plateauing of that, but essentially we would expect to maintain those run rates.

Ziyad Joosub

Okay. Thank you very much.

Operator

Ladies and gentlemen, that is all the time we have for today. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT