Transforming MLB into a growing solutions led business with higher quality earnings

MELBOURNE IT

(ASX : **MLB**)

H1 2015 RESULTS INVESTOR PRESENTATION

The Internet is revolutionizing the way business is done.

Everything MLB does enables businesses to be successful online.

We are the designers, the engineers and the operators of the most effective online solutions.

Transforming MLB into a growing solutions led business with higher quality earnings.

We are focussed on delivering strong free cash flows and enhancing returns to shareholders.

FOUR KEY PRIORITIES

We Have a Clear and Consistent Focus on Four Key Priorities That Underpin Our Strategy and Shareholder Value

1. Integrating our acquisitions to generate operational, financial and cultural benefits throughout the organisation.

2. Arresting revenue decline in core SMB product categories and returning the business to growth. Drive growth in core product offerings such as .AU domain names and deliver higher attachment rates with better customer lifecycle management.

3. Continued development of our SMB solutions business driven by “Do-It-For-Me” (DIFM) website solutions and social media marketing tools such as Tiger Pistol. Market is 4x larger than MLB’s traditional domains and hosting market and exhibits stronger growth than traditional market.

4. Continued development of ES managed services and new capabilities to offer clients a larger suite of digital services. Managed services revenue continues to grow faster than the decline in traditional infrastructure revenues.

Our First Half Results Demonstrate That Consistent Execution Against a Clearly Defined Strategy is Delivering Results

1. Pleasing H1 2015 results demonstrate ongoing execution against a clear strategy - revenue up 16%, EBITDA up 44%, EBITDA margin up 2% points to 8%, EPS positive at 1.28c (-5.25pcp)
2. Capital light, cash generative business model - strong free cashflow of $8.1m (-$1.4m pcp) with 52% increase in net cash to $15.4m ($10.1m pcp)
3. Transition to a solutions led business with high quality earnings clearly underway
4. Completed successful acquisitions of Uber Global and Outware Systems - adding scale in the core SMB business and capability in Enterprise Services

FY15 FINANCIALS – OVERVIEW

HALF YEAR ENDING 30 JUNE 2015	H1 2015	H1 2014	⇕ %	KEY NOTES
Revenue	$69.2m	$59.6m	16%	Organic growth from Enterprise Services and contribution from acquisitions.
NPAT	$1.2m	($4.6m)		Prior period NPAT impacted by once off impairment charge of $8.6m ($6m tax effected).
EBITDA	$5.2m*	$3.6m	44%	Growth in Enterprise Services and the inclusion of acquisitions (ie Netregistry, Uber Global and Outware Systems).
EBITDA % Margin	8%	6%		Strong margin improvement with increased scale and synergy savings.
EPS (cents)	1.28c	(5.25c)		Prior period EPS impacted by once off impairment charge of $8.6m ($6m tax effected) on legacy technology systems.

* Includes corporate costs of ~$4m, the period-on-period increase of $800k is a result of higher transaction costs, full period impact of CEO remuneration, and centralisation of some shared services functions.

Please note: Figures throughout this document may not be exact due to rounding and includes non-IFRS financial information that is relevant for users understanding the underlying performance.

FY15 FINANCIALS – CASH MOVEMENT

HALF YEAR ENDING 30 JUNE 2015	H1 2015	H1 2014	⇕ %	KEY NOTES
EBITDA	$5.2m	$3.6m	44%	
Working Capital	$4.6m	$0.4m		Primarily driven by timing in payments to suppliers.
Net Tax (Paid)/Refunded	$0.0m	($0.4m)		
Capex	($1.7m)	($5.0m)	(66%)	Prior period includes a payment in early 2014 of $4.3m for a technology platform that has since been impaired.
Free Cash Flow	**$8.1m**	($1.4m)		
Financing (inc net interest)	$26.2m	($44.9m)		Cash inflow due to borrowings of $30.0m, offset by outflow from dividends $3.7m.
Investing (ex Capex)	($37.0m)	($24.1m)	(54%)	Cash outflow from acquisition of Uber Global and Outware Systems
Net cash movement	($2.7m)	($70.4m)		
Closing net cash	**$15.4m**	$10.1m	52%	

FY15 FINANCIALS – CASH MOVEMENT (CONTINUED)

HALF YEAR ENDING 30 JUNE 2015	H1 2015	H1 2014
FINANCING (inc net interest)		
Return of capital	-	($45.2m)
Dividend paid	($3.7m)	-
Proceeds from borrowings	$30.0m	-
Other	($0.1m)	$0.3m
Total Financing (inc net interest)	$26.2m	($44.9m)

HALF YEAR ENDING 30 JUNE 2015	H1 2015	H1 2014
INVESTING (ex Capex)		
Acquisition of Uber Global, Outware Systems & Netregistry	($37.0m)	($39.4m)
Proceeds from sale of DBS	-	$15.3m
Other	-	-
Total investing (ex Capex)	($37.0m)	($24.1m)

MELBOURNE IT

Enterprise Services (ES)

- Acquired 50.2% of **Outware Systems**, a leading Enterprise grade mobile application developer;
- Launched **cloud factory partnership** with 2nd Watch (first time two AWS Premier Consulting Partners have formally collaborated in market place);
- Launched cloud solutions and applications **practices to deliver increased value** to Enterprise customers;
- Launched new ES website as part of rebranding and demand generation exercise;

Small to Medium Business (SMB)

- Growth in share of new .au domains resulted in our overall share stabilising and absolute **domains under management growing**;
- **Completed Uber Global acquisition** and kicked off initial integration activities;
- Re-launch of the Webcentral brand as part of the solutions strategy;
- **Net Promoter Score (NPS) increased** eleven points since 1 January 2015 demonstrating growing customer advocacy;
- Consolidation of two legacy Manila call center providers, into one new purpose built facility;
- Launched the new Melbourne IT online shopping cart, increasing ecommerce conversion rate by 19% in comparison to Q4 2014;

- The integration of MLB and Netregistry is on track to achieve $7.5M pa of synergy savings by close of 2016.
- On track to realise incremental synergy savings of $4.1M in 2015
- Uber Global savings add a further $2.5M in 2017

STRATEGIC PRIORITY	PROGRESS REPORT	NEXT STEPS
QUICK WINS	Cost savings from rationalising 3rd party suppliers of services and infrastructure for Uber Global.	Continue quick wins program in Uber Global through remainder of 2015.
REVENUE SYNERGIES	Focussed on developing combined go to market strategies with Outware System sales team.	Look to cross sell into existing customer bases and approach new opportunities with combined solution.
CUSTOMER MIGRATION	Customer migration onto the common shared hosting platform commenced in August 2014 and is essentially complete.	Continue with customer migration for Uber Global and DMNZ, with bulk of the migration to be completed by end of 2016.
TECHNICAL CONSOLIDATION	Have commenced consolidation of Uber Global infrastructure into MLB footprint.	Further platform consolidation will be completed in FY15.
BACK OFFICE CONSOLIDATION	Consolidated reporting completed.	Payroll and shared services for Uber Global to be consolidated throughout 2015.

SEGMENT REVIEW AND GROWTH DRIVERS – SMB

HALF YEAR ENDING 30 JUNE 2015	H1 2015	H1 2014	⇳ %	KEY NOTES
Revenue	$53.3m	$46.1m	15.6%	Positive impact from acquisitions partially offset by decline in legacy domains and hosting revenue
Gross Margin	$28.9m	$25.0m	15.6%	Positive impact from acquisitions of Netregistry and Uber Global.
Opex	$21.6m	$19.6m	10.2%	Additional costs from acquisitions partially offset by tight cost management across the business.
EBITDA**	$7.3m	$5.4m	35.2%	
EBITDA % Margin	13.7%	11.7%		

** Includes non-IFRS financial information that is relevant for users understanding the underlying performance of the business.

SMB LONG TERM STRATEGY

SOLUTIONS SEGMENT

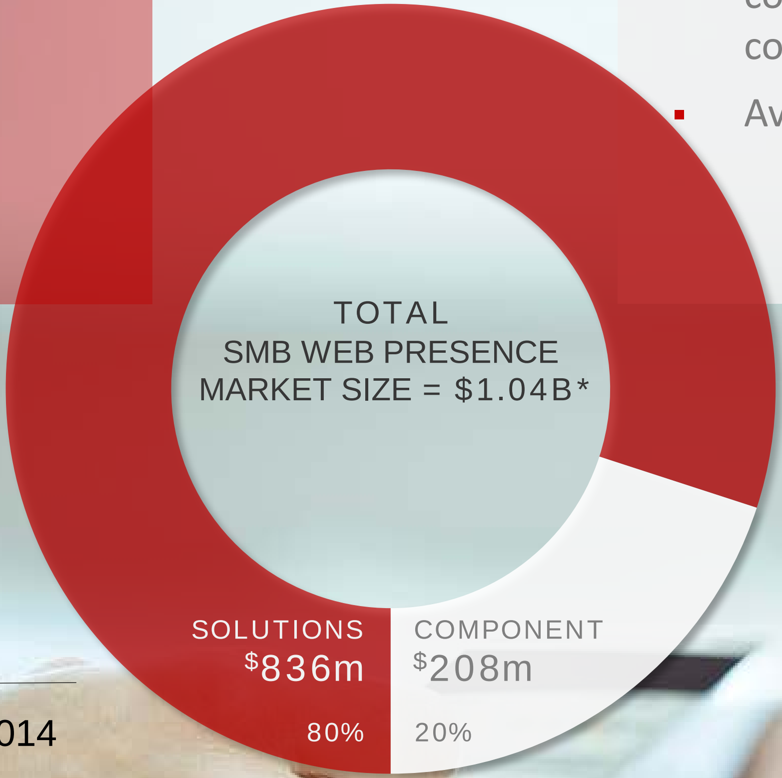
- Customers prepared to pay for solutions that meet a need or solve a problem
- Local support and Do-It-For-Me proposition
- Highly fragmented market with no major competitor in Australia
- Average ARPU $100-$400pm

80%

COMPONENT SEGMENT

- Domains, web hosting, and email are key components for SMBs but account for only 20% of the market by value
- MIT No. 1 in the Australian market but highly competitive with large competitors driving commoditisation
- Average ARPU $5-$50pm

20%



SOLUTIONS
COMPONENTS

* MIT analysis. Market size 2014

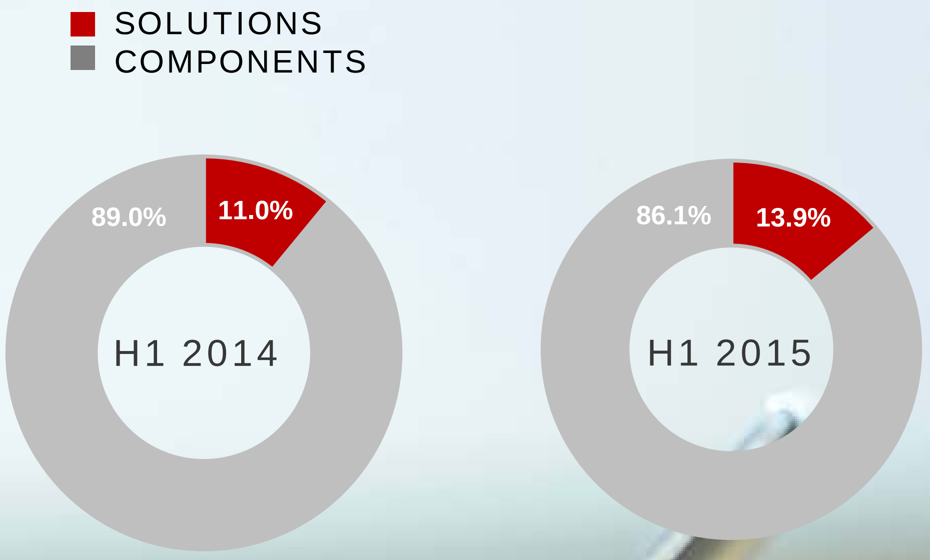
SMB BRAND POSITIONING

SEGMENT REVIEW AND GROWTH DRIVERS – SMB

Evidence of the turnaround in SMB becoming apparent:

- Gathering momentum in sales of hero products in solutions business (Do-It-For-Me web design and Tiger Pistol social);
- Webcentral re-launch effected in Q2;
  - will improve conversion rates and drive stronger lead generation for solutions products,
  - Above The Line (ATL) advertising commencing shortly;
- Focus on core component services (ie domains and hosting) starting to have an impact;
  - share of names under management stabilising after years of persistent decline
  - attention to basics such as shopping cart optimisation driving higher online conversion rates
  - culling unprofitable products positively impacting gross margin
  - offshoring of telesales for core components business improving the economics of legacy domains and hosting business
- Growing share of solutions revenue in overall revenue highlights the momentum in solutions and the impact it can have in the future

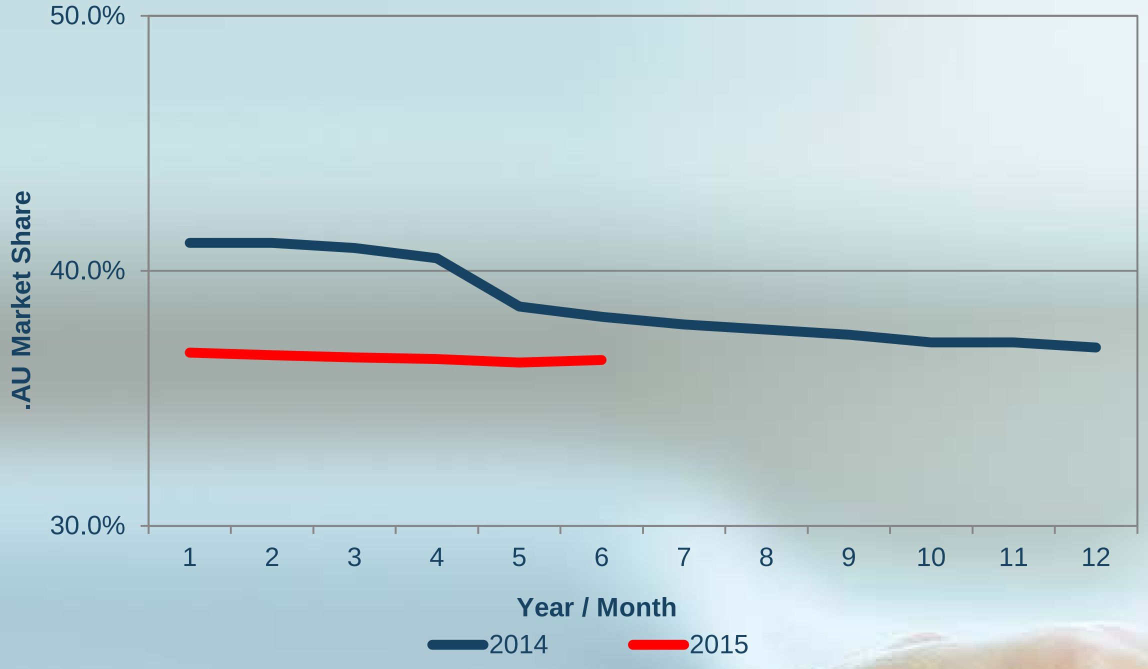
REVENUE SPLIT BY PRODUCTS



SMB GROWTH IN THE CORE

- INCREASING SHARE OF NEW .AU NAMES RESULTING IN A STABLE TO GROWING SHARE OF OVERALL MARKET
- A STABLE TO GROWING SHARE OF A GROWING MARKET TRANSLATES TO OVERALL GROWTH IN NAMES UNDER MANAGEMENT
- GROWTH OF .AU UNDER MANAGEMENT IS A LEAD INDICATOR OF FUTURE PERFORMANCE

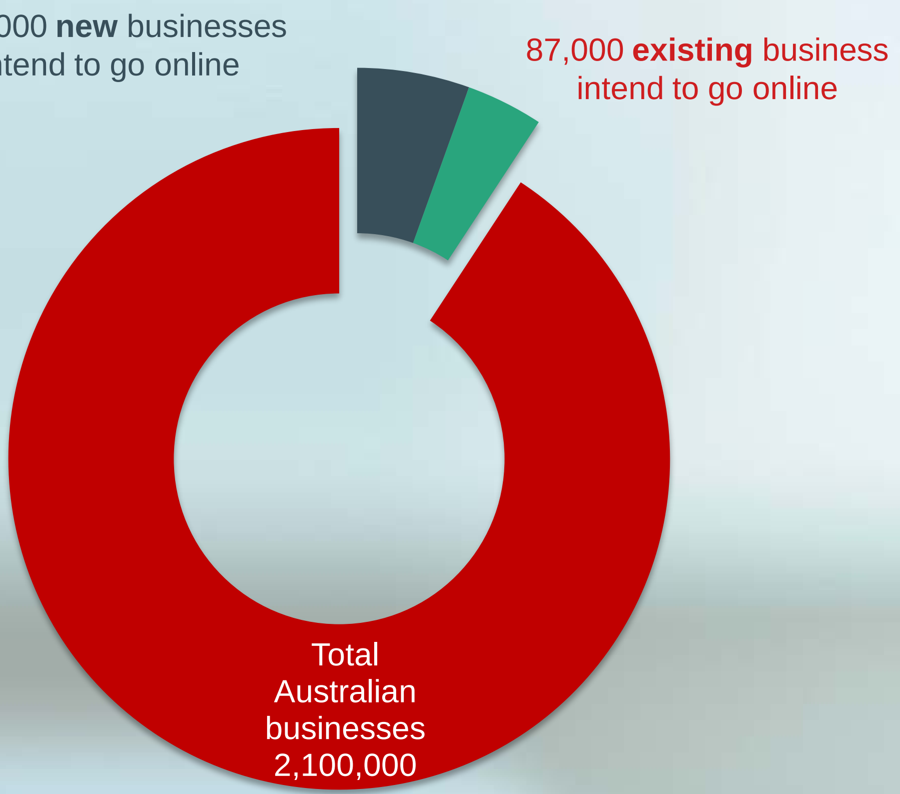
SHARE OF .AU NAMES UNDER MANAGEMENT



VOLUME OF .AU NAMES UNDER MANAGEMENT^

^ Net of churn
* Normalised for sale of domain name portfolio to CSC as part of the DBS sale.

SMB GROWTH FROM SOLUTIONS

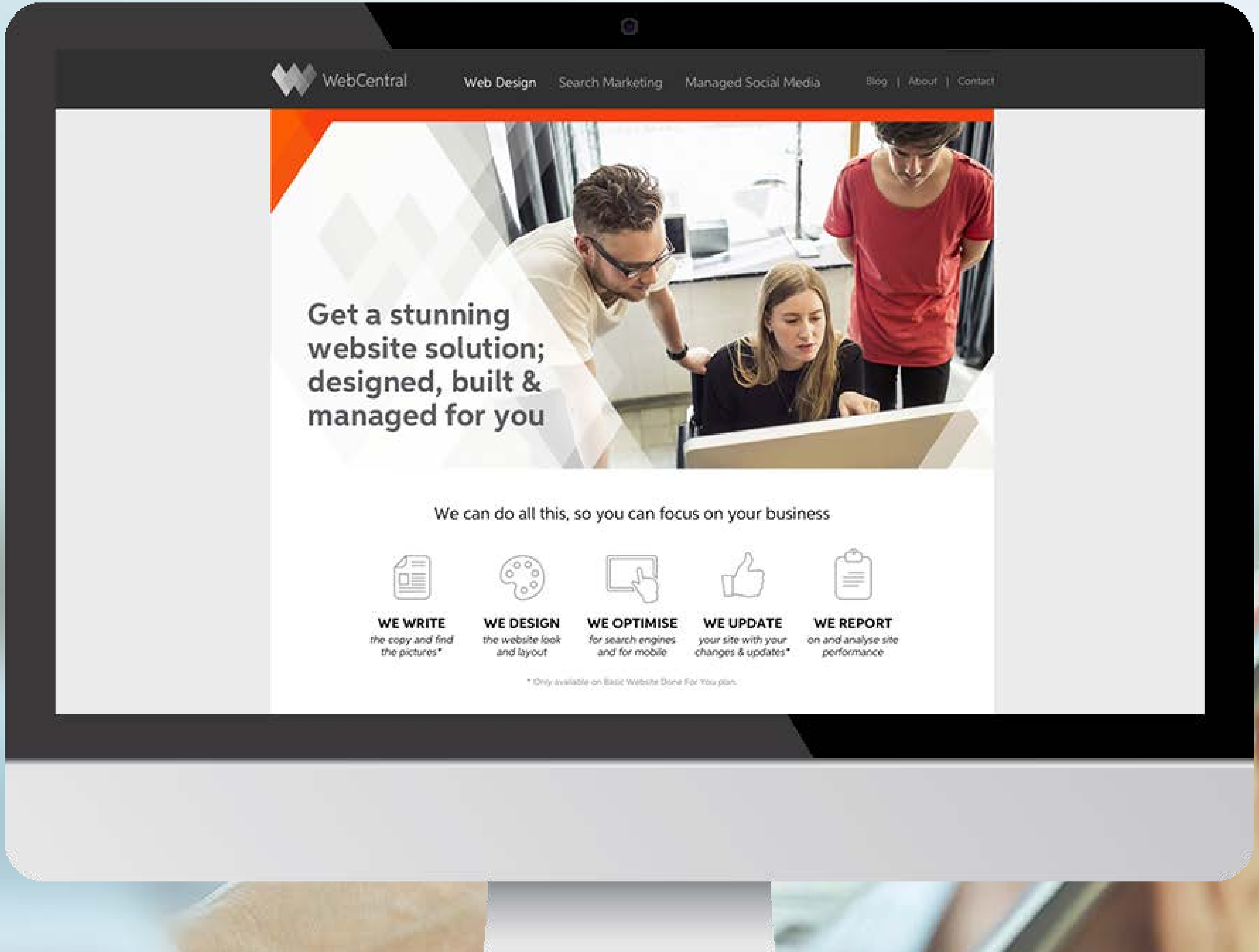


214,000 small businesses intend to build a web presence in the next 12-18 months

DO-IT-FOR-ME WEBSITE UNITS (TO 30 JUNE 2015)

- Cumulative volumes include churn
- Monthly volumes are new sales only

SMB GROWTH FROM SOLUTIONS



SEGMENT REVIEW AND GROWTH DRIVERS – ENTERPRISE SERVICES

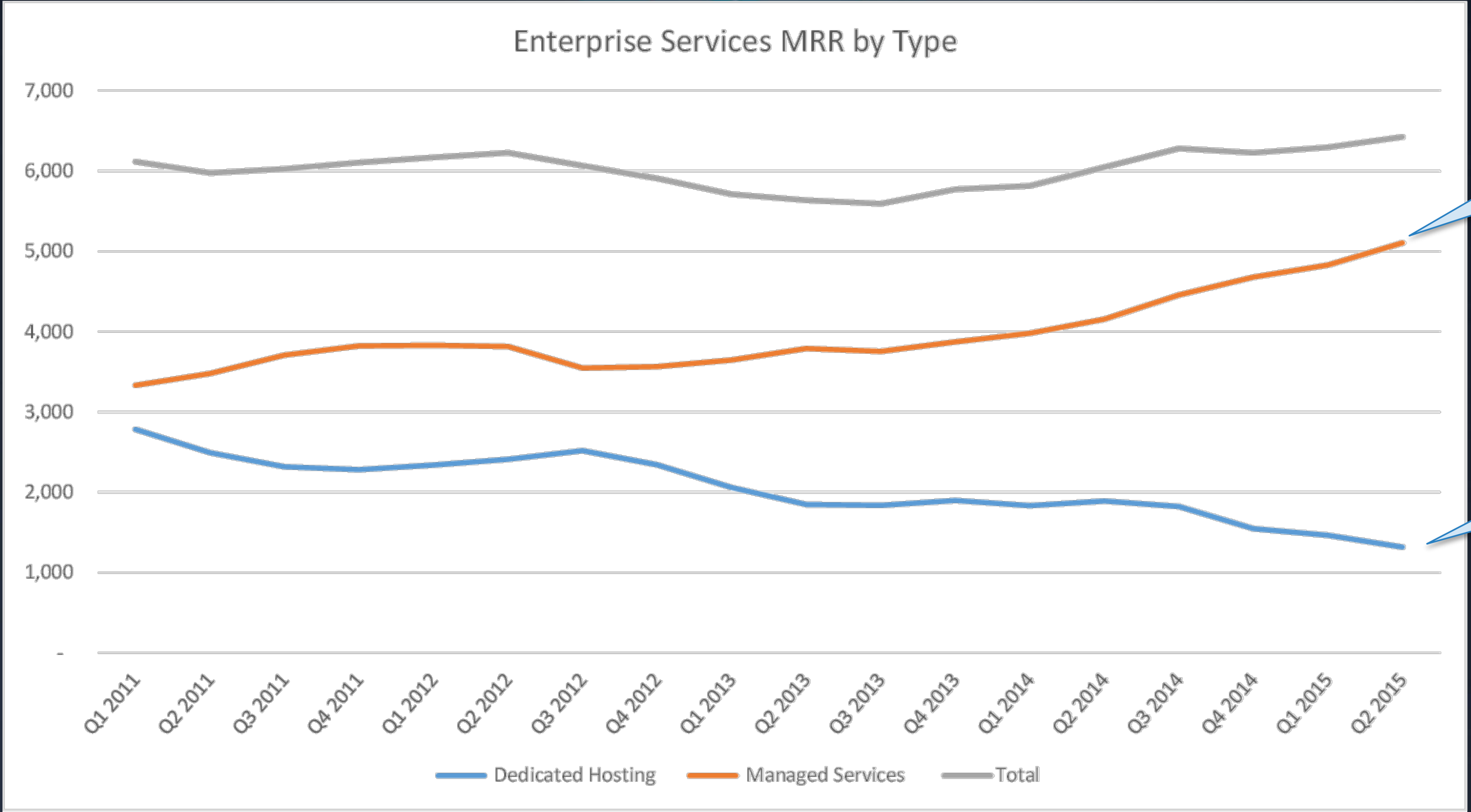
HALF YEAR ENDING 30 JUNE 2015	H1 2015	H1 2014	⇳ %	KEY NOTES
Revenue	$15.7m	$13.1m	19.8%	Strong growth in cloud solutions continues
Gross Margin	$9.7m	$8.5m	14.1%	Underlying gross margin^ declined by 2% as business model shifts from capital intensive hosting business to managed cloud services
Opex	$7.9m	$7.1m	11.3%	Underlying Opex^ improvement driven by reductions in equipment costs and change in business model to managed cloud services
EBITDA**	$1.8m	$1.4m	28.6%	
EBITDA % Margin	11.5%	10.7%		

** Includes non-IFRS financial information that is relevant for users understanding the underlying performance

^ underlying GM and underlying Opex excludes impact of Uber Global and Outware Systems – the shift from our own infrastructure to the public cloud continues to deliver reductions in opex but negatively impacts GM

ES continues to transform from an Infrastructure-As-A-Service (IaaS) business towards a Managed Services business

Total addressable market size estimated at $600M, with $300M in Managed Services growing at 16% CAGR



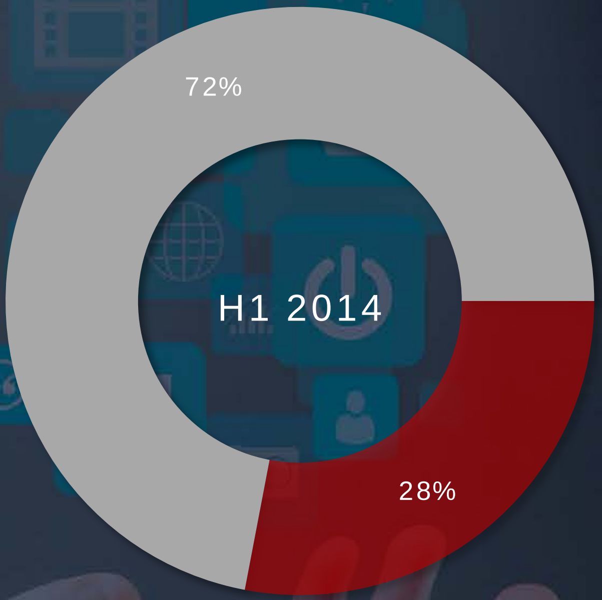
Managed services gaining momentum and contributing to overall growth

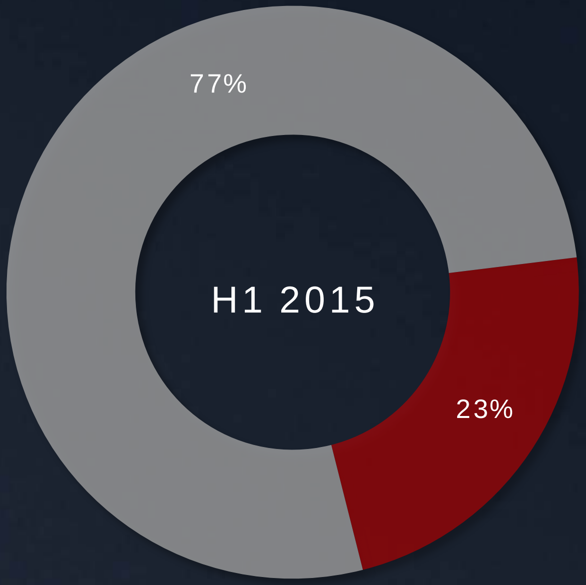
Transitioning away from dedicated hosting

- Enterprise Services continues to successfully execute on its cloud solutions strategy:
  - Consistent execution building managed services and professional services revenues, now contributing 77% of total revenues up from 72% in H1 2014
  - Expansion of capabilities to include cloud, mobile, security and application development professional services
  - Mobile professional services revenues contributed 6.5% of revenue growth

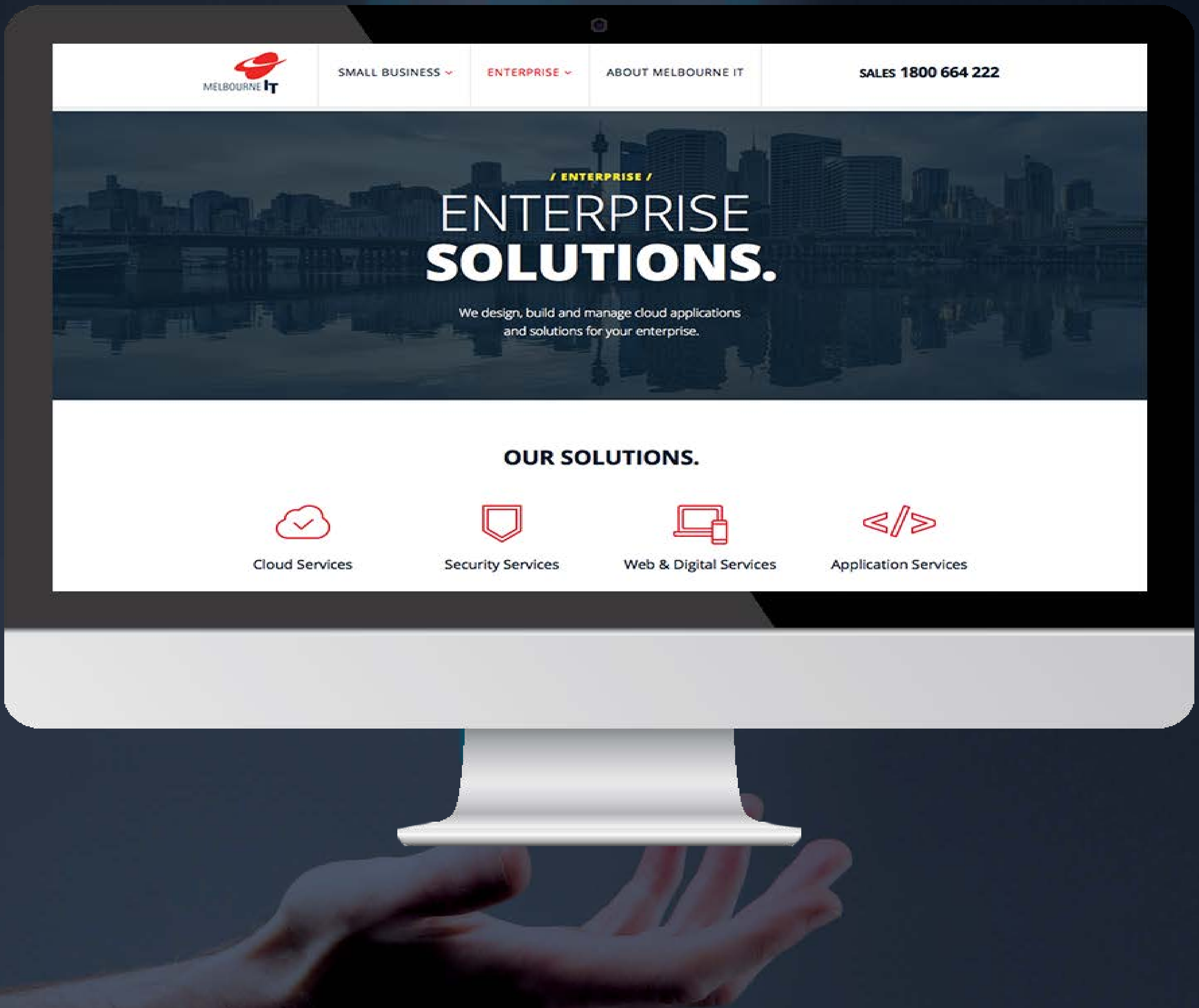
SPLIT BY SERVICES

- MANAGED SERVICES
- INFRASTRUCTURE SERVICES





SEGMENT REVIEW AND GROWTH DRIVERS – ENTERPRISE SERVICES



SENSITIVITIES

- Traditional domains and hosting business continues to be challenging with margins and volumes under pressure from large competitors;
- The speed of customer migration and the realization of synergy savings from the integration of MLB, Netregistry and Uber Global needs to be balanced with customer experience and Net Promoter Score considerations;
- MLB needs to manage the re-signing of some large and established customers in H2 2015;
- Large international reseller volumes are continuing to decline;
- Opportunity to accelerate revenue synergies with Outware Systems acquisition;
- SMB growth very sensitive to volume of solutions sales;
- Foreign exchange exposure – natural hedge.

H1 FY15 FINANCIALS – UNDERLYING EBITDA

HALF YEAR ENDING 30 JUNE 2015		NOTES
H1 FY15 Statutory EBITDA	**$5.2m**	Statutory EBITDA reported for H1 FY15 (includes $0.3m contribution from Uber Global and $0.4m contribution from Outware Systems)
Adjustments to calculate underlying EBITDA		
1. Transaction costs	$1.7m	One off transaction costs incurred in H1 2015 for acquisitions
2. Synergy costs	$0.8m	One off cost of delivering synergies in H1 FY15
3. au.com provision	($0.8m)	Write back of NRG pre-acquisition provision
4. Additional Outware contribution	$2.4m	Additional five months of EBITDA from Outware in H1 FY15*
5. Additional Uber contribution	$0.7m	Additional four months of EBITDA from Uber in H1 FY15*
Underlying EBITDA H1 FY15	**$10.0m**	After reversing the impact of material one-off items and as if all acquisitions are owned for the full six months of H1 FY15

* as if all acquisitions owned since 1 Jan 15 – ie additional EBITDA contributions up to completion not already included in Statutory EBITDA. Included to assist investors to estimate full year profit.

Please note: Figures on this page reflect managements best estimate and have not been audited. They may not be exact due to rounding and include non-IFRS financial information that is relevant for users understanding the underlying performance.

Following the sound result in H1 2015 the Board has declared an interim dividend of $0.01 (80% franked)

- Statutory EBITDA is expected to be in the range of $16m to $18m for 2015
- Underlying EBITDA is expected to be in the range of $20.5m to $22.5m for 2015
- Underlying EPS* is expected to be in the range of $0.10 and $0.11 per share for 2015
- We anticipate that the full year dividend will be the same as in 2014
- In 2016 the Board will look to adopt a longer term dividend policy, but during this period of significant acquisition activity and the investment in growth dividend payments will not be calculated by reference to a formal payout ratio

* Underlying EPS is undiluted

OUTWARE SYSTEMS ACQUISITION

- On 16 June 2015, MLB acquired a 50.2% shareholding in Outware Systems, with two subsequent options enabling MLB to move to 100% over 2 years;
- Outware Systems is expected to generate revenues of $15.6M and EBITDA of $5.1m for the year to 30 June 2015;
- Strong growth record ~ 70% CAGR revenue in recent years;
- Total transaction consideration expected to be approx $67m on an implied forward EBITDA multiple of 8.6x;
- Upfront consideration (tranche 1) of $21.7M for 50.2%;
- Consideration for tranches 2 & 3 dependent on performance – anticipated combined consideration of $45.3m;
- Acquisition will be funded 100% by debt;
- New facility from ANZ sufficient to cover working capital requirements and anticipated transaction consideration;
- Forecast peak debt of $52m in H2 2017;
- Outware Systems founders to remain with the business in current leadership roles.

OUTWARE SYSTEMS ACQUISITION - BENEFITS

- MLB will become the market leader in software enabled cloud solutions in Australia.
- Compelling logic and strong strategic fit.
- MLB Enterprise Services (ES) provides managed cloud solutions that increase innovation rates and agility for large enterprise and government organisations.
- Outware Systems is the the leading mobile application developer for the enterprise and government market.
- Combination of ES and Outware Systems delivers a complete and comprehensive customer value proposition.
- Investment delivers significant benefits through scale and scope in ES.
- Expected to add ~ $3.1M to MLB’s underlying EBITDA in CY2015.
- The transaction is expected to be materially accretive.