

Melbourne IT reports 6th consecutive year of double-digit growth

Board declares 8 cent fully-franked final dividend

2009 performance forecast to exceed 2008 despite challenging market conditions

Melbourne IT Group Consolidated Results:

		FY 08*	FY 07
▪ Revenue	UP ▲ 21%	\$186.2m	\$154.4m
▪ EBIT	UP ▲ 18%	\$23.7m	\$20.1m
▪ NPAT	UP ▲ 17%	\$16.2m	\$13.9m
▪ Basic EPS	UP ▲ 15%	20.87¢	18.15¢
▪ Final Dividend	UP ▲ 14%	8.0¢	7.0¢
▪ Operating Cash	UP ▲ 8%	\$26.4m	\$24.6m
▪ Deferred Gross Margin	UP ▲ 31%	\$28.5m	\$21.8m

** FY 08 numbers include VeriSign DBMS contribution from 1 May and Advantate JV from 14 May 2008*

Melbourne IT Limited (ASX:MLB) today announced its 6th consecutive year of growth in all key financial metrics, reporting an 18% increase in earnings before interest and tax (EBIT) to \$23.7m achieved upon a 21% increase in revenue to \$186.2m for the year ended 31 December 2008. Net profit after tax (NPAT) increased 17% to \$16.2m over the same period. Names under management (NUM) grew 8% to 5.9m.

"This is another very pleasing result for Melbourne IT that demonstrates our ability to successfully grow and adapt to meet the ever-changing demands of the online marketplace. Despite the volatility in the global economy, we have maintained our focus on managing the fundamentals of our business. We have not been distracted from our goal of evolving Melbourne IT into a successful global IT services company. In recognition of another successful year, the Board has declared a fully-franked final dividend of 8 cents, which will be payable on 3 April 2009," said Mr Theo Hnarakis, Melbourne IT CEO and Managing Director.

"Although we are operating in challenging times, we are not content to sit still. We have a history of growth through the business cycles and diversifying our business through innovation, launching new products & services and mergers & acquisitions."

The 2008 financials reflect the impact of the acquisition of DBMS and the establishment of the Advantate joint venture, both of which occurred in May last year. The DBMS acquisition contributed revenue of \$24.0m, EBIT of \$1.6m and operating cash losses of \$0.2m (including interest expense of \$1.7m). Melbourne IT's 50% share in the start-up Advantate JV represented \$0.7m in losses before tax.

Volatility in key currencies, in particular the US dollar, negatively impacted the company's EBIT by greater than \$800k year on year. Basic earnings per share grew 15% to 20.87 cents against the previous year.

Operating cash was up 8% to \$26.4m and deferred gross margin was also up 31% year on year to \$28.5m, with \$4.7m of this attributable to DBMS.

As a result of the DBMS acquisition in May 2008, Melbourne IT's external debt balance was \$79.6m at 31 December 2008. This figure is higher than the \$57.1m reported at 30 June 2008 due to changes in the US dollar exchange rate which has also increased the value of the assets gained through the DBMS transaction. This debt facility will be serviced by US dollar revenues and earnings, which will also move in line with the US dollar exchange rate. The company's cash balance at year end was \$28.4m, leaving net debt of \$51.2m.

"In the final quarter of 2008 we saw evidence of a slowdown in all divisions and we know there are challenges ahead, including: contracting IT budgets for some corporates; many small businesses suffering some distress; continued pricing pressure; the commoditisation of domain names & shared hosting; and the possibility of further volatility in exchange rates," Mr Hnarakis said.

"Despite the global economic situation, we believe there are significant growth opportunities for Melbourne IT, including increasing demand for outsourcing, Software as a Service & virtualisation products. Industry changes, such as the proposed liberalisation of gTLDs that will make '.brand' a reality are also exciting prospects for Melbourne IT. We have strengthened the cost control discipline across our business and remain focused on maximising the opportunities that our scale, our brand, our product range and our expertise will bring."

Business & Consumer

The Business & Consumer (B&C) division increased revenue by 3% to \$42.7m in 2008 and its contribution margin rose 6% to \$11.8m. Average revenue per user (ARPU) increased 9% to \$329, reflecting this division's commitment to selling value-added products, such as search engine optimisation and web design, to help its customers succeed online.

Partner Solutions (formerly Reseller)

Melbourne IT's Partner Solutions division delivered a 2% increase in revenue to \$61.4m but suffered a 5% decline in contribution margin to \$7.4m.

"Our Partner Solutions division faced several challenges in 2008, from a stronger USD exchange rate for the majority of the year to the global financial crisis impacting the volume of sales from some of our larger US resellers. On the upside, we continue to achieve renewal rates of more than 70% in this part of our business and our value-added offerings such as Software as a Service, are gaining momentum with sales of these products up 40% year on year to \$1.5m," Mr Hnarakis said.

Digital Brand Services (formerly Corporate Brand Services)

In 2008, revenue in the Digital Brand Services (DBS) division was up 162% to \$44.9m – \$24.0m of this was attributable to the acquisition of the DBMS business in May 2008. Contribution margin in this division was up almost four-fold on the previous year to \$4.3m, with \$1.6m attributable to DBMS. This was achieved after incurring \$2.9m of integration costs associated with the acquisition during the period.

Excluding DBMS, revenue in the former CBS Division grew 22% to \$20.9m and EBIT was up 214% to \$2.7m year on year, demonstrating returns from the company's investment in recent years in new customer acquisition, penetration of new markets and enhancements to systems and processes. From 2009 onwards, DBMS will be fully absorbed into the DBS division and will not be reported separately.

"The DBMS acquisition has transformed this part of our business into the leading global digital brand management company. With the majority of the integration of DBMS complete, we are now focused on enhancing the level of service we provide to our customers and selling our expanded service offering to the combined client base. In 2008, DBS acquired more than 110 new clients including Nissan Australia, Thiess, RACQ & Austar," Mr Hnarakis said.

Corporate & Government

The Corporate & Government (C&G) division achieved revenue of \$26.0m in 2008, an increase of 12% year on year. Contribution margin rose 16% in the same period to \$3.2m. During the year C&G signed 183 new contracts.

"In 2008, we were again recognised as Microsoft Hosting Partner of the Year in Australia and were also the only hosting company in our region to be invited to participate in the Microsoft Software + Services Incubator program, which assists our customers to maximise the success of their online applications. In 2009, we will continue to leverage our strategic relationships to build our critical hosting business," Mr Hnarakis said.

"Our experience in the hosting market and the strength of our vendor relationships continue to differentiate us from our competition. We are at the forefront of virtualisation implementation in the local market, virtualising our storage infrastructure, significant parts of our server fleet and developing new cloud based infrastructure offerings using VMware's vCloud technology."

Paul Harapin, Vice President VMware Australia and New Zealand, said "VMware is delighted to be working with one of Australia's pre-eminent hosting providers, Melbourne IT, as they execute on their vCloud vision. Melbourne IT continues to be a market leader, taking its innovative virtualised solutions to a range of customers from enterprise to SMBs, helping them meet their requirements for flexibility & 'on demand' performance."

For The Record

As anticipated, ForTheRecord (FTR) reported a decline in revenue of 16% to \$8.9m and its contribution margin was down 28% to \$0.5m. Part of this was due to the stronger AUD 2008 exchange rate by comparison with the prior year.

FTR was focused on rebuilding and re-energising its business in 2008, following the introduction of new leadership. The financial result belies the significant improvements that have been achieved during the year in establishing a more robust platform for future growth, including improving sales & product development processes, building the sales pipeline and revitalising strategic relationships. FTR sold more than 2,700 solutions to clients in 2008, with new or upgrading clients including the Government of British Columbia, the Hong Kong Courts, the Courts of Abu Dhabi and the Republic of Ireland.

Outlook

"We have had an encouraging start to the year and we expect to outperform our 2008 result in 2009, delivering our 7th consecutive year of profitable growth. 2009 will benefit from continued growth in our divisions, more favourable exchange rates, a full year of DBMS and a reduction of the integration costs for DBMS and cost control initiatives.

We will continue to evolve our business to be a global leader in IT services in four key areas:

- Providing tools to SMBs to help them succeed online;
- Managing critical applications for businesses online;
- Managing digital brands globally & optimising their performance; and
- Providing digital recording services that capture critical information for organisations."

"The internet is a dynamic medium, constantly evolving and growing, presenting challenges & opportunities for companies in our space. Resilient and successful companies, like Melbourne IT, understand that to continue to prosper we must maintain our evolution and we remain committed to investing in systems/processes and innovation that position us well for growth opportunities in the uncertain year ahead as well as in the future when market conditions stabilise," Mr Hnarakis said.

About Melbourne IT

Melbourne IT Limited (ASX:MLB) is a world leader in the supply of domain name registration and other online solutions with a strong commitment to the delivery of high value internet services and web-based solutions to organisations of all sizes across the globe. Melbourne IT was listed on the Australian Stock Exchange in 1999 and has a network of offices in locations across the world.

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