

Vox Telecom targets high-margin deals

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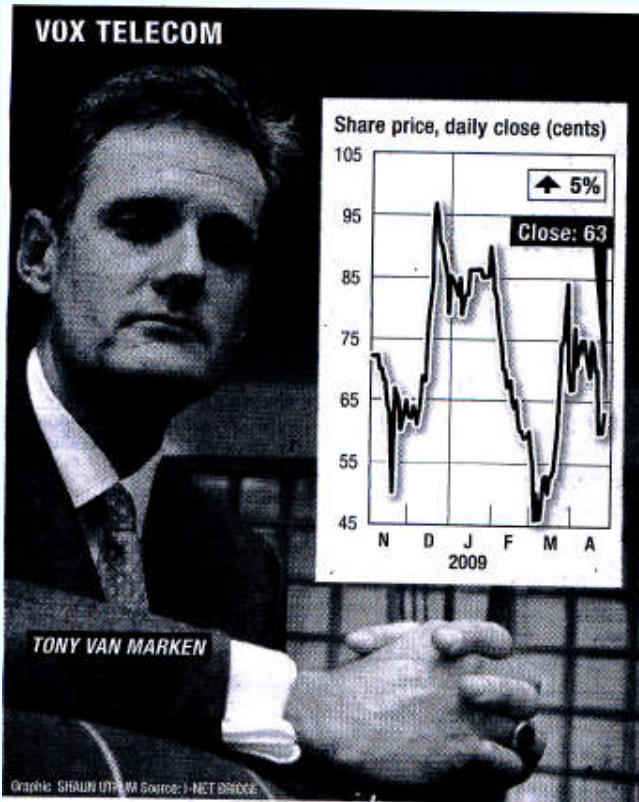
SALES staff at Vox Telecom are moving away from low-margin business to help the company protect its profits rather than just grow its revenue.

Contracts that carried too little profit margin had been refused and some deals were not being renewed because the focus had to be on organic growth that boosted margins, said chairman Tony van Marken.

Vox has already suffered a large dip in profits for the six months to February, with a net profit of R31m, down from R43,1m a year ago, although revenue rose 22% from R868m to R1bn. Headline earnings per share of 2,81c were down from 4,72c a year ago, although more shares had been issued to pay for some acquisitions.

The gross profit initially rose 20% to R235m despite a slight dip in margins from 23% to 22%, but reassessing the useful lives of acquired customers prompted an increase in the amortisation rate from 2% to 4%, swiping off an extra R13m.

Higher finance charges on loans taken out to make a string of previous acquisitions also eroded its cash. Another R18m was written off in bad debts as clients defaulted on their bills.



Despite the declining figures, Vox had not imposed any knee-jerk cost cuts and was still investing in its core network and data centres to cope with a month-by-month rise in the traffic it handles. It also hired 40 more staff, and those moves were

essential despite having to watch its capital expenditure in the tough economy, Van Marken said. It now employs 730 people in divisions including its internet service arm, @lantic.

Frost & Sullivan analyst Lindsey McDonald said Vox had felt

the effects of the economic downturn with a large drop in earnings per share, although there was still much to recommend the company. "Vox borrowed quite a lot of money to fund its acquisitions and the cost of borrowing increased more than it anticipated," she said.

Despite an extensive acquisition spree, a significant improvement in cash generated by its operations meant it still had a strong bank balance, with only a slight decrease in net asset value per share. Its challenges now were to maintain its margins and differentiate itself in a competitive market where clients had a variety of telecoms service providers to choose from, McDonald said.

One new service Vox has launched is video conferencing technology, which it already uses internally. Another new product that could generate additional revenue is a Korean technology, Fishbone, that lets customers combine several broadband lines for higher speed and efficiency.

One way Vox goes to market is through its Telepreneur programme, where small enterprises resell its services. It now has 3 100 dealers serving 7 000 customers, and the average spending per user has increased by R14 a month to R276. stonessl@bdfm.co.za

