# Annual General Meeting

Melbourne, Australia

24 May 2011

MELBOURNE IT

# Board of Directors

- Simon Jones, Chairman
- Theo Hnarakis, CEO & MD
- Tom Kiing, Non-Executive Director
- Prof Iain Morrison, Non-Executive Director
- Rob Stewart, Non-Executive Director
- Andrew Walsh, Non-Executive Director






# Auditors

ERNST & YOUNG

# Agenda

- Chairman’s Address
- CEO’s Address
- Q&A
- Formal Business
- Q&A
- Tea & Coffee

# Chairman's Address

Simon Jones

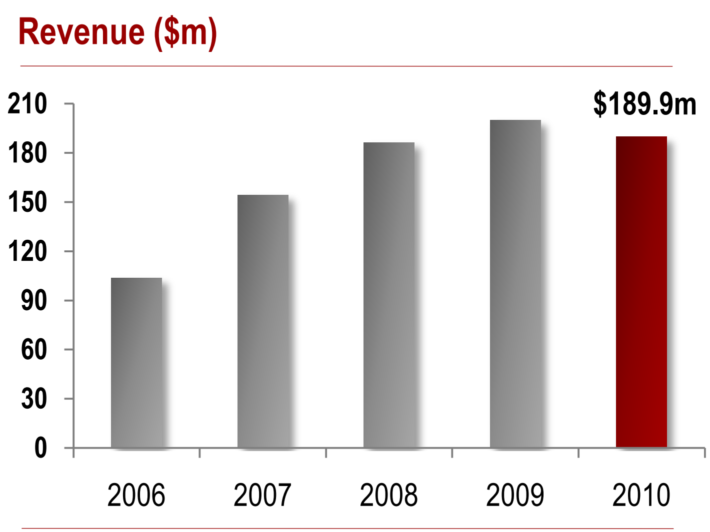
MELBOURNE IT

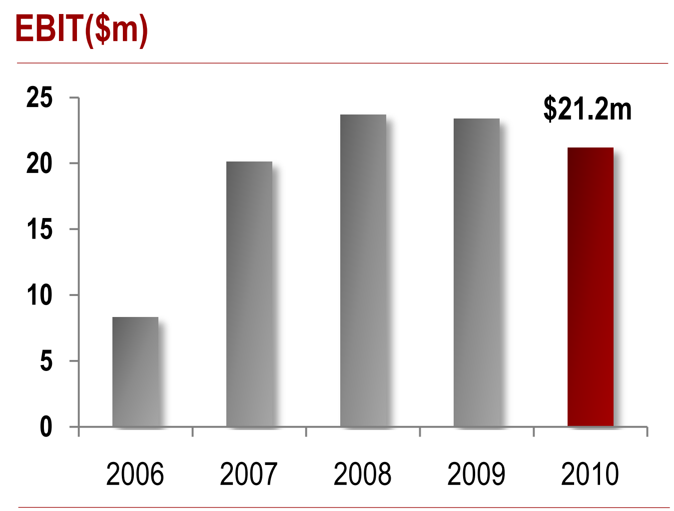
# 2010 Overview

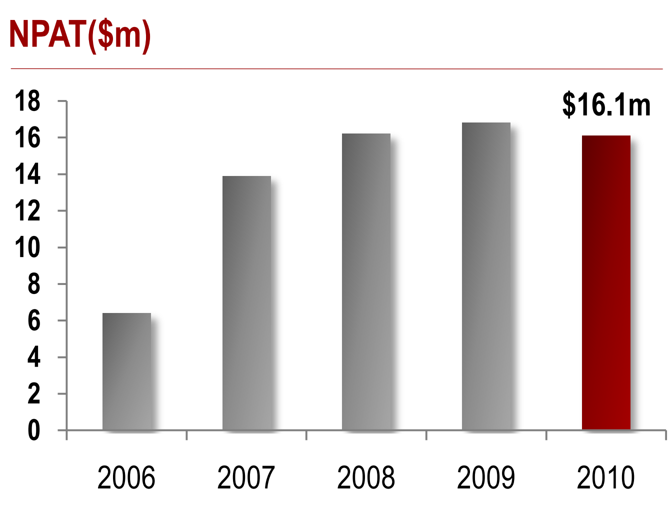
| Year ended 31 December (A$) | FY 10 | FY 09 | ⇕% |
|---|---|---|---|
| Revenue | $189.9m | $200.1m | -5% |
| EBIT (Pre-Transformation) | $22.9m | $23.9m | -4% |
| EBIT (Post-Transformation) | $21.2m | $23.4m | -9% |
| NPAT | $16.1m | $16.8m | -4% |
| Basic EPS | 20.21¢ | 21.42¢ | -6% |
| Operating Cash | $18.7m | $22.2m* | -16% |
| Final Dividend (Fully franked) | 8.0¢ | 8.0¢ | Unchanged |
| Deferred Gross Margin | $31.6m | $31.1m | 1% |

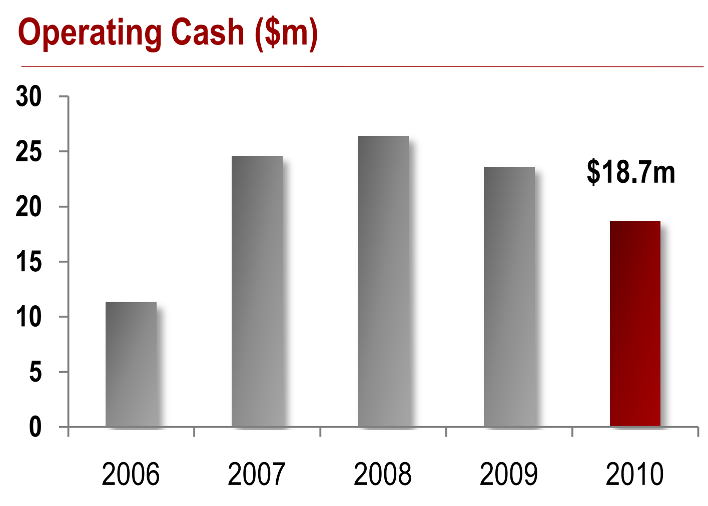
**Restated*

# Financial Performance



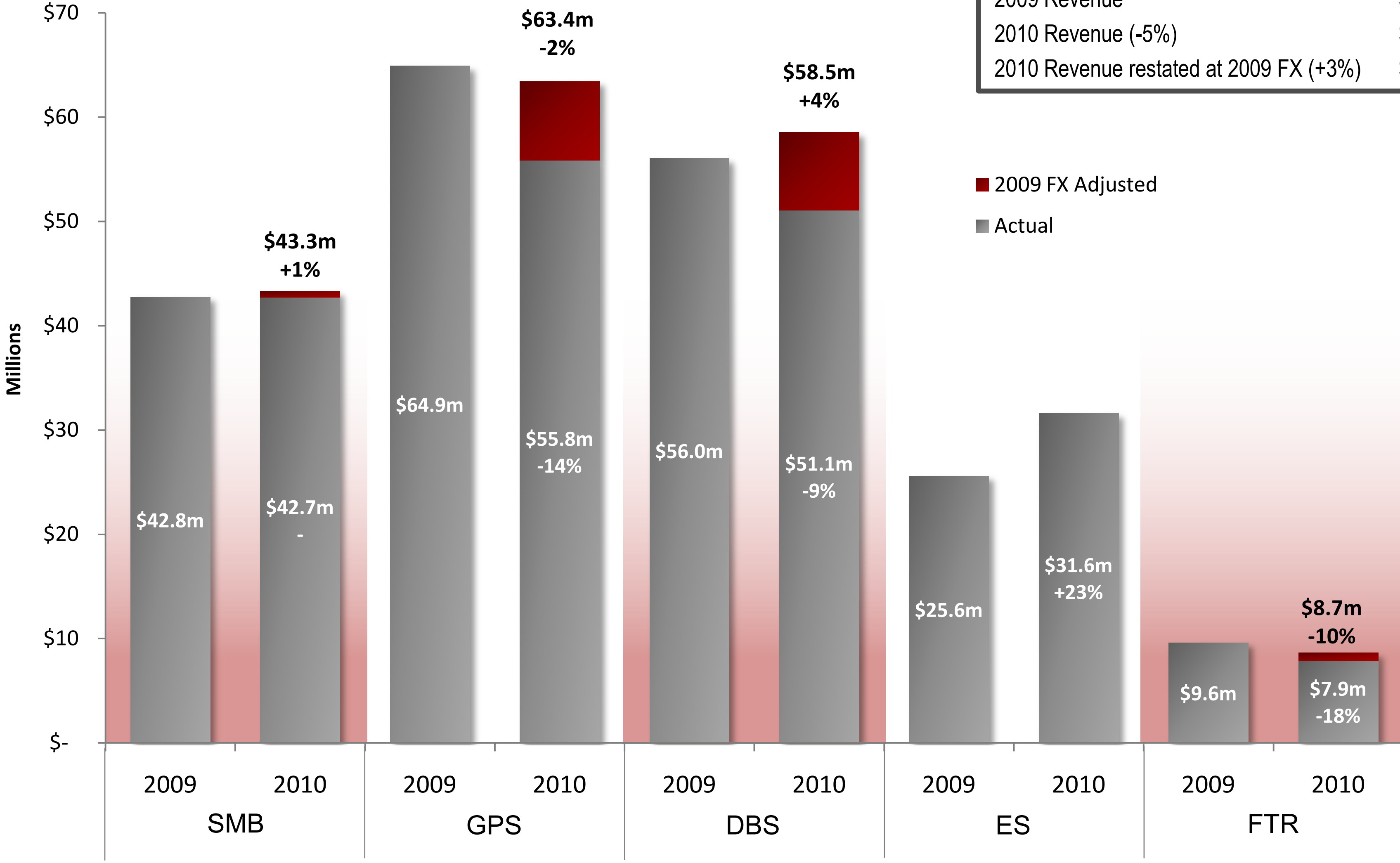



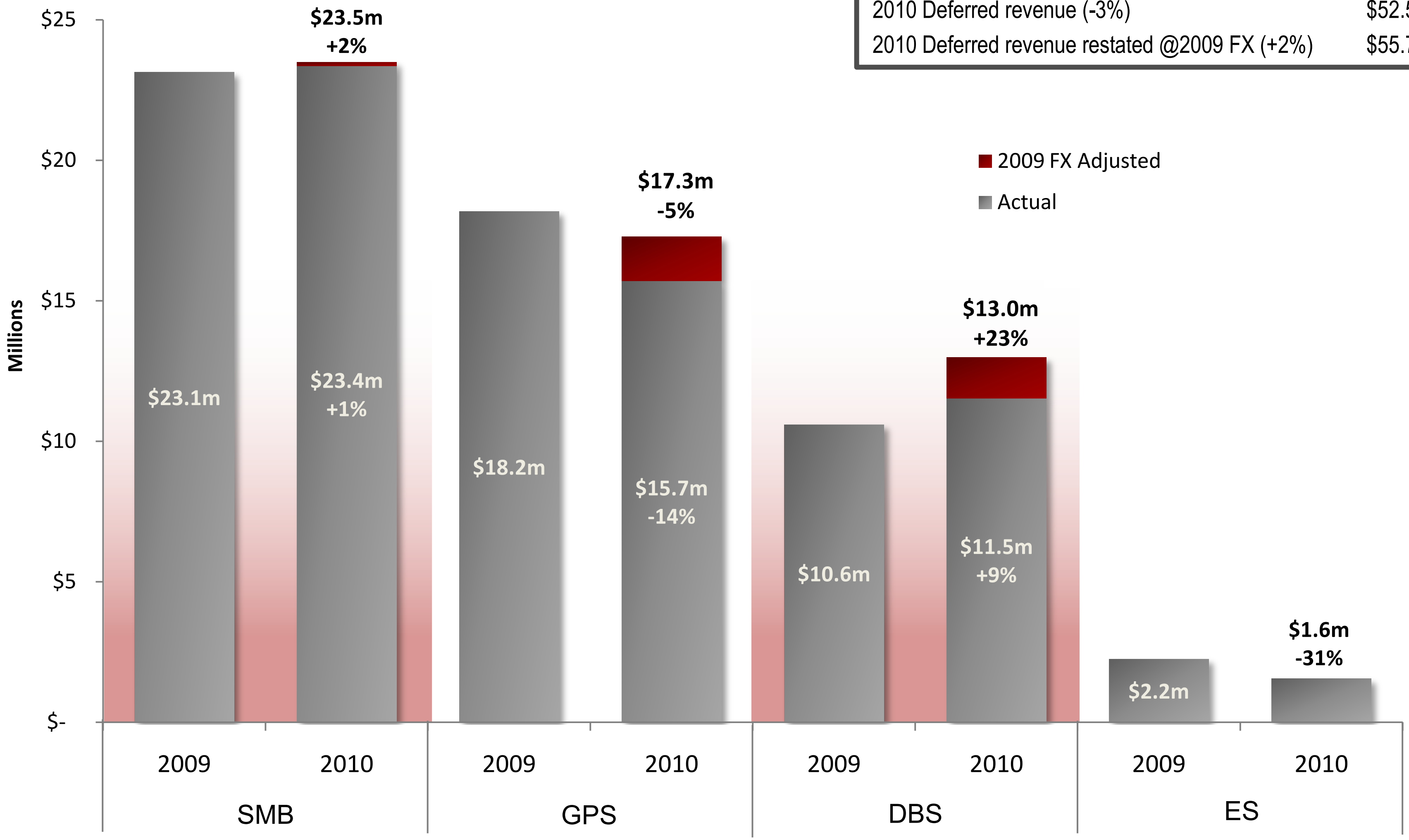
# Constant Currency Performance – 2010 Revenues

| | |
|---|---|
| 2009 Revenue | $200.1m |
| 2010 Revenue (-5%) | $189.9m |
| 2010 Revenue restated at 2009 FX (+3%) | $206.3m |



# Constant Currency Performance – 2010 Deferred Revenue

| | |
|---|---|
| 2009 Deferred revenue | $54.4m |
| 2010 Deferred revenue (-3%) | $52.5m |
| 2010 Deferred revenue restated @2009 FX (+2%) | $55.7m |



# 2010 Overview

- Deferred gross margin up 1% to $31.6m
- Net debt remains modest at $22.9m
  - $5.3m debt retired in 2010
  - Effective interest rate 2.91%
- Services revenue continues to grow – IT services represented 61% of revenue in FY10 compared to 58% in FY09
- Transformation strategy progressing well
- Advantate acquisition fully absorbed into SMB division
- Full year dividend 15c, unchanged from 2009

# 2010 Divisional Performance

# Digital Brand Services (DBS)

## Number 1 global digital brand manager

| | FY 10 | FY 09 | Change |
|---|---|---|---|
| Revenue | $51.1m | $56.0m | -9% |
| EBIT Contribution | $6.4m | $6.4m | Unchanged |

- US and EU sales slower than expected as markets recovered from GFC
- Impact of strong AUD continues to mask underlying revenue growth
  - FY10 revenue grew 4% Y-o-Y on constant currency basis using 2009 exchange rate
  - FY10 deferred revenue grew 23% Y-o-Y on constant currency basis using 2009 exchange rate
- Brand & Reputation Protection Services revenues up 36% Y-o-Y to $10.2m
  - Major contract signed with Royal Bank of Scotland Group for brand, fraud and malware protection services in H2
- Brands under management rose 5% to 583k from 557k Y-o-Y
- New customers added in 2010 include Arnott's, Kimberley-Clark, Merz Pharma, Betfair Australia, Transurban Group

# Enterprise Services

| | FY 10 | FY 09 | Change |
|---|---|---|---|
| Revenue | $31.6m | $25.6m | 23% |
| EBIT Contribution | $3.5m | $2.2m | 59% |

- Strong full year result with significant improvement in revenues and EBIT on FY 2009
- Service delivery improvements and investments continued to deliver excellent hosting platform stability: 99.994% in FY10
- Continued investment in the partner channel increased revenue contribution
- New customers signed in 2010 include Urban Pacific, Victorian Electoral Commission, Thomson Reuters, OpenText and BP Australia
  - 139 new contracts signed

► **3 enterprise-class data centres**

► **75 enterprise technology partners**

# SMB / GPS

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

| SMB | FY 10 | FY 09 | Change |
| --- | --- | --- | --- |
| Revenue | $42.7m | $42.8m | - |
| EBIT Contribution | $9.4m | $10.1m | -6% |

| GPS | FY 10 | FY 09 | Change |
| --- | --- | --- | --- |
| Revenue | $55.8m | $64.9m | -14% |
| EBIT Contribution | $8.3m | $8.6m | -3% |

| Consolidated | FY 10 | FY 09 | Change |
| --- | --- | --- | --- |
| Revenue | $98.6m | $107.7m | -8% |
| EBIT Contribution | $17.7m | $18.7m | -5% |

*NB Figures may not total exactly due to rounding*

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

# SMB / GPS

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

- SMB revenues remained steady however margins and growth impacted by commoditisation of base services and pricing pressures
  - ARPU down 2% Y-o-Y from $308 to $301 primarily due to discounting
- Higher margin SMB services experienced solid sales growth
  - SaaS services sales grew 14% Y-o-Y to $3.8m from $3.3m
  - Online marketing (SEO & PPC) up 37% Y-o-Y to $1.9m from $1.4m
- eBusiness Centre sales grew 5% to $19.7m in FY10 from $18.7m in FY09

- GPS FY10 result impacted by strong AUD and declining domain renewals from larger partners
  - Adjusted FY10 revenue $63.4m (-2%) on 2009 like-for-like exchange rate basis
  - Lower-yielding NUM for GPS down 10% Y-o-Y from 4.5 million to 4.1 million

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

# ForTheRecord (FTR)

## Number 1 courtroom digital recording company

| | FY 10 | FY 09 | Change |
|---|---|---|---|
| Revenue | $7.9m | $9.6m | -18% |
| EBIT Contribution | $0.0m | $1.0m | -100% |

- Challenging year due to major US public sector budget cuts
  - Court house closures continue in US as States try to lower costs
- Introduced new FTR Touch and updated flagship FTR Reporter product
- Strategy and personnel changes made in 2010 delivered operational improvements

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

# Transformation Update

- Transformation project progressing
  - NZ pilot for core IWS project underway
  - Oracle Financials component went live in NZ Dec 2010 and Australia April 2011
  - 2010 Transformation Capex $6.2m; operating costs impact $1.7m

- 2011 Timeline – key deliverables
  - Australia and NZ full transformation program – complete integration by Q4
  - Material benefits to be realised from 2012
  - 2011 Transformation Capex $5.8m, operating costs impact $5m

# In appreciation

- Thanks to my Board colleagues for their valuable advice and support
- Thanks to all the staff of Melbourne IT for their efforts
- Thanks to CEO and Managing Director, Theo Hnarakis, and the Melbourne IT executive team
- Thanks to our shareholders for your continued support of Melbourne IT

# CEO's Address

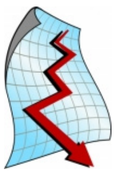
Theo Hnarakis

# Adapting to Grow

2002
Deregulation of .au


2006
SMBs online - WebCentral Acquisition

2010
Systems Transformation Project Begins



Dot com bust

2000

CDM Momentum - Cogent Acquisition

2004

VeriSign DBMS Acquisition

2008

$43.2m | $47.9m | $60.3m | $103.8m | $186.2m | $189.9m

Revenue


FUTURE AHEAD

## Small Businesses want...

- More effective websites and online marketing
- Search engine results cut-through
- Online applications to run their business
- Secure data storage

# Melbourne IT provides...

- More effective websites and online marketing
- Search engine results cut-through
- Online applications to run their business
- Secure data storage

# Enterprises want...

- Cost effective data storage
- Secure data storage
- Sophisticated website management
- Sophisticated application hosting
- Flexible infrastructure for growth
- Advanced security services

# Melbourne IT provides...

- Cost effective data storage ✓
- Secure data storage ✓
- Sophisticated website management ✓
- Sophisticated application hosting ✓
- Flexible infrastructure for growth ✓
- Advanced security services

## Today's Online Environment

- Online retail growing rapidly
- Truly global marketplace
- Online banking is omnipresent
- Social media now influences choice, decision making and brand equity
- Data security issues on the rise
- Online fraud is growing
- Counterfeiting remains a problem
- Identity theft concerns
- Reputation attacks
- Personalisation of marketing

# A new domain future

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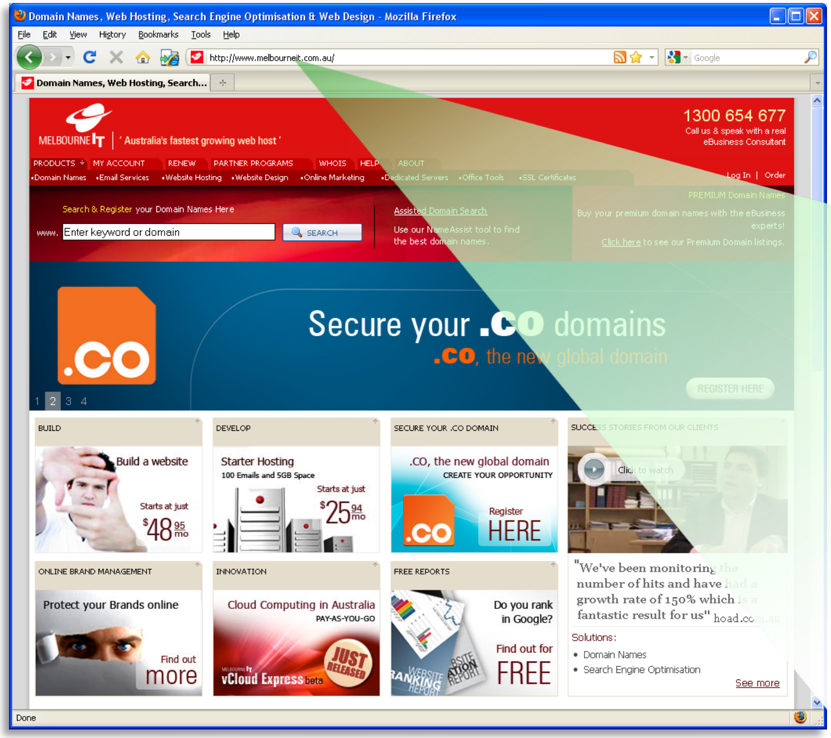
| 2000 | 2011 | FUTURE |
|---|---|---|
| .com | .info | .food |
| .net | .mobi | .web |
| .org | .aero | .blog |
| .com.au | .tel | .bank |
| .co.uk | .xxx | .london |
| .de | .eu | .sydney |
| | | .canon |
| | | .unicef |
| 7 gTLDs<br>242 ccTLDs | 21 gTLDs<br>290 ccTLDs | Estimated<br>1000+ TLDs |

# Internationalised Domain Names




http://उदाहरण.परीक्षा

http:// مثال.إختبار

http://例子.測試

http:// בײַשפּיל.טעסט

http://παράδειγμα.δοκιμή

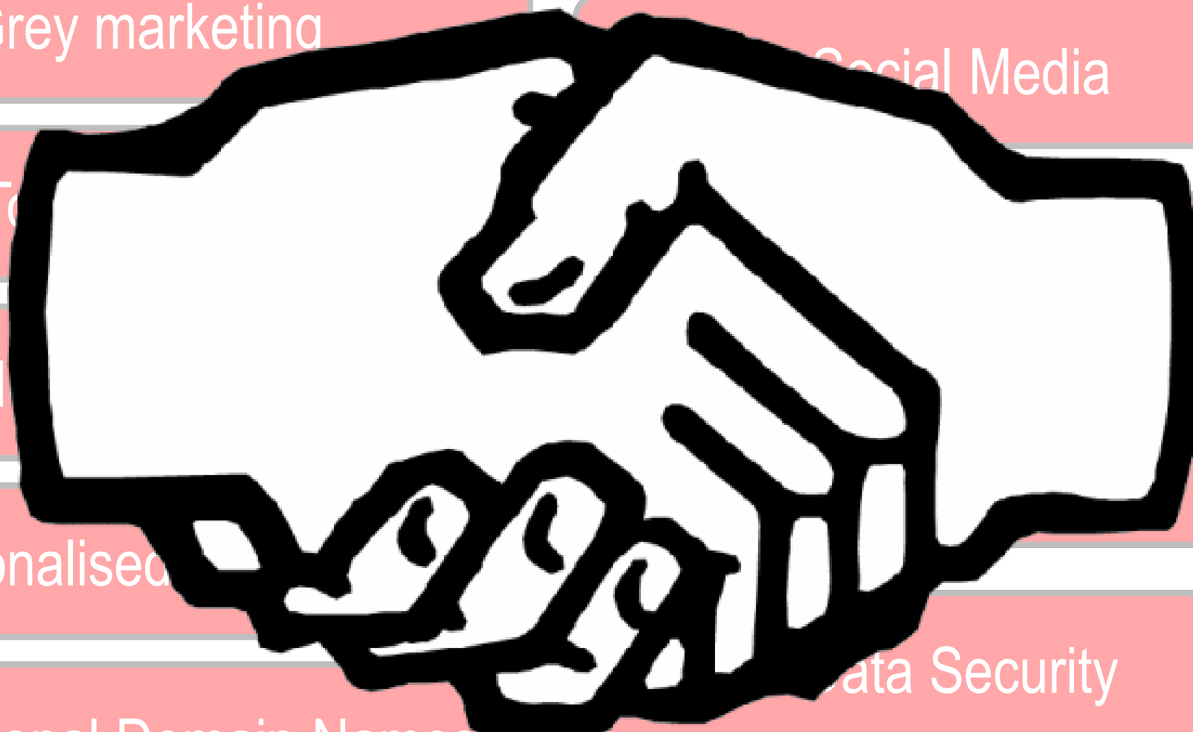
http://пример.испытание

Grey marketing

New T

Personalised

International Domain Names



ocial Media

ata Security

Authentication & Trust

Reputation attacks

Counterfeit

## Enterprises seek protection...

- Identify Internet attacks
- Rapid phishing takedown
- Malware protection
- Locate and shutdown online counterfeit
- Counter reputation attacks online
- Identify online ‘grey’ marketing
- Find and rectify brand infringements to maintain brand integrity

## Melbourne IT provides...

- Identify Internet attacks ✓
- Rapid phishing takedown ✓
- Malware protection ✓
- Locate and shutdown online counterfeit ✓
- Counter reputation attacks online ✓
- Identify online ‘grey’ marketing ✓
- Find and rectify brand infringements to maintain brand integrity ✓

- Stronger gateway security
- DDoS defences

# Optimising online brand performance

- Search Engine Marketing ✓
- Search Engine Optimisation ✓
- Social media optimisation ✓
- Web traffic analysis services ✓
- Broken link analysis ✓
- Domain portfolio optimisation ✓
- New Top Level Domain consulting ✓

- Data analytics
- Domain registry services

Coming soon

# 2011 Forecast

- Variable factors – including rising Australian Dollar and impending ICANN decision on domain liberalisation – could influence our result
  - In particular, stronger AUD and short term issues in Enterprise Services division will contribute to a softer H1 than 2010
- Melbourne IT expects to meet original guidance that 2011 EBIT delivery to be in line with 2010
  - H2 will see stronger growth based on new top level domain liberalisation
  - Guidance on profit is after absorbing the negative EBIT impact associated with the transformation investment
  - Excluding the negative EBIT impact of transformation, our trading result would be up 5-10% on a like for like basis

Significant investments:

- Continuation of transformation project expenditure ($20m over 3 years) to deliver future cost savings and revenue generation opportunities
- Innovation and service development to harness emerging opportunities
- Up skilling staff to deliver best practice customer consultation

# Q&A

- Any Questions?

# Business of the Meeting

# Financial Statements & Report

- To receive and consider the Financial Statements and the Reports of the Directors and Auditor for the financial year ended 31 Dec 2010

# Resolution 1 – Election of Directors

a) Mr Simon Jones retires by rotation in accordance with rule 9.3 of the Company's Constitution and, being eligible, offers himself for re-election

b) Mr Andrew Walsh retires by rotation in accordance with rule 9.3 of the Company's Constitution and, being eligible, offers himself for re-election

# Resolution 2 – Adoption of Remuneration Report

- To adopt the Remuneration Report for the year ended 31 December 2010

# Remuneration Report

- Philosophy
  - Company performance depends on the quality of its Directors, Executives and Staff
  - The company must therefore attract, motivate and retain highly skilled people
  - The Human Resources, Remuneration and Nomination Committee (HRRNC) is responsible for determining and reviewing remuneration for Directors, Executives and Staff

- Structure
  - The company's remuneration policy complies with the AICD guidelines for listed company executive remuneration
  - In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive remuneration is separate and distinct

# Remuneration for Executives and Key Senior Employees

- The objective is to reward executives and senior managers with a level and mix of remuneration commensurate with their position and responsibilities to:
  - Provide competitive rewards to attract high calibre executives
  - Link rewards to shareholder value
  - Have a significant portion of remuneration “at risk”, dependent upon meeting pre-determined financial and operational performance benchmarks (KPIs)
  - Establish appropriate, demanding performance hurdles for variable remuneration

# Remuneration for Executives and Key Senior Employees

Remuneration consists of two key elements:

- Fixed remuneration (salary)
- Variable remuneration
  - Short-Term Incentive (STI) – based on performance against company, business unit and personal performance KPIs
  - Long-Term Incentive (LTI) – select group of key employees granted performance rights to acquire shares in the company, with an Earnings Per Share and a Total Shareholder Return vesting hurdle

# General Staff Remuneration

Remuneration consists of two key elements:

- Fixed remuneration (salary)
- Variable remuneration for selected employees
  - Short-Term Incentive (STI) – based on performance against company, business unit and personal performance KPIs

# Non-Executive Director Remuneration

- Objective
  - The board seeks to set aggregate remuneration at an appropriate level to attract & retain Directors of the highest calibre at an acceptable cost
- Structure
  - Each NED receives a fixed fee and sits on at least one Board committee
    - Audit & Risk Management Committee or
    - Human Resources Remuneration & Nomination Committee
  - An additional fee is paid for chairing a Board committee, in recognition of the additional time commitment and responsibility required
  - NEDs are encouraged to hold shares in the Company (purchased by them on market). One of the NEDs is a substantial shareholder in the company – Tom Kiing
  - NED fees are generally reviewed every two years (last review was 1 Jan 2011)

# Non-Executive Director Remuneration

- NED Deferred Share Plan was suspended at end of 2009 due to government legislation changes on the taxation of share plans
- NED will receive a 2.5% base fee increase in 2011
- For 2011, the NED base fee is $76,875 with an additional $10,000 for Board Committee Chairs
- The Board Chairman’s fee is set at 2.3 x NED base fee

# Resolution 2 – Adoption of Remuneration Report

- Questions?

- Resolution: To adopt the Remuneration Report for the year ended 31 December 2010

# Questions

- Any final questions?

# Annual General Meeting

Melbourne, Australia

24 May 2011

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