# Business Update

September 2014

# Group Performance – FY2014 Overview

| Half Year ended 30 June (A$) | 1H 14 | 1H 13 | ⇳% |
|---|---|---|---|
| **Revenue** * | $59.6m | $51.3m | 16% |
| **NPAT*** | -$4.6m | $3.9m | -218% |
| **Normalised NPAT**** | $2.7m | $3.9m | -31% |
| **EBITDA*** | $3.6m | $3.7m | -3% |
| **EBITDA before transaction costs*** | $4.9m | $3.7m | 32% |

** Continuing operations*

*** Adjusted for tax effected impairment and transaction costs*

*Figures throughout this document may not total exactly due to rounding and includes non-IFRS financial information that is relevant for users understanding of underlying performance*

# Group Performance – FY2014 Overview

| Half Year ended 30 June (A$) | 1H 14 | 1H 13 | ⇕% |
|---|---|---|---|
| **Cash at Bank** | $10.1m | $95.2m | -89% |
| **Bank Debt** | 0 | 0 | - |
| **Basic Earnings Per Share*** | -5.25c | 4.72c | -211% |
| **Normalised Earnings Per Share**** | 3.06c | 4.72c | -35% |

- MIT is generating strong operating cash flows and has a $20m revolving facility in place with NAB (expiring in March 2017);
- Since 1H 13, a total of $65.9m has been returned to shareholders by way of a special dividend of $20.7m in August 2013, and a capital return of $45.2m in February 2014;
- Normalised earnings per share was impacted by lower interest revenue and a higher effective tax rate in 1H 14. Normalised earnings per share is anticipated to improve as the business benefits from a full period of NRG ownership.

** Continuing operations*

*** Based on NPAT adjusted for tax effected impairment and transaction costs*

# Segment Performance - SMB Solutions

| | 1H 14 | 1H 13 | Change |
|---|---|---|---|
| **Revenue** | $46.1m | $38.2m | 21% |
| **Revenue excluding NRG** | $37.8m | $38.2m | -1% |
| **Gross Margin** | $25.0m | $21.2m | 18% |
| **Operational Expenditure** | $19.6m | $15.8m | 24% |
| **EBITDA** | $5.4m | $5.4m | - |

- NRG acquisition has provided business with stronger financial and operational performance; and
- Operational expenditure in 1H 13 had benefit of costs allocation to international divisions and profit on sale of DBS business.

**Opportunities**

- Benefits from synergies will begin to flow through in 2H assisting with customer experience and product proposition. Total synergies at conclusion of integration are anticipated to be 50% more than first thought;
- Focus on building digital solutions business will accelerate in 2H providing growth in FY15;
- Bundling of different products across new price points in specific brands continues to be the focus of an integrated marketing and sales team. This component led approach will help deliver growth in the core product offering of domains, hosting and email.

# SMB Solutions - Returning to Growth

## Consolidate

- Integration of MLB and Netregistry
- One leadership team
- Reorientate to a sales and marketing led organisation
- Implement NPS
- Establish non-price based differentiation

**CY14**

## Harvest and Grow

- Integration essentially complete
- Leverage industry leading position to grow market share
- Contribution from new product revenues
- Invest in innovation and differentiation
- Explore M&A opportunities

**CY15**

## Growth Dividend

- Build on strategic repositioning
- Revenue from new products and services making a material contribution
- Industry leading cost structure underpins competitive position
- Delivering material topline growth
- Strong free cash flow underpins shareholder return

**CY16**

# Segment Performance - Enterprise Services

| | 1H 14 | 1H 13 | Change |
|---|---|---|---|
| **Revenue** | $13.1m | $12.0m | 9% |
| **Gross Margin** | $8.5m | $8.7m | -2% |
| **Operational Expenditure** | $7.1m | $7.6m | -7% |
| **EBITDA** | $1.4m | $1.1m | 27% |

- Consistent growth in managed services focusing on web and digital platforms and a reduction in churn on dedicated hosting has helped deliver a strong 1H revenue performance;
- Underlying gross margin profitability has declined due to a mix change towards managed services and reclassification of licensing costs from operational expenditure to cost of goods sold. However total margin will benefit from lower infrastructure costs no longer required from a dedicated hosting (infrastructure-as-a-service) model. The change in infrastructure cost will continue to decline over the next three years.

**Opportunities**

- Expanding into federal government market with first successful tender completed in July;
- Driving automation to enable better managed service delivery at lower cost and further scale the business model;
- Pipeline for managed services remains strong with existing and new customers requiring assistance with the management of digital platforms.

# Melbourne IT & Netregistry Integration

Integration of Melbourne IT and Netregistry is on target to achieve greater than anticipated savings

- Quick Wins program executed in the first three months of ownership has delivered initial cost savings in line with expectations
- One executive and management team structure put in place since July 2014
- Technical integration is moving forward across four core streams throughout FY14. They are the following:
  - Selected Melbourne IT product migrations
  - Webcentral retail migrations
  - Webcentral reseller migrations
  - Webcentral platform consolidations

# Group 2014 Outlook

| Earnings Guidance – May AGM FY14 | Low Range $m | High Range $m |
|---|---|---|
| Melbourne IT Core EBITDA range | 10.0 | 12.0 |
| Netregistry EBITDA | 3.9 | 3.9 |
| Acquisition costs | (1.3) | (1.3) |
| Net synergy benefits* | TBD | TBD |
| **Total** | **12.6** | **14.6** |

Guidance will be at the lower end of the range communicated at the May 2014 AGM.

** Will not be negative*