

# 2011 Full Year Results

Melbourne, Australia

21 February 2012



## 2011 Overview

Year ended 31 December (A\$)	FY 11	FY 10	↕%
Revenue	\$179.8m	\$189.9m	-5%
EBIT	\$18.9m	\$21.2m	-11%
EBIT (Pre-Transformation costs)*	\$21.9m*	\$22.9m*	-4%
EBITDA	\$25.0m	\$28.6m	-13%
NPAT	\$13.5m	\$16.1m	-16%
Basic EPS	16.77¢	20.21¢	-17%
Operating Cash	\$19.1m	\$18.7m	2%
Final Dividend (Fully franked)	8.0¢	8.0¢	Unchanged
Deferred Gross Margin	\$29.1m	\$31.6m	-8%

Slide 2 \*Non-IFRS, unaudited accounting measure

NB Figures may not total exactly due to rounding

## Divisional Performance



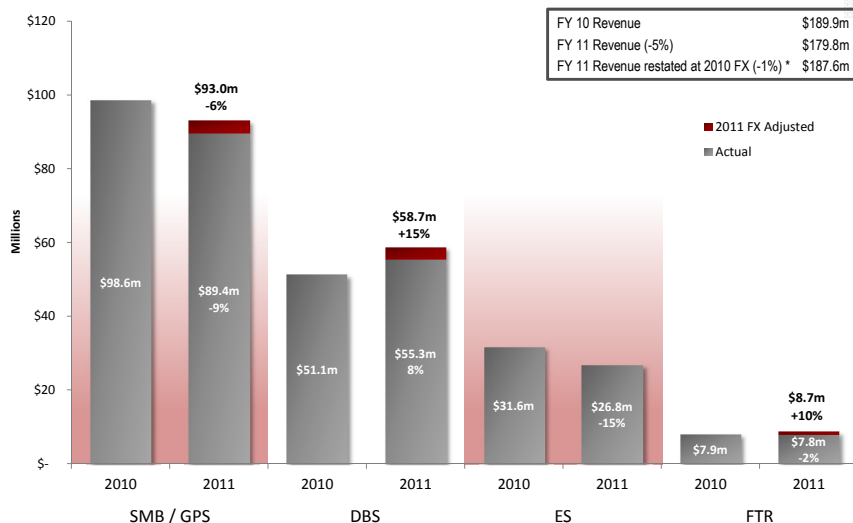
Year ended 31 December (A\$)	FY 11	FY 10	↕%
<b>Revenue</b>	<b>\$179.8m</b>	<b>\$189.9m</b>	<b>-5%</b>
Digital Brand Services	\$55.3m	\$51.1m	8%
Enterprise Services	\$26.8m	\$31.6m	-15%
SMB / GPS	\$89.4m	\$98.6m	-9%
For The Record	\$7.8m	\$7.9m	-1%
Interest and Other Income	\$0.4m	\$0.7m	-43%
<b>EBIT</b>	<b>\$18.9m</b>	<b>\$21.2m</b>	<b>-11%</b>
Digital Brand Services	\$9.0m	\$6.4m	41%
Enterprise Services	\$1.7m	\$3.5m	-51%
SMB / GPS	\$15.4m	\$17.7m	-13%
For The Record	\$1.2m	\$0m	N/A
Corporate Overhead	-\$5.4m	-\$4.6m	-17%
Transformation Costs	-\$3.0m**	-\$1.7m**	-76%

NB Figures may not total exactly due to rounding

\*\*EBIT impact only, excludes capitalised costs

Slide 3

## Constant Currency Performance – 2011 Revenue



\*Non-IFRS, unaudited accounting measure

Slide 4

## Full Year Overview



- Full year revenue down 5% Y-o-Y to \$179.8m
  - On constant currency basis using 2010 FX rates, FY11 revenue down 1% to \$187.6m
- Full year EBIT down 11% Y-o-Y, impacted by strong AUD and \$3m transformation investment
- Pre-transformation 2011 EBIT was down 4% Y-o-Y to \$21.9m
- Pre-transformation and negative FX impact, underlying EBIT up 7% Y-o-Y to \$24.4m
  - Negative FX impact to EBIT approximately at \$2.5m (using 2010 rates)
- Operating cash continues to remain strong, up 2% to \$19.1m
- Full year effective tax rate of 24.5% compared to 2010 rate of 20% which had included some one-off tax deductions

Slide 5

## Full Year Overview



- Deferred revenue down 10% Y-o-Y to \$47.1m primarily due to decline in SMB/GPS domain and shared hosting pricing, and FX impact
  - On constant currency basis using 2010 FX rates, FY11 deferred revenue down 8% to \$48.6m
- Net debt remains low at \$21.2m
  - \$5.9m debt retired in 2011
  - Effective interest rate 3.16%
- IT services revenue continues to grow – services & consulting represented 63% of revenue in FY11 compared to 61% in FY10
- Transformation project entering final year of implementation – substantial benefits expected to flow once fully implemented
- Board confidence in future earnings, declare final dividend at 8¢ – unchanged from FY 2010

Slide 6

## 24 Month Performance Trend

	H1 2010	H2 2010	H1 2011	H2 2011	Trend
<b>Revenue</b>	\$98.1m	\$91.7m	\$87.6m	\$92.2m	
<b>EBIT</b>	\$10.0m	\$11.1m	\$7m	\$11.9m	
<b>EBIT</b> (Pre-Transformation costs)*	\$10.6m*	\$12.3m*	\$8.5m*	\$13.4m*	
<b>EBITDA</b>	\$14.1m	\$14.5m	\$10.2m	\$14.8m	
<b>NPAT</b>	\$7.0m	\$9.1m	\$4.9m	\$8.6m	
<b>Basic EPS</b>	8.8c	11.41c	6.16c	10.54c	
<b>Operating Cash</b>	\$11.5m	\$7.2m	\$8.4m	\$10.7m	

Slide 7 \*Non-IFRS, unaudited accounting measure

NB Figures may not total exactly due to rounding

## Second Half Highlights

- Strong second half rebound
  - H2 2011 revenue of \$92.2m up 5% from H1 2011 revenue of \$87.6m
  - H2 2011 EBIT of \$11.9m up 70% from H1 2011 EBIT of \$7.0m
  - H2 2011 NPAT of \$8.6m up 76% from H1 2011 NPAT of \$4.9m
  - H2 2011 operating cash of \$10.7m up 27% from H1 2011 operating cash of \$8.4m
- DBS EBIT surged to \$6.2m in H2 2011
  - New .brand domain applications and brand protection boosted result
- Enterprise Services improved EBIT in H2 – refocused on annuity revenue while reducing churn. Strong sustained earnings expected
- Large customer deals returned ForTheRecord to a positive full year EBIT contribution of \$1.2m

Slide 8 NB Percentage numbers based on rounded totals

## Digital Brand Services (DBS)

Number 1 global digital brand manager

	FY 11	FY 10	Change
Revenue	\$55.3m	\$51.1m	8%
EBIT Contribution	\$9.0m	\$6.4m	41%

- Strong second half performance boosted full year result despite strong AUD headwind
  - H2 2011 revenue \$30.5m up 23% on H1 2011 revenue of \$24.8m
  - H2 2011 EBIT \$6.2m up 121% on H1 2011 EBIT of \$2.8m
  - First half investment in .brand TLD leadership pays off in H2
- FY11 revenue grew 15% Y-o-Y on constant currency basis using 2010 exchange rates
- New .brand opportunity expected to deliver further significant revenue growth in 2012 and beyond
  - Global brands engaging with DBS for more than 120 new TLD applications

Slide 9



▶ 3,800+ customers

▶ 99.9% client retention

## Digital Brand Services (DBS)

Number 1 global digital brand manager

	FY 11	FY 10	Change
Revenue	\$55.3m	\$51.1m	8%
EBIT Contribution	\$9.0m	\$6.4m	41%

- Brand & Reputation Protection Services revenue up 16% Y-o-Y to \$9.5m from \$8.2m\*
- Web Traffic Services revenue up 74% Y-o-Y to \$1.6m from \$919k
- Digital brands under management rose 6% to 620k from 583k Y-o-Y
- 268 new customers added in 2011 including Dow Corning, StarHub, Virgin Enterprises Limited, George Weston Foods

Slide 10 \*FY10 BPRS revenues restated (previously reported gross sales in error)



▶ 3,800+ customers

▶ 99.9% client retention

## Enterprise Services

	FY 11	FY 10	Change
Revenue	\$26.8m	\$31.6m	-15%
EBIT Contribution	\$1.7m	\$3.5m	-51%

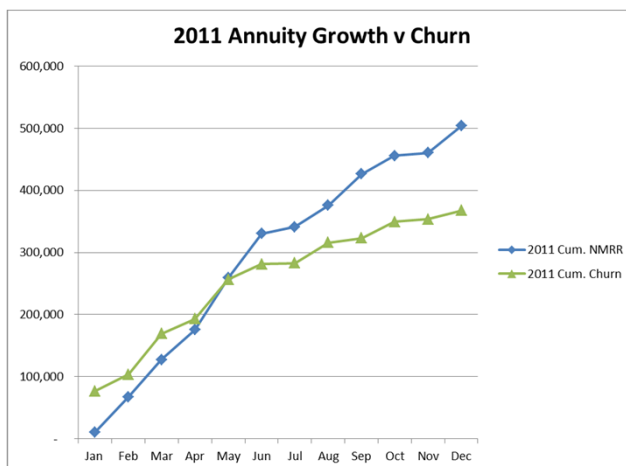
- Absence of larger project contracts in 2011 contributed to revenue shortfall
  - One off project revenue down 74% Y-o-Y to \$1.6m from \$6.2m
- Refocused effort on annuity revenue delivered stronger second half
  - H2 2011 EBIT of \$1.3m up 325% from H1 2011 EBIT of \$0.4m
  - New monthly recurring revenue wins grew 15% Y-o-Y from \$441,000 to \$507,000
  - H1 hosting churn arrested – down 69% in H2 to \$15k per month and now at historically low levels
  - Division benefitting from significant leadership, sales and account management re-organisation
  - Significant opportunities emerging as traditional businesses begin seriously investing in online strategies
- ISO 9001 certification achieved
- 182 contracts signed in 2011 with new customers including CUA, Essential Services Commission (Victoria)

Slide 11



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

## Enterprise Services



Slide 12



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

## SMB / GPS

Australia's #1 SMB hosting company and the world's #1 domain reseller provider

	FY 11	FY 10	Change
Revenue	\$89.4m	\$98.6m	-9%
EBIT Contribution	\$15.4m	\$17.7m	-13%

- SMB FY2011 EBIT down 12% to \$8.3m Y-o-Y from \$9.4m
- GPS FY2011 EBIT down 14% to \$7.1m Y-o-Y from \$8.3m
- SMB/GPS revenue impacted by strong Australian Dollar
  - FY2011 revenue down 6% to \$93m on constant currency performance using 2010 rates
- Domain registration revenue down 13% to \$54.0m from \$61.8m
  - Partner domain names under management down 12% to 3.6m from 4.1m following slowdown in major reseller activity

Slide 13



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

## SMB / GPS

Australia's #1 SMB hosting company and the world's #1 domain reseller provider

	FY 11	FY 10	Change
Revenue	\$89.4m	\$98.6m	-9%
EBIT Contribution	\$15.4m	\$17.7m	-13%

- SMB ARPU remained steady Y-o-Y at \$301 despite commoditisation of domains and base hosting – offset by growth in higher-margin SMB online marketing services
  - Search Engine Marketing (SEM) sales up 9% Y-o-Y to \$2.1m
  - SEM, SaaS and premium email sales up 2% Y-o-Y to \$7.7m
- SMB hosting revenue rebounded in second half
  - H2 2011 \$4.7m up 7% on H1 2011 \$4.4m
- Expanding in emerging markets with new partners signed in Philippines and India
- Successful H2 pilot of outsourced Level 1 SMB support to Manila helped improve service and reduce support overhead
  - By end H1 2012, 35 FTE will be based offshore to cover Level 1 Support

Slide 14



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

## ForTheRecord (FTR)

Number 1 courtroom digital recording company

	FY 11	FY 10	Change
Revenue	\$7.8m	\$7.9m	-1%
EBIT Contribution	\$1.2m	\$0m	N/A

- EBIT contribution returned to 2009 levels following difficult 2010
  - Improved margin due to higher software sales mix in 2011
- On constant currency basis using 2010 rates, revenues up 10% Y-o-Y to \$8.7m
- Investments in reseller network boosted revenue in 2011
- Large contracts signed with U.S. government agencies and international customers
  - Continued international expansion with Slovenia's Ministry of Justice rolling out FTR across 352 court rooms
- US public sector spending continues to be restrained

Slide 15

▶ 22,500+ installed solutions

▶ 200+ global resellers

## Final Year of Transformation Rollout

### 2011 Progress

- New Oracle financial system implemented into all global locations
- Pilot of billing and CRM solution live in NZ for 160+ products – fully integrated with Oracle financial system

### 2012 Timeline

- Q1-Q2 Schedule
  - First release of billing and CRM solution into SMB/GPS Melbourne
  - New Partner Portal allowing resellers to sell new products, automated provisioning, and improved ease of use
  - First release of billing and CRM into SMB Brisbane
- Q3 – complete SMB rollout with all products online in new billing and CRM system
- 2012 transformation opex budget \$3.9m

Slide 16



## The Melbourne IT Opportunity – DBS



Industry Trends

- ▶ G-20 Internet economy worth \$4.2tn by 2015
- ▶ 1,000-1500 new TLDs launched from 2013
- ▶ Phishing attacks increased 37% (Y-o-Y) in 2011
- ▶ Mobile apps have become new vector for fraud and malware
- ▶ Online counterfeit remains a multi-billion dollar problem
- ▶ Global search marketing spend to grow at 16% per year to reach \$55bn in 2014
- ▶ Online advertising will surpass print advertising spend in U.S. for the first time in 2012

Slide 17

## The Melbourne IT Opportunity – DBS



Our Opportunity

- ▶ Handling 120+ new TLD applications as at Feb 14<sup>th</sup>. Expect 150 by April deadline
- ▶ New revenue opportunities in 2012 include Application Risk Review, Contention Management
- ▶ New TLD registration services revenue opportunity from 2013
- ▶ Monitoring and brand protection revenue to grow significantly due to escalating complexity and infringement environment
- ▶ New Brand Protection services including mobile application monitoring and search channel monitoring
- ▶ Significant growth in Web Traffic Services forecast as brands require in-depth online consumer insights and strategy

Slide 18

## The Melbourne IT Opportunity – ES




Industry Trends

- ▶ Increasing web traffic spikes from major events - sporting events, major news or disasters
- ▶ Australian education IT spend to reach \$1.8bn in 2012 + grow at 2.7% from 2013-2015
- ▶ Trend to outsourcing continues as companies look to boost capability and lower cost
- ▶ Australia's traditional 'Bricks and mortar' businesses now embracing ecommerce opportunities with significant investment

Slide 19

## The Melbourne IT Opportunity – ES



Our Opportunity

- ▶ Agile platforms built on big online event experience, campaign rollouts and volatile traffic movements
- ▶ Annuity focus on core hosting business to continue growing new monthly recurring revenue
- ▶ Leverage Education market expertise to build momentum and project revenue
- ▶ Weighted projects pipeline coming into 2012 is 4.5x higher than 6 months ago

Slide 20

## The Melbourne IT Opportunity – SMB/GPS



### Industry Trends

- ▶ 33% of Australian SMBs don't have a website
- ▶ 'Understanding how to do business online effectively' is a challenge for 42% of SMBs with a website
- ▶ SMBs online say email marketing is the fastest growing area they expect to use to promote their business
- ▶ NBN – 1.7m premises to have access by 2013; approximately 50% of 2012 rollout in regional areas
- ▶ Aust online shopping worth \$21.7bn by 2015: 12.6% CAGR
- ▶ Emerging economies driving global Internet growth – 3 billion online by 2015

Slide 21

## The Melbourne IT Opportunity – SMB/GPS



### Our Opportunity

- ▶ Transformation investment in final year
  - ▶ Phased benefits begin accruing 2012 – full impact from 2013
  - ▶ Full product suite available to complete customer base
  - ▶ Will enable consolidation of services
- ▶ Strengthened product offering targets key SMB online demands, boosting ARPU
  - ▶ Email marketing
  - ▶ SEM
  - ▶ Website design
- ▶ Accelerate partnerships in emerging markets
- ▶ Accelerate key partnerships – Reckon, Hostopia

Slide 22

## 2012 Full Year Outlook



- 2012 result to reflect investments made over the last 2-3 years
  - Transformation investment
  - New products and services
  - Expansion of sales team
  - Investment in sales training and solution selling
  - Rationalisation of operations
- Strong net growth expected in 2012
  - DBS expects 2012 return on investments in:
    - .brand application services
    - .brand global thought leadership
    - Enhanced monitoring services
    - Enhanced enforcement services
    - Web Traffic Services portfolio
  - And from 2013 onwards, increased complexity and registration services to create DBS revenue spike based on sustainable annuity revenue
  - SMB/GPS to offset commoditisation of base services via continued growth of higher-margin services – transformation investment providing platform
    - Ability for new services to be offered across entire SMB customer base
  - Focus on growing annuity revenue building long term, sustainable ES business
  - FTR to maintain revenue in challenging market

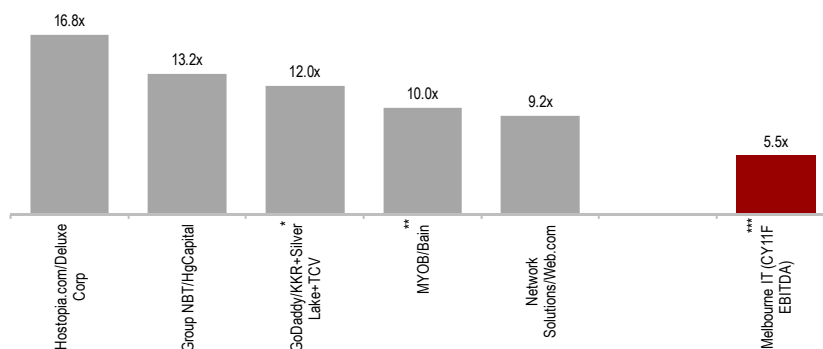
Slide 23

## Global Valuation Indicators



- Recent precedent transaction multiples among global peers indicate benchmark valuations in our sector

**Precedent Global IT Transaction Multiples (EV/Historical EBITDA)**



\*Estimated. Forward EBITDA multiple.

\*\* Estimated

\*\* Based on closing share price on 9 February 2012, and broker consensus EBITDA estimates

Source: Company filings, broker reports, press articles

Slide 24

## 2012 Full Year Outlook

- 2012 will be first year of real benefits from transformation to flow
  - SMB/GPS main beneficiaries in 2012
- Melbourne IT expects EBIT to be up at least 10% on 2011 full year EBIT result assuming AUD exchange rate remains at current levels
- FY2011 Board declared 8¢ dividend reflecting confidence in future business performance

Slide 25

# 2011 Full Year Results

Melbourne, Australia

21 February 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 and the foreign exchange impact in 2011

Slide 27

## 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 28

## Appendix: Industry References



- Boston Consulting Group, [The Digital Manifesto](#), Jan 2012
- RSA, [The Year in Phishing](#), Jan 2012
- Gartner, [Education Sector IT Spending in Australia](#), Nov 2011
- NBN Co, [Three Year Corporate Plan](#), Dec 2010
- Sensis, [E-Business Report](#), Aug 2011
- ZenithOptimedia, [ZenithOptimedia Blog](#), Dec 2011

Slide 29

## Disclaimer



This document has been prepared based on management's current expectations and beliefs and is relevant only up to the date of this presentation.

The presentation may contain unaudited information, forward looking statements or comments which are subject to a number of factors and uncertainties. All statements and comments are made in good faith and every effort has been made to ensure the accuracy of statements and comments. However, future operations and performance inherently involves certain risks, uncertainties and assumptions.

No statement or comment provided as part of this presentation should be construed as a guarantee or predictor of the operations, performance or position of Melbourne IT Limited. Similarly, no warranty is provided by Melbourne IT Limited or by any employee or Director of Melbourne IT Limited as to the contents of this presentation.

This presentation is not an offer for the sale of securities.

Slide 30