

Conference Call Transcript

10 March 2020

COMPETITION COMMISSION

Operator

Good day ladies and gentlemen and welcome to the Vodacom Group Competition Commission conference call. All participants are in listen-only mode and there will be an opportunity to ask questions later during the conference. If you should need assistance during the call please signal an operator by pressing * and then 0. Please also note that this call is being recorded. I would now like to turn the conference over to the Shaun van Biljon, Managing Executive of Investor Relations. Please go ahead.

Shaun van Biljon

Afternoon everybody, and welcome to the call, and thank you for joining us. I'm joined in the call by Shameel Joosub, our Group CEO, and Till Streichert, our Group CFO. The purpose of this call is to provide further detail regarding the joint press conference with the Competition Commission held earlier today. Shameel will start with a quick update on what has transpired since the Competition Commission published their final Data Service Market Enquiry Report in early December last year. He will also provide insight into our engagements with the Commissioner as well as the outcome of these engagements. Till will then talk through the financial implications before we open up the call for any questions you might have for the panel. I will now hand over to Shameel.

Shameel Joosub

Thank you Shaun. Following the release of the Competition Commission Market Enquiry Report in December of last year Vodacom decided to constructively engage with the commission on the issues arising from it. The agreement provides us with an opportunity to enter into a social contract with the regulator, our customers and the people of South Africa to bring down the cost to communicate and promote digital inclusion. Before I get into the details of this announcement with the commission it is important to take a couple of steps back to December last year. Following a two year investigation by the commission it issued a report that was not only scathing in terms of the tone that it used, but it also suggested wide range remedies from a data pricing perspective that could well have threatened the sustainability of the industry.

One of the key elements contained in this report was the call to lower the cost to communicate, particularly for poorer customers. Given the tough economic conditions currently in most of our operations and the need for greater access to communication services we are engaging with our customers across our footprint with social contracts to see where we as a corporate can make an even greater difference. Many of you will be aware that we have made similar comments to those of the Competition Commission over the past couple of years. We have spoken about and have been delivering on our price transformation strategy for over two years as part of our commitment to reducing pricing and driving digital inclusion. We made these comments in the context of respectfully requesting greater policy certainty while at the same time constantly explaining the relationship between gaining access to high demand spectrum and the pace at which data prices could have fallen.

Naturally both spectrum and policy certainty are important investment considerations and ultimately have significant impacts on our ability to address the cost to communicate. Over the past two years we have made significant progress in our pricing transformation journey resulting in reductions for data costs for our customers. These initiatives included substantially reducing out of bundle tariffs, the introduction of lower priced hourly, daily and weekly bundles, the launch of URL specific bundles, and more recently price adjustments to 30 day bundles. Over the past few months we took the Competition Commission through our new social contract with regulators, our customers and the people of South Africa. This is our future plan from a pricing perspective as well as our free essential data service platform which will make access to data services more attainable.

We had robust discussions with the commission and evolved the plan that we have. Our plan also carries the approval of the Competition Commission, and based on this they have agreed this also addresses the concerns raised in their report and no further action will be taken on their part in terms of the agreement and following confirmation by the tribunal, after which we will introduce the following changes in the next couple of months or the pricing from 1st April. We will accelerate our data pricing transformation on our 30 day bundles with various price point adjustments in the 30 day bundles starting on 1st April 2020. There will be a further cut on 1st April 2021. An example of this reduction will be a 34% decrease in the 1GB price point from R149 to R99. We will also be making some adjustments to the sub 500 MB bundles to reduce the effective price curve closer to the 500 MB bundle price point.

With regards to access to free data services we will be launching ConnectU in the coming couple of weeks. This is the ConnectU portal which will bring all our free and essential services together. Under the ConnectU banner will be doing a number of things for social upliftment. We will consolidate all existing essential data services and some new ones into a single platform called ConnectU. This social platform will provide customers with the following. Free access to job portals enabling customers to search and apply for jobs. That will be seven free sites that we have specifically chosen and will give people the ability to upload their CVs as well.

Free educational content through Vodacom e-School with free access for learners to CAPS curriculum for grades R to 12. This gives them access to the syllabus, so if you don't have a textbook you can still access the syllabus via Vodacom e-School. Free health and wellness information, for example mom and baby which provides advice on pregnancy, neonatal and child care through SMS, educational articles, tutorials, video and other tools hosted on the platform. This will now be extended. The current one deals with pregnancy and early childhood. This will be extended to more elements of childhood development.

Access to free Facebook Flex, the low data alternative to Facebook, enabling customers to stay socially connected. As well as a full zero rated internet search function powered by Wikipedia. This will allow customers access to the entire Wikipedia data of knowledge free of charge. This will deal with access to the basic internet. We are also extending free access to schools, universities and college portals. This will ensure that learners and students enrolled into these institutions will be able to access the relevant school or university specific information for free. This ultimately enables the data user of the future. We will also be extending two free SMSs to customers daily provided that they have been active in the past month, and they can be accessed on the new portal.

Finally, there are some government sites that will now also be free for citizens to access. This will assist everyone in gaining access to much needed government services as these are now moving into the digital space as well. We are also extending further discounted bundle offers to low-income suburbs and villages, ensuring that this benefits people that really need it the most. In most instances this is in areas where we are currently under-indexing from a market share position, so this will potentially benefit us as well. This is what we will do. We currently offer our Just4You offer

to low income groups to 800 suburbs and villages. We will now extend that to 2,000 villages and suburbs. They will have a bigger discount than the normal published price on the monthly bundles.

Ultimately we believe that this will lead to a more connected society and ensure that all customers get more comfortable using data services, and thereby widening our base. Taking all of these components into consideration we believe that these efforts will give our customers the opportunity to connect for longer and for less, thereby further contributing to narrowing the unacceptable digital divide that exists in South Africa. Our agreement with the Competition Commission will be valid for two years. We will review all these propositions after this period to evaluate its continued sustainability and the potential to expand or reduce the services. The offers will also be premised on the fact that all these free services will also drive additional usage, so we think part of it will be offset by increased usage from customers, but also greater digital inclusion which will hopefully help to drive up the number of users using data. You will remember that only 52% of our customer base today uses data. So we think this will ensure that a bigger portion gets included into the utilisation of data. Before we take questions let me now hand over to Till to give you some guidance regarding the financial impact that this might have.

Till Streichert

Thanks Shameel. Let me start by saying that price transformation is now part of our DNA. Some of you will remember that we did this previously with voice pricing. Most of you are aware of the progress that we've made over the past two years on data pricing. Some of what we have agreed with the Commissioner already formed part of our future plans, although now fast tracked from a price reduction perspective, which means to some degree we had factored this into our guidance. Naturally the Competition Commission would not have been privy to this information. When they finalised their report they looked at historic data points around pricing. In our media release and at the joint press conference we have stated that these latest changes will result in savings to customers of about R2.7 billion.

This does not factor in any increase in usage that is likely to occur given the savings for customers. We believe, as it was the case with our other pricing initiatives, that there still is sufficient elasticity in the market to absorb some of these price reductions over the medium term. As a reminder, we expect a similar profile to what we experienced during this year i.e. the biggest impact from repricing was evident in the first quarter, which started to improve into Q2 as elasticity came in, and finally with good growth in the third quarter which we have seen in the third quarter we just reported on. We believe that we should be able to see similar elasticity in this current price change. Albeit that we had negative economic growth recently, the outlook for the year remains relatively in line with the previous year's forecast.

We also have almost 2 million more smartphone customers than we had last year, just under 3 million more data users, while 4G customers – which normally have got better elasticity – also increased by almost 3 million customers year over year. So our ability to deal with accelerated price transformation has actually improved from one year ago. Based on this our internal modelling therefore indicates that the accelerated pricing transformation from these initiatives will impact service revenue growth with a drag of just under 1.5% for the group on an annualised basis, all things being equal. Our three year guidance therefore remains in place, albeit that next year might be at the lower end of the guidance. As a management team we are also working on plans that will assist in offsetting some of these effects and hope to be in a position to announce some of these fairly soon. We will pause now on that note and open up the call for questions.

Operator

Thank you sir. Ladies and gentlemen, at this time if you do wish to ask a question please press * and then 1 on your touchtone phone. If you decide to withdraw the question please press * and then

2 to remove yourself from the queue. Our first question is from Cesar Tiron of BofA Securities. Please go ahead.

Cesar Tiron

Yes, hi everyone. Thanks for the call and the opportunity to ask questions. I have three of them. The first one, can you please explain what you modelled in terms of revenue that you could recover from elasticity? Is it about 50%? Second question, can you please explain what price cut did you agree with the Competition Commission from 2021 onwards? And the third question, obviously after this the gap between prepaid and post-paid prices will shrink. Is there a risk that we're going to see some cuts to post-paid pricing as well? Thank you so much.

Till Streichert

Okay. I will just quickly answer your first question. I think you are directionally right. It is about 60% elasticity that we have assumed.

Shameel Joosub

Okay. Then to your second question, basically the big cut is this year. There is a further cut next year and then it stops. So effectively 1 April 2020 and another cut in April 2021. The cut in April 2021 is much smaller, bringing the cumulative effect to around about 45% or 50% over both years. So if you take the 34% you can assume another 10% or 15% decrease in year two. I'm just using the 1GB as an example. The important thing is these bundles are across both contract and prepaid. So they relate to everything, not just contract. So there is no impact because they basically cut across both. If you are on a contract you have an inherent set of money that you can spend on data. That is included in the package. Once you run out of that you obviously buy bundles. Or if you have one of our flexi products you buy R100 of airtime or R200 of airtime. You have to still buy a bundle. So this affects both prepaid and post-paid.

Cesar Tiron

Thank you very much. Very clear. Thank you.

Operator

Thank you. The next question is from JP Davids of JP Morgan. Please go ahead.

JP Davids

Good afternoon. Thanks for the opportunity. Two questions from my side. Firstly I wonder if you could run through the commitments you've made for Just4You, so the below the line pricing, and specifically what commitments around transparency there. Secondly just around your assumptions for FY21, I'm assuming that you're not factoring in any major competitive disruption or any disruption to the handset supply chain. Thank you.

Shameel Joosub

Okay. So the commitment on Just4You is more transparency issues. So when we advertise on Just4You what you will be doing is now advertising the product and essentially saying this is X percent of the normal market price. So it is just bringing a bit more clarity around this is the normal market price, this is the special price on Just4You. Remember that is using machine learning and is personalised to the segment. So you can confidently assume that that's not dilutive. So that's the one. In terms of assumptions...?

Till Streichert

Let me quickly deal with that. Our FY21 assumption is simplistically speaking all things being equal, so comparable situation as we have seen it last year. I think last year was a good evidence or proof

point of the elasticity that we actually saw throughout the quarters. So that's the one thing. Look, if your question is more specifically around handset supply and COVID-19 or the Coronavirus impact, to be honest you are seeing what's happening at the moment in terms of turbulence all around in the last ten days. We are doing well so far. So far so good. But we have not taken a view on any of these effects now when we speak about the effect of Competition Commission. This is why I said in my disclaimer 'all things being equal'. But as I also said, so far so good. I think we from a supply point of view are not facing any issues.

JP Davids

Thank you. And just one quick follow-up on Just4You. That was a potential area of pushback by the ComCom. How did you get them comfortable that that product is fair and transparent and good for the consumer outside of flagging what the discount to the advertised price is?

Shameel Joosub

I think what we did was we actually took them through the benefits of the product. And I think there are many things that happened through this process that I think are important. One is that the Competition Commission has a better appreciation now of the challenges that we face in terms of costs. Two, they have a better appreciation of the worth of the Just4You bundles as well as the worth of the hourly, daily and weekly bundles. Going into the process the Competition Commission thought that the shorter bundles weren't really effective. That is what they had in their report. And they didn't really like Just4You. You would have noticed today that they were very much stressing the 2,000 towns and the Just4You special offers and so on. So I think what we have done well is really by working through it shown them the benefits that come from these products. So I think there is a better appreciation all round of what's actually involved in running a telco.

Sean van Biljon

And JP, I think it's important to note that this agreement also puts aside everything else that came out of the report from the Competition Commission. So this basically beds down everything that came out of it, so we don't expect further action from that perspective as they now also understand it better.

Shameel Joosub

I think that's a very important point because it's everything. It's all the wholesale, all retail, everything. This is a full and final settlement if we can call it that.

JP Davids

Thank you.

Operator

Thank you. The next question is from John Kim of UBS. Please go ahead.

John Kim

Hi everyone. Just a couple of points for clarification. Regarding the price transformation I just want to confirm that this is still confined to prepaid data in South Africa for bundles that are 500 MB and below i.e. you are unifying pricing. There is a price cut that is front-end loaded this year to the tune of 30%. Next year looks like 10% to 15%. There was a mention of service revenue or savings of R2.7 billion. Is that an annual number, and does that translate to the revenue? What I'm trying to do is square that figure with the 1.5% drag to service revenue growth that Till spoke about earlier. Thank you.

Till Streichert

Let me take the second question first. So the R2.7 billion is basically the straight savings or giving back to consumers. So that's a straight saving to consumers. The actual financial effect that refers back to the 1.5% is including the elasticity that we have assumed, which has been informed by what we have seen over our pricing transformation, the last two to three years, including the step that was taken a year ago on the adoption of the End User Subscriber Charter. The net is what I quantified at group level 1.5% drag to service revenue growth.

John Kim

Okay, helpful. Switching gears slightly... Sorry, go ahead.

Shameel Joosub

To be clear, John, the pricing is across all monthly data price points. It is not just below 500 MB. It is everything. The discounts vary depending on where you are, but it is from the smallest one to the biggest one in monthly pricing. One of the things that the ComCom was hoping for through this process, and also could be a benefit to us, is that if customers adopt more monthly bundles the ComCom's motivation was that effectively they will stay active for longer. And obviously that has a dual effect for us, because if that's the case then it is positive because if we can get two or three active days extra out of the customers through this process that in itself over and above the elasticity helps to compensate in a big way for the price drops.

John Kim

Okay. Helpful. On the other initiatives including zero rate data and free access is there an opex or capex number or quantification to these efforts?

Shameel Joosub

No. So the capex stays within guidance. There are no changes to it. Effectively what we're doing is this year we experienced 65% elasticity, so 60% to 65% elasticity is what we would have assumed into this as well. I think the free services actually could be quite beneficial from the perspective that if they drive up more people engaging in data, and if we can get the data users up – Till spoke about the 2-3 million extra customers that have grown this past year – if we can achieve that next year again measures that help to compensate for any of the measures that we've put in. And also the differential between us and the competition will also hopefully be a bit of an attraction for customers to come and join us.

John Kim

Understood. Helpful. Thank you.

Operator

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

Jonathan Kennedy-Good

Good afternoon. Thanks for the questions. A simple one from me. You mentioned that there would be no further action from the ComCom. Is this a contractually signed agreement with you and them? I'm also struggling to understand whether this settlement is in terms of any law that is governed by your license agreement issued by the South African government, or is this a case moral suasion and you're more hopping to whatever the ComCom wants out of price reductions to the detriment of your shareholders?

Shameel Joosub

That's quite strong, Jonathan. This is an agreement. This is a consent agreement to be more specific. We have defined the right legal framework to give effect to this. The consent agreement is between Vodacom and the Competition Commission and has to be ratified pre 1st April before implementation by the Competition Tribunal, which then makes it binding on all parties to the agreement. So this is in full and final settlement. And actually I would venture to say this is beneficial to shareholders because we have just taken off what could have been a potential big fight that went on for years and then impacted the share price. This actually puts it into a very positive perspective.

Jonathan Kennedy-Good

Well, I just don't understand how you can keep giving in to government and not get spectrum out of the deal or any kind of guarantees that this isn't going to come back in two years' time outside of the ambit of wholesale price regulation that the ECA governs.

Shameel Joosub

I think you need to differentiate between two things. The Competition Commission's business is not to regulate telecoms. To put it in perspective so that we don't get carried away, this is the first time in 26 years that the ComCom has actually done a data enquiry. And essentially they did this on the back of the Minister asking for this in the #datamustfall environment and so on. So it is not the ComCom's business to normally get involved, and they have been clear on that. So this is a full and final settlement on this matter for the foreseeable future. Does this mean that they will never look at it again? Probably not. But does it limited to say that after two years they will do it? No. This is a full and final settlement of this issue. So that's the one part.

Secondly, just to be clear, we have also not gone in and said sorry, we've been bad and we're dropping prices. No. In fact, what we did was we went to them and said here is our plan. This is what we would like to do. Are you in support? I think we said this upfront to you as shareholders that this was our plan to go in with our plan. We went in with our plan, we shared it, and there was robust discussion. A few additional asks, nothing overly untoward. But nothing on pricing. The pricing is exactly as we put it forward. So this essentially is our plan. And remember bringing down the price, and taking away the noose that keeps coming up about the 30 day bundle pricing, and dealing with the issue once and for all I think is a very big benefit for us.

You will also have noted that ICASA immediately after the Competition Commission issued a statement to say we understand that this is a big commitment from Vodacom. That means that we need to hasten the allocation of spectrum. And as the President has committed, spectrum will be allocated by the end of this calendar year and the WOAN will be licensed in 2021. So that is basically the commitment that ICASA has on its own come out today and been very clear on. That was also part of the discussion with government, with the ComCom and with the Minister in terms of look, we're going to do this but you also need to give us the tools. That's why you will see in my speech this morning I stressed the need for the spectrum to come quickly.

Jonathan Kennedy-Good

Thank you.

Operator

Thank you. The next question is from Preshendran Odayar of Nedbank CIB. Please go ahead.

Preshendran Odayar

I just want to clarify that these cuts that you are doing are only on the monthly bundles, not on the weekly, hourly or ones that are longer than a month. Secondly, I remember the Competition Commission focussed heavily on the 500 MB bundles and smaller. Can you give us some colour on

how big those are in your world and what the price cuts are on those 500 MB bundles? And then the third quick one is the Competition Commission report made mention about transparency around pricing for roaming and accounting separation of your wholesale network. I didn't see anything about that matter today in the press conference. Can you share some colour on that on whether you guys and the Competition Commission have made an agreement over that, or has that been taken out? Thank you very much.

Shameel Joosub

Okay. Firstly it is monthly only, so the hourly, daily and weekly remain unchanged, this is a commitment only on the monthly data prices. The 500 MB and below was essentially the gap between the smallest bundle and the 500 MB bundle was too big. So in the price transformation you will see we've said the price cuts are up to 40% on certain price points. We have fixed the gap between the smallest bundle and the 500 MB bundle. All of that is in the financial impacts that have been taken into account. And I just want to add as well these are not all just price cuts. Some of it is adding more data. So some of the price points stay exactly the same and more data has been added to bring down the effective rate and so on. So it's a combination of price decreases and adding more data. Finally, the roaming and the wholesale and all of that, this has all been removed and effectively this commitment that we've made is a full and final settlement of everything. There isn't anything that they can come back with. The enquiry now is closed as far as Vodacom is concerned.

Preshendran Odayar

Okay, cool. Thanks very much, Shameel.

Operator

Thank you. The next question is from Slava Degtyarev of Goldman Sachs. Please go ahead.

Slava Degtyarev

Thanks for the call. The first question is how do you think your competitors will behave on the back of the announced agreement? Secondly, do you think your current network is well prepared to cope with the higher data consumption? Can you elaborate on that? How much do you count on the 4G spectrum allocation to cope with the increased demand? Thank you.

Shameel Joosub

Okay. So firstly in terms of competitors' response, the Competition Commission is basically engaging with all the operators. I don't see a big response from Cell C. I think Telkom is already competitive so it doesn't need to do much. MTN I suspect once we put pricing out there would be very similar to what we have. Maybe some of the add-ons will be different. Maybe it will address in a different way. Telkom has got its own problems the way I see. Cell C has got its own issues. Us and MTN will have to deal with the pricing. I don't think it generates any new untoward competitive dynamic, if I can put it that way. In terms of spectrum remember there is a spectrum auction coming which will allocate spectrum.

Two is that we've extended the flexibility to do more in the Rain deal should we so wish. So we've got that availability to do more roaming at our election on different areas where we see we're capacity constrained, should we need it. And then we've also got the deal that we've concluded with Liquid which essentially allows us to do roaming on 5G. I think these are important for what we call spectrum security. So we have spectrum. There is nothing better than owning your own piece of spectrum, and the more spectrum we have access to the cheaper the cost to manufacture or create a GB of data. Therefore that's why it's important to us. But at the same time we have the flexibility in the roaming agreements which then provide us with spectrum security going forward.

Till Streichert

And just operationally our engineers have got a track record and experience of managing traffic growth. You've seen it last year where traffic was ramping up as well on the back of the out of bundle price reduction. It moved into the space of 50% to 60%, in prepaid even a little above. And we have managed that well. And all other factors Shameel has covered from a longer term perspective.

Shameel Joosub

And remember the guidance in terms of capex doesn't change, which means roughly we spent last year about R9.7 billion. That is the range that we are spending these days. That will basically not change. That is for South Africa. So what that means is most of the capex that we spend anyway goes to capacity. That's what the capex is for. It's mainly for capacity and a bit of coverage.

Operator

The next question is from Myuran Rajaratnam of MIBFA.

Myuran Rajaratnam

Hi guys. Thanks for taking my call. I've got two questions, very simple ones. You did touch on it earlier but it went over my head. On the monthly bundles is now the pricing curve flat from 1GB to smaller bundle size? That was what the Competition Commission actually presented as a graph, and it is top of mind for them in their Market Enquiry Report.

Shameel Joosub

The answer is no.

Myuran Rajaratnam

So it's not flat? The smaller bundles are more effective on an effective rate?

Shameel Joosub

Yes, that's correct. So basically what will happen is just the ladder is decreased. So the gap could have been up to 40% difference between the 500 MB and the 10 MB bundle. That gap is now substantially reduced to be a narrower gap between the smaller and the bigger. But it is still laddered and it ladders from 10 MB to 200 GB.

Till Streichert

The gradient has actually substantially come down, and we expect that as well in the future, but it is not flat, no.

Myuran Rajaratnam

Okay, it is not flat. The second question is I suppose it's good that you guys got ahead of the competition, your peers, and did this. It gives you some breathing space for two years. But I suppose if you're an analyst at the Competition Commission one of the things you will be looking at is the 30 day bundle pricing curve is flattish, but if I look at it from a poor person's point of view – there were some comments that you guys are being anti-poor and things like that. Whether it is fair or not we will leave that aside. But the point is if you look at your headline rates right now, and if one buys 250 MB weekly bundles, that gives you 1 GB over a month. Or you buy a 1 GB monthly bundle. It is still quite expensive to buy four 250 MB bundles. So you are penalising poor people because they don't have cash flow. Is that a potential...?

Shameel Joosub

You're not...

Myuran Rajaratnam

Let me finish. You get a chance too. Is there not a possibility that in two years' time the ComCom will come back and say, guys, what about this now? Aren't you really not being fair here?

Shameel Joosub

I think you've got a theory that you're pushing but not listening. I tried to explain to you that the issue is sorted, that the gap between the bigger bundles and the smaller bundles are now not more than 5% to 10% differential.

Myuran Rajaratnam

I'm talking about weekly bundles that amount to 1 GB. You buy them weekly. Versus the monthly bundle that is 1 GB. I've done the calculations and an analyst also did his own and sent it to me, so unless we both make a mistake here there seems to be a gap there. Surely the ComCom analyst sitting at his desk in two years' time is going to say, Shameel, what's up here?

Shameel Joosub

Firstly this settles the Competition Commission thing completely. There isn't another review after two years. There's nothing like that. This is full and final settlement. The price cuts are two years. So you've got to distinguish between the two things. It is not that basically after two years now they're going to go back and find other things. That's one. Two is you've got to wait for the price tables to come out. They have not been published yet. It will be published and go live on 1st April. Effectively that will show the gaps between the smaller and bigger have been decreased. The daily and weekly bundles will always contain more value than the monthly bundles because you are buying on a shorter time period and there is breakage involved.

Effectively what will happen is if a monthly price is R99 in the app for 1 GB of data, R80 a week for 1 GB of data. So that will stay. That will not change. That is what we got the Competition Commission to be comfortable with. In fact that is beneficial to people. And we provided real states and showed them that 80% of what is being purchased is short form bundles in prepaid and that customers are loving this benefit that they get. Sure, there is breakage. The breakage then pushed up the effective rate, but they get a lower headline rate. And it is done on the perception that they will buy more. Secondly we then explained and took them through the detail of our personalisation and how Just4You plays a role. Again they found comfort with it once they saw the facts and the details that goes with it. So I think we have fixed the laddering, so the laddering in the gap is much smaller now, which is where the concern was. We have done away with the whole anti-poor issue by doing two things. One, by extending to more towns and two, by fixing the laddering below 500 MB. If you take the 500 MB and you work down to the cheapest bundle there is not more than a 10% variance now, whereas previously it could have been as much as 40%.

Myuran Rajaratnam

Okay. That's clear. I think it's a great thing that you guys did. Cut to the chase, it is really a wonderful thing because you got ahead of your peers. That is beneficial for everyone concerned I think. I think I will leave it there before Till's finger starts rising again. Thank you.

Operator

Thank you. The next question is from Ziyad Joosub of Nedbank. Please go ahead.

Ziyad Joosub

Hi everyone. Thanks very much for the question. Just one question please. The 60% to 65% elasticity that was discussed, could you maybe let me know to what time period that relates to, and

did it overlap with the out of bundle cuts? And also if possible, if you have this information, the elasticity from the out of bundle cuts versus normalised price cuts. Is there a difference between the two? Thanks very much.

Shameel Joosub

So basically what we did was when we cut the prices the 60% to 65% is what we experienced from the drop in February last year to now. And if we look at from 1st March last year to March this year what we've seen is a 65% increase in traffic on the back of the out of bundle cuts and so on. So that's the elasticity that we talk about that has come through quite nicely to offset the decrease in pricing that happened. We are anticipating a similar kind of impact or similar kind of result this year. So again we think we will see a similar trend to last year, the biggest impact in the first quarter as elasticity comes through and then improvement through the year. If you remember this past year we were negative in the first quarter. The underlying growth was 4.2%, then it went to 4.6%. So you started to see the benefit coming through the year, but you did feel it in the first quarter. And I think that will probably be the case here as well.

Ziyad Joosub

Okay. So sequentially elasticity you can just confirm did increase as we move through the quarters? Okay, thanks.

Till Streichert

And just on top of that, as we said in the call we feel we are in a better position than we were one year ago simply because we've got more data customers, more 4G customers. So in particular those customers with the 4G device that have got the ability to show also higher usage we've got substantially more, which puts us we think in a position where we are better equipped to deal with this accelerated pricing transformation. But also to put it quickly, the profile that I've described and that Shameel has described throughout the year is probably similar, but I don't expect a negative Q1 to be quite clear. That was last year. You remember we've unpacked it into different components. One component was the out of bundle price reduction. The other component was the transition factor which was the roaming revenue. And remember contrary now we have the full Telkom roaming revenue in our numbers which actually [break in audio] to a lower figure which you have seen over the past two quarters, and obviously also for Q1, because the cut over of the entire Telkom traffic happened at the end of Q1. So that gives you support in the numbers. This is why I would just like to leave you with the view it's a similar improvement profile but it is not the same growth rate, if you know what I mean.

Ziyad Joosub

Definitely. Thanks very much. Thank you, Till.

Operator

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

Shameel Joosub

Sure. In closing I am encouraged by the steps that we are taking as part of our social contract with our customers, regulators and the people of South Africa. Most encouragingly this now concludes the market enquiry that was an overhang to the industry for more than two years. By means of this agreement we now also avoid another lengthy process, and therefore this gives immediate certainty to the market. We look forward to concluding the spectrum auction with ICASA in the next coming months, paving the way for even more clarity within the South African regulatory environment. Thank you to everyone for joining us on the call.

Operator

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

END OF TRANSCRIPT