# 2014 Full Year Results

Melbourne, Australia

27 February 2014

MELBOURNE IT

# M&A Strategy Execution

# Transformational Acquisition

New Acquisition - Melbourne IT to acquire Net Registry

- Significant step forward in achieving cost efficiencies and offering best in class products into a larger customer base
- Renewed focus on SMB market
- Benefits for customers, employees and shareholders

# Transaction Summary

## New Acquisition - Melbourne IT to acquire NRG

- NRG is a leading online services provider
- Annualised revenues in excess of $30 million
- Normalised EBITDA approximately $6.0 million per year before any restructuring costs or transaction accounting adjustments
- NRG enterprise value $50.4 million (1)
- Annual cost synergies of over $5m
- Estimated acquisition cost: Shares constituting between 4.99% and 9.99% of the pro forma shares outstanding will be offered to Netregistry shareholders with the balance in cash. This translates into between 4.3 million and 9.3 million shares in Melbourne IT and between $38 million and $45 million in cash

*1. Subject to working capital completion adjustment.*
*2. EPS assumes completion on 1 April 2014 and phased synergies. [Includes transaction costs and estimated costs to achieve synergies.]*

# Transaction Summary - Cont'd

- NRG founder and CEO, Larry Bloch to join the Melbourne IT Board as a non-executive director
- NRG's key management team and staff to be retained
- Transaction to be funded by cash on hand, a new debt facility, and scrip consideration
- Expected to be significantly accretive to EPS in FY 14/FY15(2)

(Completion is conditional on regulatory approvals and other customary conditions precedent)

# NRG At a Glance

- Founded 1997
  - Retail online services provider for SMBs: domain name registration, web and email hosting, and online marketing services - provided under the brands ‘Netregistry’ (a premium service offering) and ‘Ziphosting’ (a budget service offering)
  - Reseller online services provider: domain name registration, web and email hosting on a wholesale basis to resellers. Services are provided under the ‘TPP Wholesale’ brand
- NRG 500,000+ customers relying on its services - either via direct or wholesale channels
- Employs 130 staff
- Head Office - Ultimo, Sydney

# Melbourne IT/NRG – A Great Fit

- ✓ Products: Combination enables Melbourne IT to offer best in class domain registration & management, email and web hosting products
- ✓ Management Team: Adds a proven management team experienced in the SMB segment
- ✓ Efficiencies: Eliminates duplication in product offering, significant back office cost savings, consolidation of infrastructure. Benefit from sharing overheads and combining technical strength
- ✓ Scale: Provide a larger business with more capability to invest for growth.
- ✓ Competitiveness: Gives both businesses an opportunity to compete more effectively the against strong, price driven, foreign competition

# Compelling Synergies

Total estimate: $5 million+ in annual synergies by 2015

- Products: Reduce duplication in product platforms
    - Consolidate into one shared hosting and one domain name platform
- Back Office: Consolidate back office CRM, billing and finance systems
- Infrastructure: Consolidate from a total of 6 leased data centres to 3 with associated IT, leasing and telco savings
- Customer service: Efficiencies from leveraging combined staff across fewer product platforms
- Offices: Combine two Sydney offices into one
- Corporate: Savings in overall corporate costs

# Transaction Funding

| Sources of funds | $m | | | Uses of funds | $m |
|---|---|---|---|---|---|
| Existing Cash | 25.8 | - | 19.5 | Acquisition Price | 50.4 |
| New Loan Facility | 20.0 | - | 20.0 | Transaction Costs | 1.0 |
| Value of Scrip Issued | 5.6 | - | 11.9 | | |
| **Total Sources** | **51.4** | **-** | **51.4** | | **51.4** |

- MLB funds cash portion of acquisition via cash on hand + new 3 year revolving credit facility
- Upon completion, total gross debt/TTM EBITDA approx. 1.7x (before any synergies)
- However, the Company will be in a net cash position including $15 million escrow from the DBS sale (to be released in June 2014)
- MLB strong balance sheet for additional growth investment

# FY13 Summary

# Melbourne IT/NRG Benefits

- Sound strategic & financial rationale supports the merger
- Exciting pipeline of new products
- Strong balance sheet post-transaction enabling further growth initiatives
- Delivers scale, profitability and cash flow
- Together we are more: future investment for growth

# Melbourne IT: Transition & Turnaround

- Melbourne IT completes a year of transition.
- Underlying revenue and gross margin performance steady on H1.
- Significant progress on cost reduction initiatives which will have full impact in FY14.
- Turnaround of business gathers pace in H2.

# 2013 Overview – Continuing Operations

| Year ended 31 Dec (A$) | FY 13 | FY 12^ | ⇕% |
|---|---|---|---|
| **Revenue *** | $103.4m | $108.5m | -5% |
| **EBITDA *** | $5.8m | $10.2m | -43% |
| **EBIT *** | $3.0m | $7.4m | -60% |
| **NPAT *** | $6.2m | $8.7m | -29% |

- Revenue declined in both SMB Solutions and Enterprise Services, due to slower take up of initiatives in H1.
- Costs increased due to stranded overheads, restructuring costs and additional customer facing initiatives.
- Interest revenue and tax credits contributed to NPAT exceeding EBIT.

** Continuing Operations*

*^ Restated continuing operations only FY 2012*

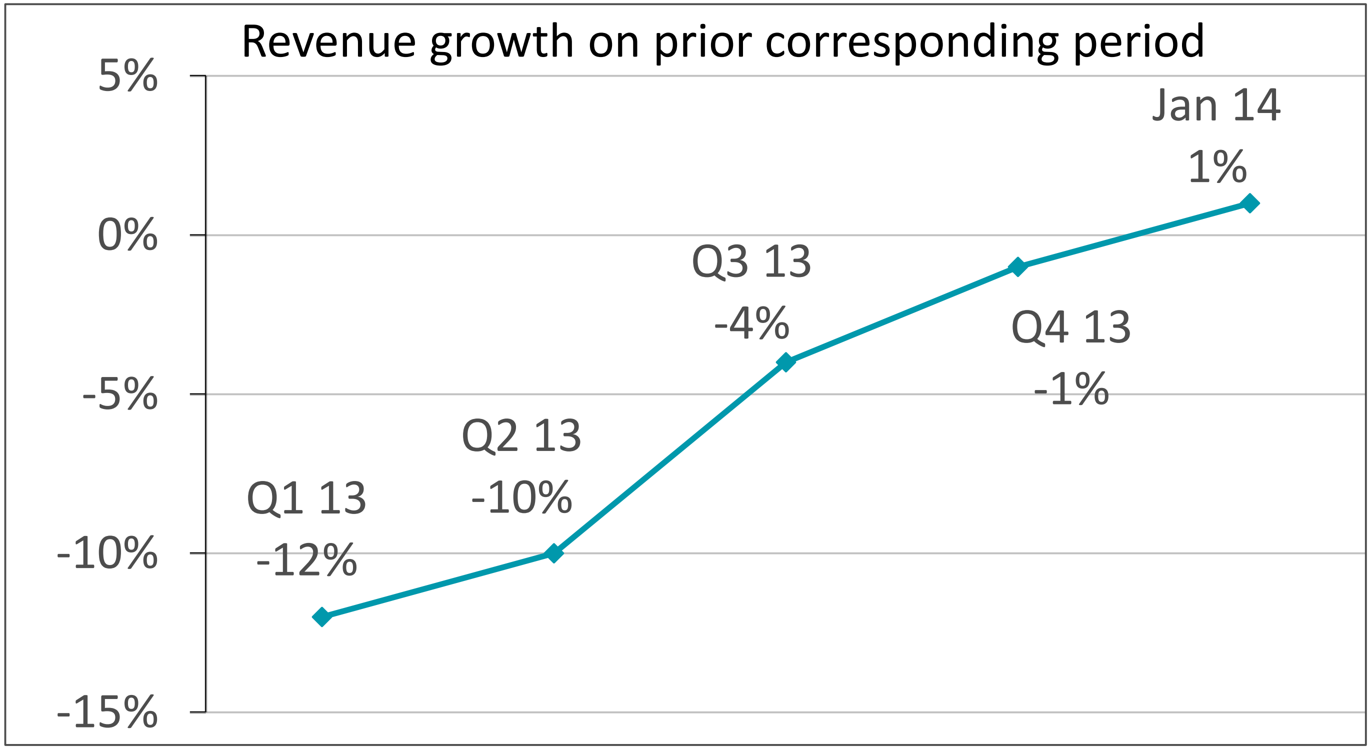
*Figures may not total exactly due to rounding*

# Stable performance half on half

| | H1 FY13 | H2 FY13 | Total FY13 | H1-H2 Change |
|---|---|---|---|---|
| Segment Revenue | $50.2m | $50.5m | $100.7m | Steady |
| Interest Revenue | $1.2m | $1.5m | $2.7m | + 25% |
| Gross Margin | $31.1m | $31.2m | $62.3m | Steady |
| Operational Expenditure | $27.4m | $29.1m | $56.5m | + 6% |
| EBITDA Contribution | $3.7m | $2.1m | $5.8m | - 43% |

- Revenue and gross margin in line with H1. Performance to corresponding prior improving in H2.
- Operating costs impacted by:
  - Stranded costs from sale of DBS and FTR
  - Cost allocated to profit on sale in H1
  - One off restructure costs incurred in H2
- Significant cost reduction programme started in August 2013, decreasing FTE from 382 to 323 by 31 December 2013. The full run-rate of these initiatives will deliver incremental savings of $4m in FY14.

# Revenue turnaround gathers pace




- Rate of revenue decline has been slowed
- January 2014 revenue exceeds January 2013 – evidence of continuing turnaround in performance

# 2013 Overview – Gain on sale of business

| Year ended 31 Dec (A$) | FY 13 | FY 12^ | ⇕% |
|---|---|---|---|
| **Net Contribution - discontinued op's** | $62.7m | $2.8m | 2,139% |
| **Statutory NPAT** | $68.9m | $11.4m | 504% |
| **Net Cash at Bank (inc. debt)~** | $80.5m | $-16.0m | |

- Cash proceeds on sale of DBS and FTR businesses allows for retirement of all outstanding debt, return $65.9m of cash to shareholders and fund a war chest for future opportunities (such as the acquisition of Net Registry).

*^ Restated continuing operations only FY 2012*

*~ Excludes $15.2m of cash held in escrow until June 2014*

*Figures may not total exactly due to rounding*

# Standout shareholder returns

- Structural review undertaken in FY13 has now been completed
- Total of $65.9m returned to shareholders since August 2013, $0.79 per share
- Strong leadership team with new CEO and MD Martin Mercer (commences April)
- The Board continues to assess investment opportunities (in addition to Netregistry)

# Group 2014 Outlook

- Restructuring programme executed to create a leaner and more agile business.
- Exciting pipeline of new products and market opportunities:
  - 400+ new gTLDs create opportunity for SMB Solutions;
  - Upgrade of web and hosting product offerings to improve customer experience; and
  - Continued growth of Managed Service offerings to benefit Enterprise Services.

# Group 2014 Outlook

- Forecast 2014 EBITDA $10-12m range (absent any M&A activity)
  - 12 month cost benefit of H2 2013 restructuring initiatives
  - Too early to predict outcome of revenue initiatives leading to range of possible EBITDA outcomes
- Strong balance sheet

# 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**

# SMB Solutions – 2013 Review

| | FY13 | FY12 | Change |
|---|---|---|---|
| Revenue | $76.3m | $82.2m | -7% |
| Gross Margin | $42.1m | $45.6m | -8% |
| Operational Expenditure | $33.2m | $31.9m | 4% |
| EBITDA Contribution | $8.9m | $13.7m | -35% |

## Highlights

- 4% YOY improvement in domain name renewal rates
- Launch of “Lithium Community” platform on retail websites to drive customer interaction online
- Re-designed retail websites with improved process flows

## Challenges

- Acceleration of churn on current hosting products
- Further decline in total NUM, in both direct and reseller channels
- Aggressive pricing strategy from competitors

# SMB Solutions – 2014 and Beyond

- 400+ new gTLDs will launch during 2014 e.g. .web, .shop, .site, .med, .film, .melbourne and .hotel.
  - Significant opportunity for Melbourne IT to sell names both into existing customer base and to new customers
- New and improved products in higher ARPU categories such as SEO, “Do It Yourself” & “Do It For Me” website tools and Managed Exchange (premium Email) upgrade
- Further planned investments in control panels to boost customer experience and self service
- Enhanced online sales capability for customer acquisition and upsell

# Enterprise Services – 2013 Review

| | FY13 | FY12 | Change |
|---|---|---|---|
| Revenue | $24.5m | $26.1m | -6% |
| Gross Margin | $17.6m | $18.4m | -4% |
| Operational Expenditure | $15.2m | $14.3m | 6% |
| EBITDA Contribution | $2.4m | $4.1m | -42% |

**Highlights**

- Growing managed services revenue base as new (non-DETE) sales increased strongly year on year
  - Lowers dependency on single customer
- 37 new customers acquired in 2013, including tier 1 bank and major retailers, vs. 11 new customers in 2012
- Established as an advanced consulting partner for Amazon Web Services ("AWS")

**Challenges**

- Reduction in revenue from DETE as government pursues in-sourcing of certain services
- Market pricing for traditional dedicated hosting fell ~ 30% leading to churn in dedicated hosting customer base

# Enterprise Services – 2014 and Beyond

- Continued evolution from dedicated hosting towards the provision of managed services: the lead driver for growth
    - Further automation of services to improve reliability
    - Additions to project management capability attracting new customers in large corporates and government agencies
- Further expansion of cloud offerings in Australian Data Centres gives increased opportunity for trusted advisors in the field
- Churn in dedicated hosting should decline during FY14 with easing of competitive price pressure
- Targeting further savings from rationalisation of data centre footprint

# Appendices

# 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

- ES – Enterprise Services
- SMB – SMB Solutions
- DETE – Queensland Department of Education, Training and Employment

# Disclaimer

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