2012 Full Year Results

Melbourne, Australia

26 February 2013

2012 Overview

Year ended 31 December (A$)	FY 12	FY 11	⇕%
Revenue	$170.6m	$179.8m	-5%
EBIT (Pre-Impairment)*	$17.0m	$18.9m	-10%
EBIT (Post-Impairment)	$15.0m	$18.9m	-21%
NPAT (Pre-Impairment)*	$13.4m	$13.5m	-1%
NPAT (Post-Impairment)	$11.4m	$13.5m	-16%
Basic EPS (Post-Impairment)	13.96¢	16.77¢	-17%
Operating Cash	$21.1m	$19.1m	11%
Final Dividend (FY12 40% Franked, FY11 Fully franked)	7.0¢	8.0¢	-13%
Deferred Gross Margin	$27.7m	$29.1m	-5%

**Non-IFRS, unaudited accounting measure*

NB Figures may not total exactly due to rounding

Divisional Performance

Year ended 31 December (A$)	FY 12	FY 11	⇕%
Revenue	**$170.6m**	**$179.8m**	**-5%**
Digital Brand Services	$55.2m	$55.3m	0%
SMB Solutions	$82.2m	$89.4m	-8%
Enterprise Services	$26.1m	$26.8m	-3%
For The Record	$6.9m	$7.8m	-12%
Interest and Other Income	$0.3m	$0.4m	-25%
EBIT	**$15.0m**	**$18.9m**	**-21%**
Digital Brand Services	$9.5m	$9.0m	6%
SMB Solutions	$12.8m	$15.4m	-17%
Enterprise Services	$2.3m	$1.7m	35%
For The Record	$0.1m	$1.2m	-92%
Corporate Overhead	-$5.5m	-$5.4m	2%
Transformation Costs	-$2.2m**	-$3.0m**	-27%
FTR Impairment	-$2.0m	N/A	N/A

NB Figures may not total exactly due to rounding

***EBIT impact only, excludes capitalised costs*

Full Year Overview

- Full year revenue down 5% to $170.6m and full year pre-impairment EBIT down 10% Y-o-Y, in line with November guidance
- Full year effective tax rate of 18% due to $3m R&D rebates relating to transformation project
- Strong operating cashflow of $21.1m reflecting working capital improvements in addition to $3m R&D tax refund
- Deferred margin of $27.7m reflects ongoing strength of annuity business
- Net debt remains low and reduced 25% Y-o-Y to $16.0m from $21.2m
  - Primary debt facility refinanced in 2012 with a four year extension maintaining favourable terms for $38m USD
- Board declares final dividend of 7¢ partially franked (40%)
  - This brings the full year dividend to 14¢

ForTheRecord Impairment

- FTR performance in 2012 faced significant challenges
  - Public sector spending globally remains depressed
  - Absence of larger FTR contracts in 2012 compared to 2011
- As advised in November market update, the Board has reviewed the carrying value of goodwill for FTR
- Decision taken to impair the value by $2 million (a non-cash charge) in 2012 accounts

Full Year Overview - Challenges

- 2012 EBIT negatively impacted $0.7m on constant currency basis using 2011 exchange rates

- SMB Solutions division negatively impacted by combination of external challenges and operational execution issues with EBIT down 17% Y-o-Y from $15.4m to $12.8m
  - Attempted credit card fraud attacks impacted website in H1
  - Microsoft exit from domain resale business and subsequent customer service impact
  - Price competition and aggressive competitor marketing activity

- Restricted Queensland Government spending delayed projects and negatively impacted Enterprise Services revenue

- ICANN setbacks in new gTLD program delayed service offerings and revenue
  - No significant new TLD launches in 2012 (.eu, .co and .xxx in prior years)

Full Year Overview - Highlights

- 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
  - More than 110 registry agreements signed to deliver sustainable and growing annuity revenue from H2 2013 onwards
- Transformation project continues to progress solidly towards end 2013 completion date
  - TechMahindra signed as integration partner to help complete project
- Profitability of DBS and ES divisions improved despite ICANN setbacks in new gTLD program and Qld Government delays in technology priorities review
- Strengthened executive leadership in SMB Solutions and DBS with appointments of Doug Schneider (July) and Martin Burke (December)
  - Stronger second half SMB Solutions performance with H2 EBIT up 17% to $6.9m from H1 EBIT of $5.9m

Strategic Review Progress Update

- Strategic Review commenced in November 2012 to explore the possibility of:
  - Benefiting shareholders by unlocking the intrinsic value of our businesses
  - Benefiting customers with more focused execution and operations
  - Benefiting staff through increased investment specific to the needs of each business division and its customers

- Strategic Review is ongoing and the Board will update the market in accordance with its disclosure obligations once the outcome of the review has been determined

Transformation Project Update

Milestone	Date	Status
Oracle Financials (BAU Mode)	Completed	
SMB (inc Partner) – End to End	Q4 FY13	
ES – End to End	Q4 FY13	
DBS – End to End	Q4 FY13	

- TechMahindra appointed as integration partner to help complete project
- Project expected to complete by end 2013 – all systems will be operational for all new customers
    - Existing customer base will be migrated to new systems in 2014
- Project will allow the business to realise cost savings, streamline processes and launch new products
- Total project cost expected to remain within guidance of $28-30m

Division Results

Digital Brand Services (DBS)

	FY 12	FY11	Change
Revenue	$55.2m	$55.3m	0%
EBIT Contribution	$9.5m	$9.0m	6%

- Revenue held steady Y-o-Y and EBIT up 6% Y-o-Y
  - Some price discounting negatively impacted CDM margin and revenue
  - Extended sales cycles on new security products delayed revenue to 2013
  - ICANN delays to new gTLD program delayed new services
  - No significant new gTLD launched in 2012 (2010: .co, 2011: .xxx)
- On constant currency basis using 2011 FX rates, DBS FY 12 revenue up 3% to $56.8m
- Brand and Reputation Protection Services revenue up 7% to $10.3m from $9.6m Y-o-Y
- Digital brands under management rose 4% Y-o-Y to 647k from 620k
- Melbourne IT filed 146 new gTLD applications for global brands including Visa, UBS, Orange, and Ralph Lauren

- **3,800+** customers
- **647,000** digital brands under management

Digital Brand Services (DBS)

	FY 12	FY11	Change
Revenue	$55.2m	$55.3m	0%
EBIT Contribution	$9.5m	$9.0m	6%

Outlook

- Arrival of new gTLDs on the web from mid-2013 will:
  - Increase demand for new gTLD strategy consulting services
  - Boost registrations revenue as customers register new names for promotion and protection
  - Help drive brand protection services growth, including increased cybersquatting enforcement
  - Signal the commencement of more than 110 '.brand' registry services contracts
- New Brand Protection Portal now available
- Strong fraud prevention services sales pipeline built as we enter 2013

- **3,800+** customers
- **647,000** digital brands under management

SMB Solutions

SMB	FY 12	FY 11	Change
Revenue	$37.9m	$40.8m	-7%
EBIT Contribution	$6.1m	$8.3m	-27%

GPS	FY 12	FY 11	Change
Revenue	$44.3m	$48.6m	-9%
EBIT Contribution	$6.7m	$7.1m	-6%

Consolidated	FY 12	FY 11	Change
Revenue	$82.2m	$89.4m	-8%
EBIT Contribution	$12.8m	$15.4m	-17%

SMB Solutions

	FY 12	FY 11	Change
Revenue	$82.2m	$89.4m	-8%
EBIT Contribution	$12.8m	$15.4m	-17%

- Merged SMB and GPS operations in H2 2012 for improved delivery and greater efficiencies
- SMB Solutions revenues and EBIT down in both direct and reseller businesses
  - Aggressive competitor marketing and pricing increased commoditisation of base level domain and hosting services
  - Microsoft Office Live exited domain reselling business – now complete
  - Office Live migration impact on sales and customer satisfaction in H1 now resolved
- Stronger second half performance with H2 EBIT up 17% to $6.9m from H1 EBIT of $5.9m
- Software as a Service revenue up 8% Y-o-Y from $3.8m to $4.1m
- Partner names under management decreased by 15% Y-o-Y from 3.6m to 3.1m domains (largely due to Microsoft impact)

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

SMB Solutions

	FY 12	FY 11	Change
Revenue	$82.2m	$89.4m	-8%
EBIT Contribution	$12.8m	$15.4m	-17%

Outlook

- Enhancing talent and senior leadership team to refocus business around stronger customer experience
  - Additional SMB customer service investments planned

- New/Enhanced product investments to help improve competitiveness in 2013 including WebCentral hosting product upgrade and WordPress hosting
  - Improvements in online sales channel with revamped websites
- Expect projects with large partners to create new opportunities
- ICANN's new gTLD rollout will generate significant revenue opportunities from late 2013 and 2014 onwards

Enterprise Services

	FY 12	FY 11	Change
Revenue	$26.1m	$26.8m	-3%
EBIT Contribution	$2.3m	$1.7m	35%

- Strong EBIT growth driven by continued decrease in churn and greater operational efficiencies
- Back-ended contract clauses in large Qld Government Department of Education, Training & Employment (DETE) contract reduced DETE annuity revenue in H2 2012
  - 2012 DETE project revenues in line with FY 2011 however revenue phased higher in H1 than H2 2012
  - Delay in Qld Govt priorities review subsequently affected project timings
- Non-DETE annuity revenue rose 4% Y-o-Y from $16.1m in FY 2011 to $16.7m in FY 2012
- ISO 27001 certification achieved, providing greater scope for deeper government and corporate relationships

► **3** enterprise-class data centres

► **99.973%** platform stability

Enterprise Services

	FY 12	FY 11	Change
Revenue	$26.1m	$26.8m	-3%
EBIT Contribution	$2.3m	$1.7m	35%

Outlook

- Well positioned in a market in transition
  - Platform-agnostic – can deliver successful business outcomes to customers across a wide range of industry leading, cloud-based platforms
  - Partnerships with key online experience providers Amazon Web Services, Adobe, Sitecore and Akamai
- Significant opportunities continuing to grow as traditional businesses are now seriously investing in online strategies – but require expertise to drive acceptable site performance (View Video)
  - Website failure rates across 153 Aussie retail sites doubled during ClickFrenzy event – demonstrating need for expert help

- **3** enterprise-class data centres
- **99.973%** platform stability

ForTheRecord (FTR)

	FY 12	FY 11	Change
Revenue	\$6.9m	\$7.8m	-12%
EBIT Contribution	\$0.1m	\$1.2m	-92%

- Significant reduction in US Government sector spending and continued delays in sales cycles negatively impacted FTR in 2012
    - Average sales cycles extended 3-4 months in 2012
- Agreed key partnership with Court Record Solutions (CRS) in 2012 as part of FTR growth of online, annuity-based revenue model

Outlook

- CRS partnership expected to fuel return to growth in 2013
- Strong pipeline of larger potential contracts built during 2012 will be decided in 2013

2013 Full Year Outlook

- Board continues to believe the outlook is positive for Melbourne IT
  - Recognises need to accelerate initiatives to position Melbourne IT for next phase of sustained growth

- Major growth opportunities lay ahead
  - New gTLDs will benefit DBS and SMB
  - Brands and consumers require protection from the increasing impact of online threats
  - Accelerating shift from ‘bricks to clicks’ requires expert digital platform management
  - CRS partnership with FTR

2013 Full Year Outlook

- 2013 will be a major inflection point for Melbourne IT
- By successfully executing our strategies, we expect:
  - SMB Solutions performance to be in line with 2012 and see strong growth in 2014
  - DBS will be up in 2013 and will grow significantly in 2014 as we experience the bulk of benefit from full new gTLD impact
  - ES will continue to grow on the back of the strategic shift to digital platform management and stronger marketing campaigns
  - FTR will improve profitability from the development and launch of new products
- Transformation completion in late 2013 will assist Divisions in growing revenue through the launch of new products and allow group to substantially rationalise costs
- With strategic review in progress and being so early in the year, it is premature to provide any detailed guidance for 2013
- Board confident Company can continue to distribute strong dividends in the future
  - Level of franking credits will continue to be influenced by R&D tax credits and the increasing proportion of the company’s earnings being derived from outside of Australia

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Appendix: Non-IFRS Data

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

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
- gTLD – Generic Top Level Domain
- NUM – Names Under Management
- PPC – Pay per Click advertising
- SaaS – Software as a Service
- SEM – Search Engine Marketing
- SEO – Search Engine Optimisation

Melbourne IT Divisions & Initiatives

- DBS – Digital Brand Services
- ES – Enterprise Services
- FTR - ForTheRecord
- SMB – SMB Solutions

Disclaimer

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