

2013 First Half Results

Melbourne, Australia

27 August 2013

H1 2013 Overview



Six months ended 30 June (A\$)	H1 13	H1 12^	↕%
Revenue*	\$51.3m	\$56.6m	-9%
EBITDA*	\$3.7m	\$3.8m	-3%
EBIT*	\$2.5m	\$2.4m	4%
NPAT*	\$3.9m	\$3.3m	18%
Net Gain on Sale of Businesses	\$66.4m	\$2.5m	N/A
Statutory NPAT	\$70.3m	\$5.8m	1,109%
Operating Cash*	\$5.9m	\$11.6m	-49%
Special Dividend (Paid 22/8)	25¢	-	N/A
Net Cash at Bank#	\$112.0m	-\$20.8m	

Slide 2 * Continuing operations

^ Restated continuing operations only H1 2012

Includes DBS escrow amount of \$15.25m and \$1.5m FTR cash position at 30 June 2013

Figures may not total exactly due to rounding

Divisional Performance – Continuing Operations

Six months ended 30 June (A\$)	H1 13	H1 12^	↕%
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Revenue

SMB Solutions	\$38.2m	\$42.6m	-10%
Enterprise Services	\$12.0m	\$13.8m	-13%
Other Income	\$1.2m	\$0.1m	1,100%

Total	\$51.3m	\$56.6m	-9%
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EBIT

SMB Solutions	\$5.1m	\$5.9m	-14%
Enterprise Services	\$0.4m	\$1.3m	-69%
Corporate Overhead	-\$2.5m	-\$3.5m	29%
Transformation Costs	-\$0.5m*	-\$1.4m*	64%

Total	\$2.5m	\$2.4m	4%
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NB Figures may not total exactly due to rounding

Slide 3 *EBIT impact only, excludes capitalised costs ^2012 accounts restated

A New Chapter Begins

ASX Listing



Verisign DBMS
Acquisition



Melbourne IT
DBS Sold for
\$152.5m



Re-inventing
Melbourne IT



Transformation
Completion
Benefits



1996 1999 2006 2008 2010 Mar 2013

Aug 2013 and beyond



Melbourne IT
Founded



WebCentral
Acquisition



Systems
Transformation
Project Begins



ForTheRecord
Sold



New gTLDs
Arrive



M&A and Other
Growth
Opportunities

Decade of annualised
TSR of 40%

Unlock Value

DBS sold \$152.5m –
valued at 95% of whole
company market cap

Deliver Shareholder
Benefits

25¢ Special Dividend Paid
Assessing further options

Simpler, Focused
Business for Future
Success

DBS & FTR Divested
Focus on SMB & ES

Cost Restructure

Target to reduce 10% operating costs by end of 2013
~\$6.5m savings from 2014

Labour	\$4.5m
Operational Savings	\$2.0m

Board and Management restructure to ensure right skills and leadership to manage next stage of Melbourne IT's evolution

Talented core management continuing include CFO, EVP SMB, EGM ES, CTO

Re-inventing Melbourne IT



Marketing

Doubling marketing spend in 2014

Systems

Completion of Systems Transformation Project at end 2013
Customer migration to unified platform 2014

Products & Services

Pipeline of compelling new products and services set to launch H2 2013 onwards

Infrastructure

Targeting to move 90% of infrastructure to the Cloud by 2016 = \$3-4m saving by 2016

- Outstanding debt of US\$35 million has been retired
- Shareholders received a special dividend of 25¢ per share, partially franked (75%) – 22 August 2013
- The Board continues to evaluate a range of capital management options – including special dividends, capital returns and share buybacks – with the aim to optimise return for shareholders
 - Company has applied to the ATO for a tax ruling on a potential capital return to shareholders



Increased choice for new SMBs

Ability to get short, memorable, relevant domain names for marketing

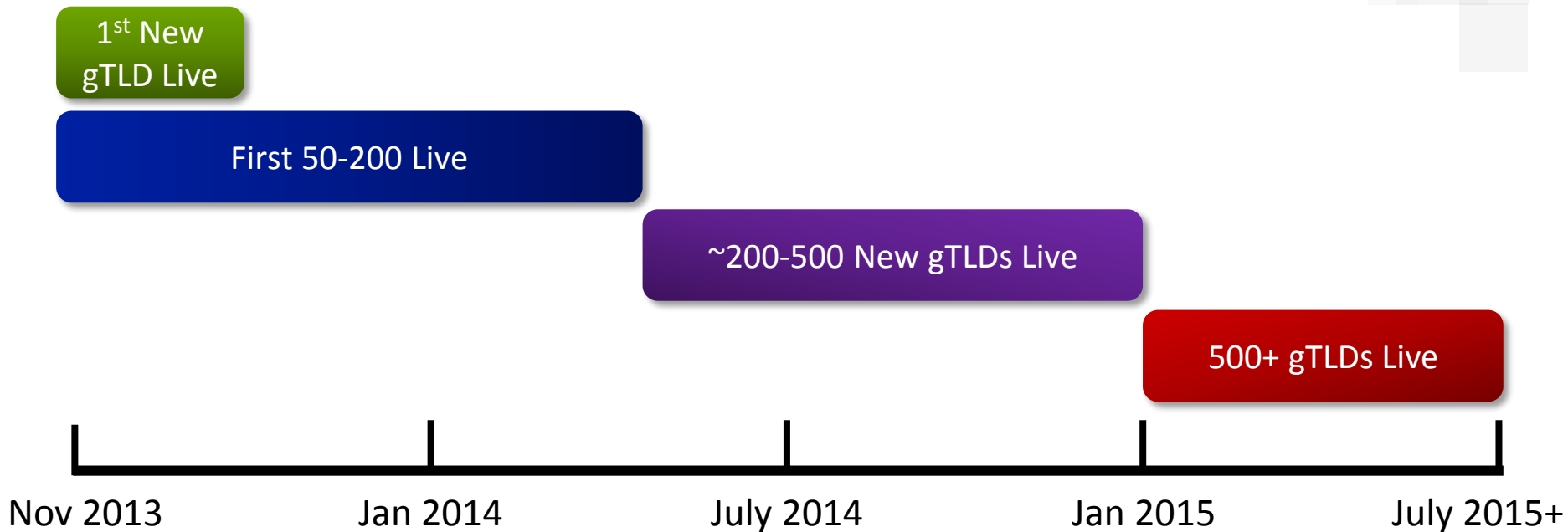
Multiple domains to help boost search engine potential

Significant revenue opportunity for Melbourne IT

- Registration revenue
- Trademark Clearinghouse

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- Trademark Clearinghouse

New gTLD Timeline - Generics



- First new gTLDs expected to go live on the Internet from November 2013
- Number will continue to increase with bulk of new gTLDs live by end 2014
- Predict around 500 generic-word new gTLDs
 - .web, .shop, .melbourne, .sydney, .blog, .app, .hotel, .cars, .film, .sport, .sale and many more

Investment Overview

Total Opex	\$8.0m
Total Capex	\$22.0m
Impairment Charge (Non-Cash)	\$12.0m
Basis for Depreciation	\$9.8m

Business systems to fully leverage value of customer base

Single system for customer, product, billing and order management

Cost savings via greater efficiency and retirement of legacy systems

Improved service to customer and partners

Integrated customer information for more targeted sales

Improved billing for faster revenue realisation

Divisional Performance

SMB Solutions – H1 Review

	H1 13	H1 12	Change
Revenue	\$38.2m	\$42.6m	-10%
Gross Margin	\$21.2m	\$23.5m	-10%
Operational Expenditure	\$16.1m	\$17.6m	-8%
EBIT Contribution	\$5.1m	\$5.9m	-14%

Highlights

- Monthly revenue trend has shifted from ongoing decline to consistently holding within \$6.3m - \$6.5m
- Positive response to new products introduced in H1
 - New managed website design services and package sales beginning to track ahead of monthly forecasts
 - Initial rollout of domain auto-renew in late Q2 has increased average pricing and renewal rates for .au names has improved from 63% to 70%
 - Additional new and upgraded products launched in H1 - upgraded Managed Exchange and Windows Shared Hosting, plus new Linux hosting platform

Lowlights

- Lower domain registrations from both direct sales and partners negatively impacted revenue however position has stabilised
 - Decreased domain registration volumes had knock-on effect of lowering hosting sales

► **400,000+** customers

► **6,900+** resellers

► **45+** countries

Products & Services

- Products introduced in H1 to increase momentum in H2
- Additional new products and bundles including next-generation DIY website building tool
- New gTLD launches will help boost domain registration revenue and reinvigorate future growth
- Increased online marketing spend

Customer Experience

- Improved, easy-to-navigate websites
- Streamlined e-commerce experience
- New crowdsourcing platform to boost customer support options
- New behavioural email marketing platform to drive more relevant and timely offers
- Increased customer service team headcount

Partner Enhancements

- Platform upgrades and new product introductions are being well received by our domestic reseller and affiliate channels and improving sales activity
- Actively engaged with potential new large partners to establish profitable new relationships for 2014 and beyond

2014-16 Strategy

- Multi-year strategy to recapture market leadership position
 - Aggressive product development roadmap to improve offering and boost revenue
 - Development of next generation customer portal
 - Marketing investment to re-position brands and drive greater new customer volume
 - Continued customer experience investments to build towards best-in-class

Enterprise Services – H1 Review

	H1 13	H1 12	Change
Revenue	\$12.0m	\$13.8m	-13%
Gross Margin	\$8.8m	\$9.9m	-11%
Operational Expenditure	\$8.3m	\$8.6m	-3%
EBIT Contribution	\$0.4m	\$1.3m	-69%

Highlights

- Strong May and June for New Monthly Recurring Revenue (NMRR) as investments in sales and marketing begin to make positive impact
 - Non-Govt project revenue tracking ahead of forecast
 - Non-Govt Total Contract Value of \$8.2m up 71% Y-o-Y
- Encouraging major customer wins with partner Amazon Web Services (AWS) in June
 - Key partnerships with AWS, Adobe and Sitecore fuelling healthy H2 sales pipeline

Lowlights

- First half revenue and EBIT negatively impacted by 76% decline in one-time Govt project revenue to \$0.3m from \$1.1m, and legacy product churn
 - Qld Govt deferred projects while evaluating shift to cloud infrastructure, negatively impacting results

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

Managed Cloud Strategy

- Evidence of growing success of new managed cloud strategy with significant new customer wins in early H2 2013 and growth in existing accounts
 - 147 new contracts signed and 21 new customers acquired in H1 2013, compared to 82 contracts and 6 new customers in H1 2012
- Non-Govt project revenue expected to continue tracking ahead of forecast as demand continues for consulting services such as Application Profiling and helping organisations shift to the Cloud

Revenue Transition

- Continued stronger NMRR results expected in H2 as key partnerships ramp up and H1 sales and marketing resource investment delivers return
- Revenue mix to continue transitioning to managed services from legacy products in H2
 - Expect revenue churn during transition – offset by growth in NMRR

2014-16 Strategy

- Focus remains on growing momentum for managed cloud strategy in 2014 onwards
 - Initiatives to deepen relationships with key technology partners
 - Investments in specialist skilled teams
 - Targeted marketing investments to grow market awareness and thought leadership
 - As managed cloud sales continue to grow, reliance on future capital investment requirements will reduce – transition to Cloud infrastructure to begin reducing cost base from mid-2014

Ingredients for Success

94% revenue now annuity-based

Lower cost base from removal of \$6.5m overheads

Compelling market opportunities for our focused core businesses

Investment in marketing, products and support to improve competitiveness

Transformation Project nearing completion

Strong Management Team

Ability to increase scale & capability via M&A

Methodical plan to create value

Plan & Implement

- Sell DBS & FTR
- Reward shareholders
- Restructure for success as a focused entity
- Complete systems transformation
- Commence new strategy implementation

CY13

Reposition

- Conclude roll out of repositioning strategy
- New gTLDs
- M&A Opportunities
- Begin cloud infrastructure migration
- Enact aggressive marketing and revenue growth strategies

CY14

Lead & Leverage Growth

- Build upon strategic repositioning
- Roll out new products
- Leverage transformation completion, customer migration and cross sell / bundling opportunities
- Leverage leading position in a growing market

CY15

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

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

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