2012 1st Half Results

Melbourne, Australia

21 August 2012

H1 2012 Overview

Six months ended 30 June (A$)	H1 12	H1 11	⇕%
Revenue	$89.8m	$87.6m	2.5%
EBIT	$7.3m	$7.0m	4%
EBIT (Pre-Transformation costs)*	$8.7m*	$8.5m*	2%
NPAT	$5.8m	$4.9m	18%
Basic EPS	7.1¢	6.2¢	16%
Operating Cash	$11.6m	$8.4m	38%
Interim Dividend (Fully franked)	7.0¢	7.0¢	Unchanged
Deferred Gross Margin	$28.5m	$30.7m	-7%

Slide 2 *Non-IFRS, unaudited accounting measure

NB Figures may not total exactly due to rounding

Divisional Performance

Six months ended 30 June (A$)	H1 12	H1 11	⇕%
Revenue	**$89.8m**	**$87.6m**	**2.5%**
Digital Brand Services	$29.6m	$24.8m	19%
Enterprise Services	$13.8m	$13.2m	5%
SMB / GPS	$42.6m	$46.2m	-8%
For The Record	$3.6m	$3.2m	13%
Interest and Other Income	$0.1m	$0.3m	-67%
EBIT	**$7.3m**	**$7.0m**	**4%**
Digital Brand Services	$5.2m	$2.8m	86%
Enterprise Services	$1.3m	$0.4m	225%
SMB / GPS	$5.9m	$8.1m	-27%
For The Record	-$0.2m	$0.1m	-300%
Corporate Overhead	-$3.5m	-$2.9m	20.7%
Transformation Costs	-$1.4m**	-$1.5m**	-7%

NB Figures may not total exactly due to rounding
***EBIT impact only, excludes capitalised costs*

Slide 3

First Half Overview - Highlights

- H1 revenue up 2.5% and H1 EBIT up 4% Y-o-Y
- IT & professional services revenue continues to grow, representing 65% of revenue in H1 2012 compared to 61% in H1 2011
  - Services revenue up 9% Y-o-Y from $53.5m a year ago to $58.5m in H1 2012
- Leadership position on .brand opportunity delivered 146 applications on behalf of global brand customers
  - 22% of total .brand applicants and 10% of all unique applications submitted
  - 110 registry agreements signed to deliver sustainable and growing annuity revenue from mid-2013 onwards
- ES and DBS momentum maintained with revenue growth and EBIT up significantly Y-o-Y
- Significantly lower effective tax rate of 14.2% in H1 2012 due to an R&D rebate relating to transformation project
- Interim fully franked dividend maintained at 7.0¢

Slide 4

First Half Overview - Highlights

- Primary debt facility refinanced with a four year extension maintaining favourable terms for $38m USD
  - Net debt remains low at $20.7m
- Strengthened executive leadership in SMB/GPS and DBS to align with greater performance expectations
  - Doug Schneider, EGM SMB/GPS – ex-President of Verio web hosting services, based in U.S. and Australia. Joined July 2012
  - Martin Burke, EVP DBS – ex-Managing Director of Thomson CompuMark, deep IP industry expertise, based in Europe. Joins December 2012
  - Rick Spotts, EVP FTR – former VP Global Sales FTR. Daniel Bennett transfers to DBS as SVP Global Sales
- Transformation benefits beginning to flow enabling company to deliver $3 million FY opex savings in H2 v H1
  - Greater process automation, fulfilment resource savings
  - Finance consolidation underway, business unit efficiencies expected
  - Level 1 customer service team fully operational in Manila

Slide 5

First Half Overview - Challenges

- Transformation project challenges emerged during H1 rollout
  - Additional fixes and functionality fine tuning will increase project cost from $25m to between $28m and $30m, and delay completion till mid-2013
  - Still on track to meet full project benefits; already realising cost rationalisation benefits for FY 2012
- SMB / GPS division negatively impacted by combination of external challenges and operational execution issues with EBIT down 27% Y-o-Y from $8.1m to $5.9m
- Larger FTR contracts delayed till H2 2012 (as was the case in 2011)
- ICANN new TLD program delays allowed competitors to rapidly commoditise risk assessment services
- Names under management decreased by 8% Y-o-Y from 4.9m to 4.5m

Slide 6

Melbourne IT Strategy & Strategic Positioning

- Melbourne IT is uniquely positioned as an Asia Pacific and Global leader in offering a suite of tools and services critical to businesses of all size in leveraging the internet

DBS

- Global leader in the growing brand management and protection sector
- New gTLDs to provide additional growth
- Significant M&A transactions in the last year highlight value (Thomson Reuters/MarkMonitor; HgCapital/GroupNBT)

SMB/GPS

- Australian leader in domain name/hosting with leading "white label" partners such as Yahoo!, Telstra, Optus and Microsoft
- NBN to increase online opportunities for SMBs
- High margin, low growth business that will benefit from transformation and new leadership

ES

- Increasing trend to online business and software as a service
- Annuity business that leverages group hosting infrastructure

Slide 7

Digital Brand Services (DBS)

	H1 12	H1 11	Change
Revenue	$29.6m	$24.8m	19%
EBIT Contribution	$5.2m	$2.8m	86%

- Solid first half performance despite adverse AUD impact against European currencies
  - H1 2012 revenue up 19% and EBIT up 86% on H1 2011
  - H1 2012 revenue grew 24% Y-o-Y to $30.7m on constant currency basis using 2011 exchange rates
- Brand and Reputation Protection Services revenue up 16% to $5.0m from $4.3m Y-o-Y
- Melbourne IT filed 146 new TLD applications on behalf of global brands including Visa, UBS, Orange, Ralph Lauren and Ladbrokes
- Digital brands under management rose 5% to 639k from 609k Y-o-Y
- Some price discounting negatively impacted CDM margin and revenue in H1

- **3,800+** customers
- **639,000** digital brands under management

Slide 8

Digital Brand Services (DBS)

	H1 12	H1 11	Change
Revenue	$29.6m	$24.8m	19%
EBIT Contribution	$5.2m	$2.8m	86%

Outlook

- Expect Brand Protection and Digital Optimisation and new service offerings to grow strongly based on sales pipeline and product innovation
  - New email authentication anti-phishing enhancements and DDoS offering
  - Sales team restructure will assist aggressive growth initiatives
  - 2013 will benefit significantly from five year .brand registry commitments
- Expect EBIT momentum from first half to be maintained
  - Closing the .brand opportunity contributed to slightly lower BPS and DO revenue but now distraction removed, momentum and sales pipeline building strongly
- New EVP joins December 2012

Slide 9

- 3,800+ customers
- 639,000 digital brands under management

Enterprise Services

	H1 12	H1 11	Change
Revenue	$13.8m	$13.2m	5%
EBIT Contribution	$1.3m	$0.4m	225%

- Strong EBIT growth driven by continuing growth in revenue and focus on driving down churn
  - Project revenue rebounded from $683k to $1.1m Y-o-Y
  - Cumulative monthly recurring revenue increased 2% from $8m to $8.2m Y-o-Y
- Continued improvement in service delivery and customer support has ensured churn remains at low levels
- Significant opportunities continuing to emerge as traditional businesses begin seriously investing in online strategies

Slide 10

- 3 enterprise-class data centres
- 99.979% platform stability

Enterprise Services

	H1 12	H1 11	Change
Revenue	$13.8m	$13.2m	5%
EBIT Contribution	$1.3m	$0.4m	225%

Outlook

- Significant H2 improvement expected based on new monthly revenue growth and low churn
- Expect to achieve ISO 27001 certification in H2 2012 providing greater scope for deeper government relationships
- On track to deliver double digit EBIT growth H2 2012 v H1 2012

- 3 enterprise-class data centres
- 99.979% platform stability

Slide 11

SMB / GPS

SMB	H1 12	H1 11	Change
Revenue	$19.5m	$20.7m	-6%
EBIT Contribution	$2.9m	$4.2m	-31%

GPS	H1 12	H1 11	Change
Revenue	$23.1m	$25.5m	-9%
EBIT Contribution	$3.0m	$3.9m	-23%

Consolidated	H1 12	H1 11	Change
Revenue	$42.6m	$46.2m	-8%
EBIT Contribution	$5.9m	$8.1m	-27%

- 400,000+ customers
- 6,900+ resellers
- 45+ countries

Slide 12

SMB / GPS

	H1 12	H1 11	Change
Revenue	$42.6m	$46.2m	-8%
EBIT Contribution	$5.9m	$8.1m	-27%

- SMB / GPS negatively impacted by combination of external challenges and some operational execution issues in H1
  - Office Live Small Business migration doubled customer contact volumes in H1, impacting sales and customer satisfaction
  - Commoditisation pressures continued on base level domain and hosting services
  - Inconsistent sales of higher-margin SMB services across eBusiness Centres
- SaaS revenue grew 8% from $1.9m to $2.1m Y-o-Y
- Domain registration revenue down 10% to $25.2m from $28.1m
  - Partner domain names under management down 13% to 3.3m from 3.8m names due to continued slowdown in major reseller activity

Slide 13

- 400,000+ customers
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- 45+ countries

SMB / GPS

	H1 12	H1 11	Change
Revenue	$42.6m	$46.2m	-8%
EBIT Contribution	$5.9m	$8.1m	-27%

Outlook

- New senior leadership to help drive H2 SMB operational improvements to refocus business around stronger customer experience
  - Office Live Small Business migration now complete with 110,000 potential customers for upsell
  - Revamped WebCentral website to improve customer experience
  - Enhanced website design product in H2
- Expect SMB H2 revenue to be marginally up on H1; GPS revenue marginally down in H2 compared to H1
- Expect improved H2 EBIT due to operational improvements and cost savings

Slide 14

- 400,000+ customers
- 6,900+ resellers
- 45+ countries

ForTheRecord (FTR)

	H1 12	H1 11	Change
Revenue	$3.6m	$3.2m	13%
EBIT Contribution	-$0.2m	$0.1m	-300%

- Delays in larger contracts negatively impacted EBIT contribution in H1
  - Average sales cycle has extended due to increased public sector cost management focus
- Efficiency restructure reduces cost profile for 2012 and improves product development agility
- New EVP, Rick Spotts, appointed following Daniel Bennett transfer to DBS

Outlook

- Expect strong second half with major contracts in pipeline to deliver significant EBIT boost (mirrors 2011)
- New online product offering expected to increase average contract size and drive new customer revenue in H2

Slide 15

- 22,500+ installed solutions
- 200+ global resellers

Transformation Project Update

Milestone	Date	Status
Oracle Financials (BAU Mode)	Completed	●
SMB – End to End	Q1 FY13	●
GPS – End to End	Q1 FY13	●
ES – End to End	Q1 FY13	●
DBS – End to End	Q2 FY13	●

- Accelerated our efforts on business simplification to drive transformation benefits
- Completed a realignment of delivery plan to bring project in line with our simplified vision
- Increased focus on business change outcomes, working outside technological functional benefits
- Increased total project cost will not impact FY 2012

Slide 16

2012 Full Year Outlook Update

- Maintain full year guidance of 2012 EBIT up 10% on 2011 full year EBIT
  - Expect DBS will match H1 EBIT, and expect EBIT for SMB/GPS, ES and FTR to be up strongly on H1 due to revenue growth and substantial cost savings
  - Well positioned following senior leadership changes in SMB/GPS, DBS and FTR
  - Lower cost base can be sustained
- Looking ahead to 2013
  - Transformation delivery expected mid-2013 with full benefits accruing to all divisions particularly SMB/GPS
  - New TLD operations will deliver significant, sustainable revenue and profit growth from mid-2013
- Board remains confident that dividend will be maintained

Slide 17

MELBOURNE IT

2012 1st Half Results

Melbourne, Australia

21 August 2012

Appendix: Non-IFRS Data

- Melbourne IT believes the non-IFRS, unaudited information is relevant to the user's understanding of its results given the value of the Transformation investments

Slide 19

Appendix: Glossary

Industry Terminology

- ARPU – Average Revenue Per User
- CRM – Customer Relationship Management
- DDoS – Distributed Denial of Service (an attack method used by criminals online)
- DNS – Domain Name System
- FX – Foreign Exchange
- NUM – Names Under Management
- SaaS – Software as a Service
- SEO – Search Engine Optimisation
- PPC – Pay per Click advertising
- SEM – Search Engine Marketing
- TLD – Top Level Domain

Melbourne IT Divisions & Initiatives

- DBS – Digital Brand Services
- DBMS – VeriSign Digital Brand Management Services (acquired by Melbourne IT)
- ES – Enterprise Services
- FTR - ForTheRecord
- GPS – Global Partner Solutions
- SMB – SMB eBusiness Solutions

Slide 20

Disclaimer

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Slide 21