2011 1st Half Results

Melbourne, Australia

23 August 2011

MELBOURNE IT

H1 2011 Overview

Six months ended 30 June (A$)	H1 11	H1 10		⇕%
Revenue	$87.6m	$98.1m	↓	-11%
EBIT (Pre-Transformation)	$8.5m	$10.6m	↓	-20%
EBIT (Post-Transformation)	$7.0m	$10.0m	↓	-30%
NPAT	$4.9m	$7.0m	↓	-29%
Basic EPS	6.2¢	8.8¢	↓	-30%
Operating Cash	$8.4m	$11.5m*	↓	-27%
Interim Dividend (Fully franked)	7.0¢	7.0¢	↔	Unchanged
Deferred Gross Margin	$30.7m	$31.8m	↓	-3%

**Restated*

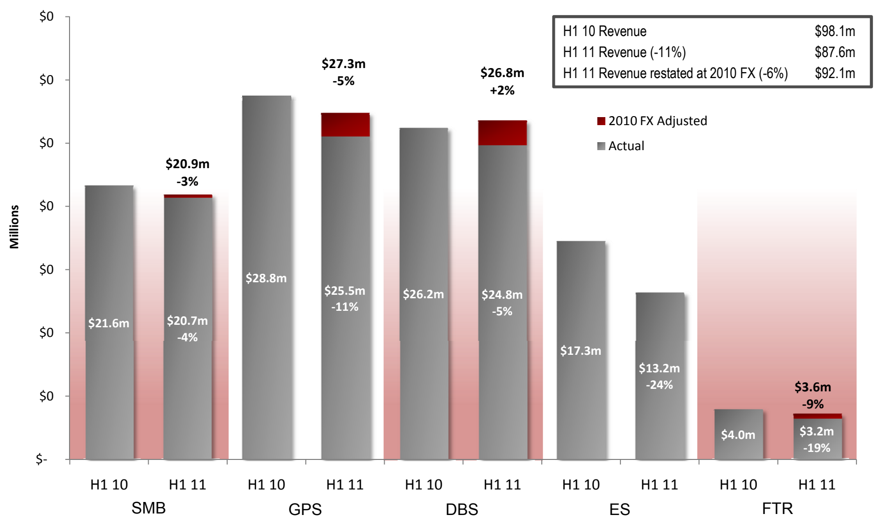
NB Figures may not total exactly due to rounding

First Half Overview

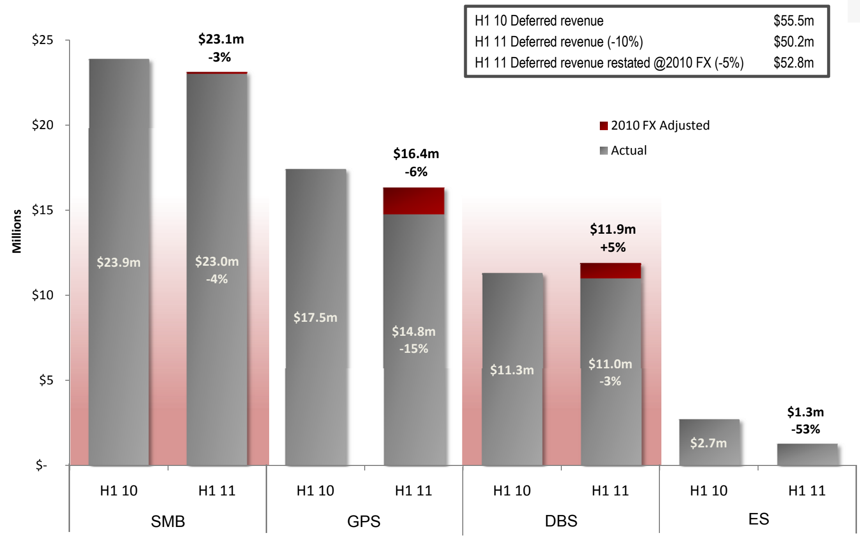
- Strong Australian Dollar relative to US and European currencies continues to negatively impact results
  - On constant currency basis using 2010 FX rates, revenue down 6% (vs. headline revenue down 11%)
  - Negative FX impact to revenue estimated at $4m
  - Negative FX impact to EBIT estimated at $1m
  - Reversing large H1 2010 Enterprise Services deal and currency fluctuations, revenue decline would have been in low single digits year-on-year (vs. headline revenue down 11%)
- Transformation EBIT impact of -$1.5m in first half
  - Program in line with budget, and 2012 benefits are expected to offset project opex impact
- Interim dividend maintained at 7c, unchanged from H1 2010
- Net debt remains modest at $21.8m
  - $2.9m debt retired in 2011
  - Effective interest rate 3.12%

Constant Currency Performance – H1 Revenue

H1 10 Revenue	$98.1m
H1 11 Revenue (-11%)	$87.6m
H1 11 Revenue restated at 2010 FX (-6%)	$92.1m



Constant Currency Performance – H1 Deferred Revenue



First Half Overview - Challenges

- Strong Australian Dollar relative to US and European currencies continues to negatively impact results
  - FX negatively impacted EBIT by an estimated $1 million in H1 2011
  - Average AUD/USD hedging rates range locked in for H2 2011 is $0.995 – $1.023
- H1 2011 Transformation project operating costs increased $0.9m Y-o-Y (in line with forecast)
- H1 2010 revenue included large contract with Qld Department Education & Training – a comparable-sized contract in H1 2011 would have narrowed underlying Y-o-Y revenue decline to low single digits
- Increased investment in marketing and resources for .brand opportunity increased DBS costs in H1
- Enterprise Services H1 leadership and sales team re-organisation
- Commoditisation in domains and base hosting services continues to affect SMB market
- ForTheRecord sales pipeline remains lumpy
- Microsoft withdrawing from domain reseller market impacting GPS division

First Half Overview - Opportunities

- ICANN June 20 decision provides go-ahead for new '.brand' Top Level Domains
  - Melbourne IT has received expressions of interest from more than 230 companies who are considering applying for a new .brand domain
  - Already 14 customers signed and building
  - Expect significant revenue growth from processing .brand applications in H2
- MOU signed with Reckon to offer online SMB services to Reckon customers
  - Differentiated website / e-commerce / online marketing solutions through tight integration with QuickBooks
- Outsourcing pilot underway in Philippines for low-end customer services and eBusiness Centre
- Growing IT services revenue continues to be a focus – 61% of total revenue in H1 2011 was services revenue (rather than domains), up 1% Y-o-Y on H1 2010
- Enterprise Services division sales management reorganisation aligned to direct market contributing to sales pipeline for H2 growing
- Large FTR deal signed in August and others nearing contract stage
- DBS senior leadership team strengthened with key sales & marketing hires
  - Significant investment in DBS sales training in H1

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New Domain Landscape

Today

Top Level Domains	*Country Code Domains*
.com .net .biz .info	**.fr .de .co.uk .com.au**

Brand owners **apply for** and manage a portfolio of URLs in diverse TLDs

With New TLDs

Top Level Domains

.bank .music .shop .hotel .city .brand *.anything*

Marketers can own, manage and control their unique name space

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Melbourne IT's .brand Opportunity

- New Top Level Domains will transform the Internet landscape
  - Applicants announced include .nyc, .canon, .music
- Melbourne IT: 230+ expressions of interest and 17 customers already signed
- Registry Services – teaming agreement signed with VeriSign
- Melbourne IT revenue opportunities
  - Enterprise application consulting – H2 2011
  - Contention management & monitoring – 2012
  - SMB registrations / GPS registrations – 2013
  - DBS monitoring & defensive registration services – 2013

Transformation Update – Investing for Future Growth

H1 2011 Progress

- New Oracle financial system implemented into Brisbane and Melbourne
- Pilot of billing and CRM solution went live in NZ with limited products

H2 2011 and 2012 Timeline

- Implementation schedule changed based on NZ pilot learnings
- Expand NZ billing and CRM pilot (over 160 products) – Q3 2011
- Partial billing and CRM in Melbourne for SMB division – Q4 2011
- Oracle financial system rollout continues into US and EMEA – Q1 2012

- 2011 expenditure in line with budget and total transformation expenditure forecast to be in line with original $25m estimate
- 2012 benefits are expected to offset 2012 project opex impact, thus transformation EBIT impact will be neutral

Divisional Performance

Six months ended 30 June (A$)	H1 11	H1 10	⇕%
Revenue	**$87.6m**	**$98.1m**	**-11%**
Digital Brand Services	$24.8m	$26.2m	-5%
Enterprise Services	$13.2m	$17.3m	-24%
SMB eBusiness Solutions	$20.7m	$21.7m	-4%
Global Partner Solutions	$25.5m	$28.8m	-11%
For The Record	$3.2m	$4.0m	-19%
Interest and Other Income	$0.3m	$0.3m	Unchanged
EBIT	**$7.0m**	**$10.0m**	**-30%**
Digital Brand Services	$2.8m	$2.6m	8%
Enterprise Services	$0.4m	$1.6m	-75%
SMB eBusiness Solutions	$4.2m	$4.8m	-13%
Global Partner Solutions	$3.9m	$4.3m	-9%
For The Record	$0.1m	0	N/A
Corporate Overhead	-$2.9m	-$2.8m	4%
Transformation Investment	-$1.5m	-$0.6m	150%

NB Figures may not total exactly due to rounding

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Digital Brand Services (DBS)

Number 1 global digital brand manager

	H1 11	H1 10	Change
Revenue	$24.8m	$26.2m	-5%
EBIT Contribution	$2.8m	$2.6m	8%

- Impact of strong AUD distorts underlying performance
  - FY11 revenue grew 2% Y-o-Y on constant currency basis using 2010 exchange rate
  - FY11 deferred revenue grew 5% Y-o-Y on constant currency basis using 2010 exchange rate
- Increased investment in sales training, marketing and resources in H1 to deliver on .brand TLD opportunity in H2
- Brands under management rose 6% to 609k from 572k Y-o-Y
- 121 new customers added in H1 2011 including Virgin Enterprises Limited, The Body Shop Australia, Australian Red Cross, Sony Computer Entertainment Australia

Second Half Outlook

- Expect significant revenue and EBIT uplift from new top level domains opportunity
- Continuing to strengthen senior management team in key areas – new lead for Brand Protection due to join H2

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Enterprise Services

	H1 11	H1 10	Change
Revenue	$13.2m	$17.3m	-24%
EBIT Contribution	$0.4m	$1.6m	-75%

- Absence of larger contracts in H1 2011 contributed to revenue shortfall
  - H1 2010 revenue included large contract signed with Qld Department Education & Training – a comparable sized contract in H1 2011 would have narrowed year-on-year revenue decline to low single digits
- Consolidation of hosting services by some reseller customers led to spike in H1 churn
  - Significant leadership, sales and account management re-organisation in H1 with shift to direct sales
- New customers signed in H1 2011 include Essential Services Commission (Victoria), Australian Red Cross Blood Service, and IMG Sports Technology Group

Second Half Outlook

- Pipeline stronger for H2
- New structure, account management processes and leadership to deliver improved revenue and EBIT result in H2

- **3** enterprise-class data centres
- **75** enterprise technology partners

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SMB / GPS

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

	H1 11	H1 10	Change
Revenue	$46.2m	$50.5m	-9%
EBIT Contribution	$8.1m	$9.1m	-11%

- SMB/GPS revenue impacted by strong Australian Dollar
  - H1 revenue down 4% to $48.3m on constant currency performance using 2010 rates
- Commoditisation of domains and base hosting continues
- Growth in higher-margin SMB online marketing services continues
  - Search Engine Marketing sales up 26% to $1.1m from $880k Y-o-Y

Second Half Outlook

- Reckon MOU provides cross-sell opportunity
- Hosting product refresh and new product launches to boost SMB
- GPS continue to manage operational costs and grow partner revenue to offset FX impact
- Positioned for significant growth driven by transformation and generic name liberalisation

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

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ForTheRecord (FTR)

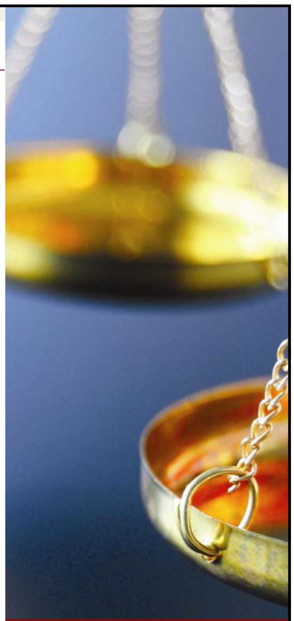
Number 1 courtroom digital recording company

	H1 11	H1 10	Change
Revenue	$3.2m	$4.0m	-19%
EBIT Contribution	$0.1m	$0.0m	N/A

- US market remains slow with public sector spending restricted
- Pipeline is healthy but unpredictable timing of large deals makes forecasting challenging

Second Half Outlook

- Large contract signed in August lays foundation for significantly improved second half performance
- Focus on law enforcement market to gather momentum following reseller investments in H1



► **22,500+** installed solutions

► **200+** global resellers

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Full Year Outlook

- 2011 Second Half will see stronger revenue and EBIT
  - Significant new top level domain opportunity for DBS in H2 and beyond
  - Improved pipeline in Enterprise Services
  - Significant customer orders to boost FTR
  - Expect SMB and GPS to remain steady in H2
  - Tight cost control across group
- We have a high level of confidence that H2 will be significantly stronger and in particular DBS and FTR revenue and EBIT, however:
  - The continuing strength of the Australian Dollar
  - The economic climate in Europe and North America

  …could contribute to Melbourne IT's full year EBIT being down by up to 10%, coming in between $19m and $21m

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Full Year Outlook

- Guidance on profit is after absorbing the -$3.7m EBIT impact associated with the transformation program and a potential negative full year FX EBIT impact of $2m
- Underlying 2011 EBIT (pre-transformation and pre-forecast foreign exchange negative impacts) is expected to be up approximately 5-10% on 2010
- The board has maintained its 7 cent fully franked H1 dividend and expects that the full year dividend will be 14 to 15 cents, depending on the final full year result
- 2012 should see a return to strong growth due to all divisions executing growth plans and benefits accruing to offset transformation investment

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Appendix: Company Overview

Digital Brand Services	Optimises, protects and manages brands online globally
Enterprise Services	Managed hosting & advanced online services for enterprises and government organisations in Australia
SMB eBusiness Solutions	Domains, website hosting & IT services for SMBs in Australia & NZ
Global Partner Solutions	Resells domains and SMB IT services through global partners
ForTheRecord	Digital recording provider to judicial and civic venues globally

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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

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