Melbourne IT Ltd
ABN 21 073 716 793
ACN 073 716 793
Level 4, 1-3 Smail Street
Ultimo NSW 2007 Australia
www.melbourneit.info

## ASX Announcement

**Melbourne IT (ASX: MLB)**

27 May 2016

**Annual General Meeting**

**Correction to Chairman's Address Presentation**

We refer to the presentation slides that accompanied the Chairman's address and note an error on Slide 8 entitled "Delivering Shareholder Value".

The "**Underlying NPAT**", which was incorrectly stated as "$22.0M", is in fact "**$10.7M**", as stated in the Chairman's address and elsewhere in the presentation.

A revised copy of the complete announcement is attached.

We apologise for any inconvenience.

For any queries, please contact:

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Company Secretary

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**ENDS**

**About Melbourne IT**

Melbourne IT Group is a publicly listed company with offices in Melbourne, Sydney, Brisbane, Wellington, Auckland and Canberra. Melbourne IT's purpose is to "Fuel our customers' success through the smart use of technology". By 2020 we aim to have fuelled the success of over one million businesses. Our customers will love us, our people will be our most passionate advocates, and our investors will be rewarded.

Melbourne IT has approximately 650 staff and operates two businesses marketed under 6 brands.

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The Enterprise Services Business (ES) is Australia's leading cloud enabled software and services business with revenues of approximately $40m and 350 staff. ES is based in Sydney, Melbourne and Brisbane and has a blue chip customer base. It operates under three brands, Melbourne IT, InfoReady and Outware Systems.

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**Melbourne IT (ASX: MLB)**

27 May 2016

**Melbourne IT Ltd**
**2016 AGM**

**CHAIRMAN'S ADDRESS**

**The Year in Review**

In 2015 we made very significant progress on the continued redevelopment of our company. We delivered strong top and bottom line growth at a Group level and this was replicated at the divisional level.

We have made two important acquisitions since our last meeting.

In mid-2015, we acquired 50.2% of Outware systems, the leading developer of enterprise grade mobile applications. We also have options exercisable on 30 June 2016 and 30 June 2017 that will enable us to move to 100% ownership of Outware.

In March this year, we acquired InfoReady, a leading provider of data analytics solutions to the enterprise and government market.

When you put the Outware and Infoready acquisitions together with our partnership with US based 2nd Watch (to deliver a range of data centre migration services to the cloud in Australia and New Zealand), we have now assembled all the capabilities we require to offer a complete solution for enterprise and government customers, who are both moving to the cloud and joining the digital world.

Also in March this year, we announced the sale of our International Domain Names Business. This was a business comprising a network of offshore channel partners who sold large numbers of domain names at low margins. This business has been declining and there was little prospect of this changing. As a result of this sale, we were able to re-allocate capital that was tied up in a declining business and reinvest it in a growing business.

But it is also symbolic for what it says about the future of our business. We are proud of our legacy in domain name registration but it is not the growth driver of the future. Our growth in both ES and SMB is being driven from solutions and we must invest in this growth.

In addition, the benefits from the integration of Netregistry (acquired in March 2014) and UberGlobal (acquired in April 2015) are flowing through to our bottom line and also resulting in measurable improvements in customer experience and staff engagement in our SMB division.

Finally, 2015 was a year in which the critical work of cultural change really gathered momentum; measured engagement across the business soared and measured customer advocacy (ie NPS) leaped ahead.

This sustained focus from our CEO and his leadership team on the financial, operational, and cultural health of our company is transforming the business and delivering significant value to our shareholders.

**Delivering Shareholder Value**

Melbourne IT has an ongoing commitment to creating value for its shareholders and you can see this focus coming to fruition in our 2015 results.

In 2015, disciplined execution against a clear strategy resulted in

- Revenues growing by 21% to $150.3M, driven by strong organic growth in Enterprise Services and the contribution from acquisitions – namely NRG and Uber Global,
- Reported EBITDA growing by 29% to $16.5M,
- Underlying EBITDA growing 35% to $22M,
- Underlying NPAT increasing by 22% to $10.7M, and
- Underlying EPS increasing by 21% to 11.55 cents per share.

Turning to other financial metrics, we also:

- delivered strong free cash flow, an important metric for us, of $8.3M, and
- closed the year with net debt of $18M after borrowing to pay for the first tranche of Outware Systems.

Following these pleasing results, we declared a final dividend of 4 cents per share, franked at 80%, taking the total dividend for the year to 5 cents per share.

I would also like to take this opportunity to affirm our guidance for 2016.

We expect statutory EBITDA to be in the range of $26.1M to $28.1M and underlying EBITDA between $27.9M and $29.9M.

With so much happening across the business, it is essential that we maintain a focus on the things that will really drive us back to strong and sustainable growth.

Last year, I shared our four key priorities that underpin a profitable and sustainable business and I'd like to update you on our progress against them.

Our first priority is the realisation of integration synergies. In this regard, I am pleased to confirm that the integration of MIT, NRG, and UberGlobal is ahead of target. At the end of 2015, we had realised annualised synergy savings of $6M, or $1M ahead of target. We expect to realise a further $2.5M of annualised savings this year, and $1.5M in 2017.

Our second and third priorities relate to our SMB division and together they underpin a return to organic growth in a division that has struggled in recent years.

Firstly, we must arrest the decline in the legacy SMB business comprising domain name registration, hosting and email. I am very pleased to report that over the past 18 months we have halved the rate of decline in this part of the business and half way through last year our customer base started to grow again.

Secondly, we must develop new revenue streams and capitalise on our existing customer relationships. Some 18 months ago we launched the first of our "done for you" managed marketing solutions for small to medium enterprises. I am delighted to report that the demand for these services has exceeded our expectations and sales of these services made a material contribution to our results in 2015.

We have seen a continuation of this trend in the first months of 2016 and we anticipate that revenue from these services will grow by more than 100% this year.

Our fourth priority is the continued development and evolution of our Enterprise Services division into a provider of digital solutions for large enterprise and government customers.

With the acquisitions of Infoready and Outware, the transformation of ES is essentially complete. ES has now assembled the fundamental digital building blocks comprising cloud solutions, mobile, data and analytics, and security. This is supported by a deep competency in managed services that is capable of supporting continuous change and continuous deployment.

Revenue from traditional infrastructure services now accounts for less than 10% of total ES revenue and this will quickly become an increasingly small component of total revenue given the strong growth in the digital solutions market.

The focus for this division now is on capitalising on our capabilities and delivering strong organic growth.

**Thanks**

Last year I welcomed a new CEO and Leadership Team and I shared my pleasure with the contribution they were making and the improvements we saw in the performance of the business under their leadership. My early confidence has been reinforced by the achievements of the past year and I want to express my sincere thanks to Martin and his Leadership Team for the superb job they are doing in transforming our business.

I also want acknowledge the dedicated, high performing people throughout our business who continue to deliver an improving experience for our customers and financial results for our shareholders. The last couple of years have witnessed considerable change in our business and I want to thank our people for their continuing commitment throughout.

The Melbourne IT Board maintains a commitment to ensuring we meet the highest standards in corporate governance, risk management, diversity, and the investment in talent. Their stewardship has brought reward during a time in which we have seen some of our key objectives realized. While the Board supports a growth strategy this is always balanced by sound risk management. I would like to thank my fellow directors for their hard work as we shepherd this company this significant change in strategy.

I would also like to express our appreciation to you, our shareholders, for your continued support.

**Looking Ahead**

The Company has a clearly articulated plan for growth and has been investing in line with its strategy. We can see the fruits of this focus in our 2015 results and this will meaningfully accelerate over 2016.

Our focus is on growth and building capability. We have enhanced the capability in the business through investment in our people and through acquiring businesses that introduce new skills and competencies.

As foreshadowed at last year's Annual General Meeting, your Board has embarked on a revitalisation of the Board. The intention was to bring fresh eyes and enhanced skills to assist management in refreshing strategy.

We are delighted to have announced the appointment of John Armstrong to the Board as head of the Risk and Audit Committee. John has immense experience in the digital world and his deep financial knowledge and acumen will be of significant benefit to the company.

Today, I am also delighted to announce that Gail Pemberton has joined the Board of Melbourne IT, effective from the close of the AGM. Gail brings to the Board more than 30 years of executive experience in the financial services industry with a particular focus on the banking and wealth management sectors and the technology and operations that underpin them. Before transitioning to a non-executive director career, Gail held senior executive roles with BNP Paribas Securities Services, as CEO and Managing Director for Australia and New Zealand and then as Chief Operating Officer UK. She also held the role of Group CIO at Macquarie Bank for twelve years, at a time of unprecedented change and expansion, and subsequently as COO of their Financial Services Group in her last three years at Macquarie. Gail's current Board roles include Chair of Onevue, SIRCA and RoZetta Technology; and Director of QIC, Paypal Australia and Eclipx.

Finally, it would be remiss of me not to mention Rob Stewart who retires today. Rob was the founding Chairman of the public Melbourne IT and has served the Board with distinction over nearly 20 years. His contribution will be sorely missed.

Rob's retirement will be followed by other changes to the Board as our new directors embed themselves further into the company.

Thank you.

**ENDS**

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# Annual General Meeting

**27 May 2016**

MELBOURNE IT GROUP

# Chairman's Address

Simon Jones

# Year in Review

- Acquisition of 50.2% of Outware Systems Pty Ltd
- Acquisition of InfoReady Pty Ltd
- Sale of International Domain Names Business
- Integration of Netregistry and UberGlobal
- Employee engagement (eNPS) increased by 9 points and Customer engagement (NPS) improved by 20 points.

# Delivering Shareholder Value

| FY 2015 | 2015 | ⇧ % |
|---|---|---|
| Revenue | $150.3m | 21% |
| EBITDA | $16.5m* | 29% |
| Underlying EBITDA | $22.0m | 35% |
| Underlying NPAT | $10.7m | 22% |
| Underlying EPS | 11.55c per share | 21% |

* Includes corporate costs of ~$7.4m, the period-on-period increase of $2.2m 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.

# Delivering Shareholder Value *(Continued)*

- Strong free cash flow of $8.3m
- Net debt* of $18m
- Final dividend of $0.04 (80% franked), (2015: $0.05)
- FY16 guidance:
    - Statutory EBITDA between $26.1M and $28.1M
    - Underlying EBITDA between $27.9M and $29.9M

* *Excludes Letters of Credit and Capital Finance Leases.*

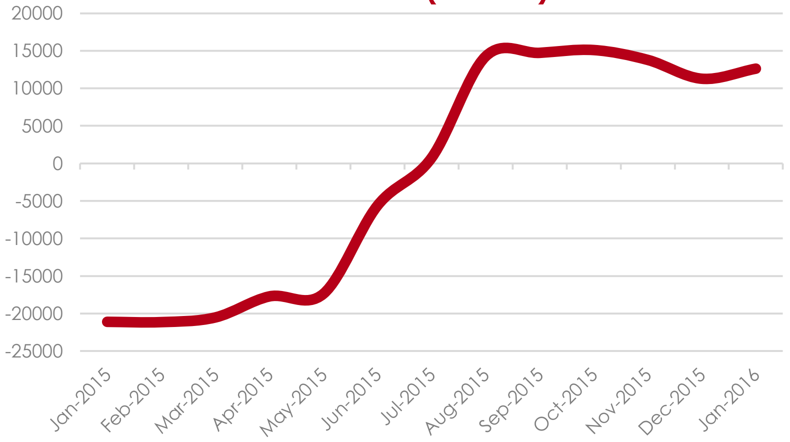
# Four Key Priorities

1. Integrating our acquisitions to generate operational, financial and cultural benefits throughout the organisation.
    - Annualised synergy savings of $6.0M at YE 2015 ($1M ahead of target); and
    - Forecast to deliver further annualized synergy savings of $2.5M in 2016 and $1.5M in 2017.

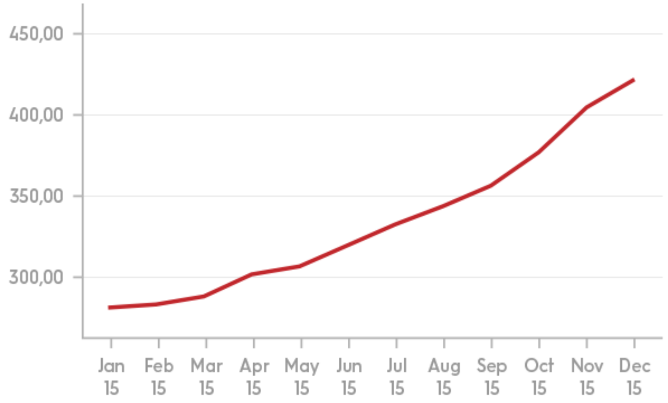
# Four Key Priorities *(Continued)*

2. Arresting revenue decline in core SMB product categories
3. Continued development of our SMB solutions business

**GROWTH IN .AU NAMES UNDER MANAGEMENT (VS PCP)**




**2015 SOLUTIONS REVENUE DIRECT***




* 6 month rolling average

# Four Key Priorities *(Continued)*

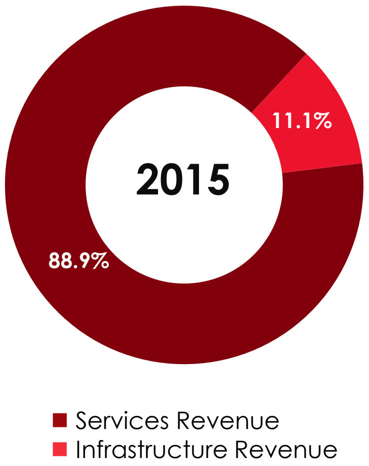
## 4. Continued development of ES managed services

### Comprehensive Digital Solutions

| | | |
|---|---|---|
| **Mobile Practice** (Outware Mobile) | **Data & Analytics Practice** (InfoReady) | **Cloud & Security Practice** |

**Managed Services**
(Continuous Change/Continuous Deployment, Performance analysis, optimisation)

**SPLIT BY SERVICES**



# In appreciation

- Thank you to the Executive Leadership Team and all Staff
- Thank you to the Board
- Thank you to our Shareholders

# Board Renewal

- Appointment of John Armstrong
- Appointment of Gail Pemberton
- Retirement of Rob Stewart

MELBOURNE IT GROUP

# CEO's Address

Martin Mercer

# Transforming Melbourne IT

MELBOURNE IT GROUP

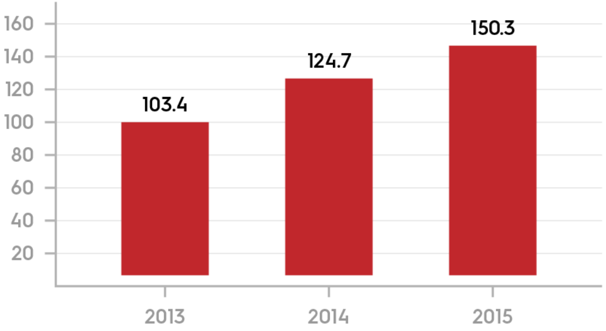
# Vision and Strategy

- The Internet is **revolutionising** the way business is done.
- Everything MLB does **fuels our customers' success**.
- We are the designers, the engineers and the operators of the **smartest 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.

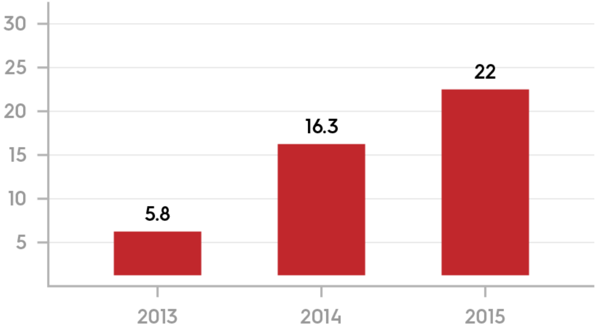
Transforming Melbourne IT

# Our Turnaround is Gathering Momentum

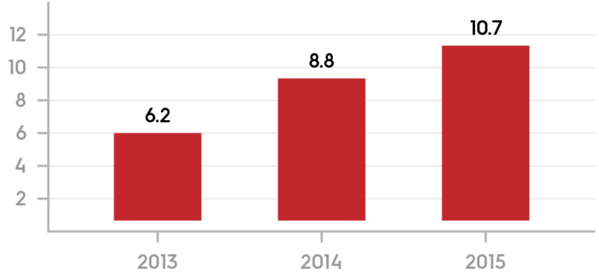
### Group Revenue ($m)



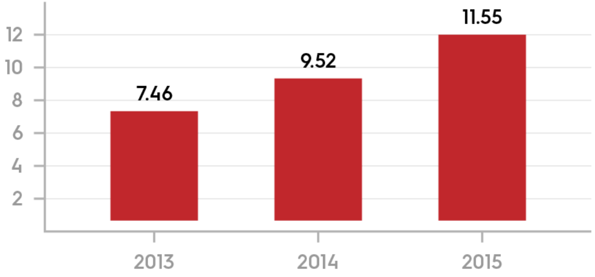

### Underlying EBITDA ($m)




### Underlying NPAT ($m)



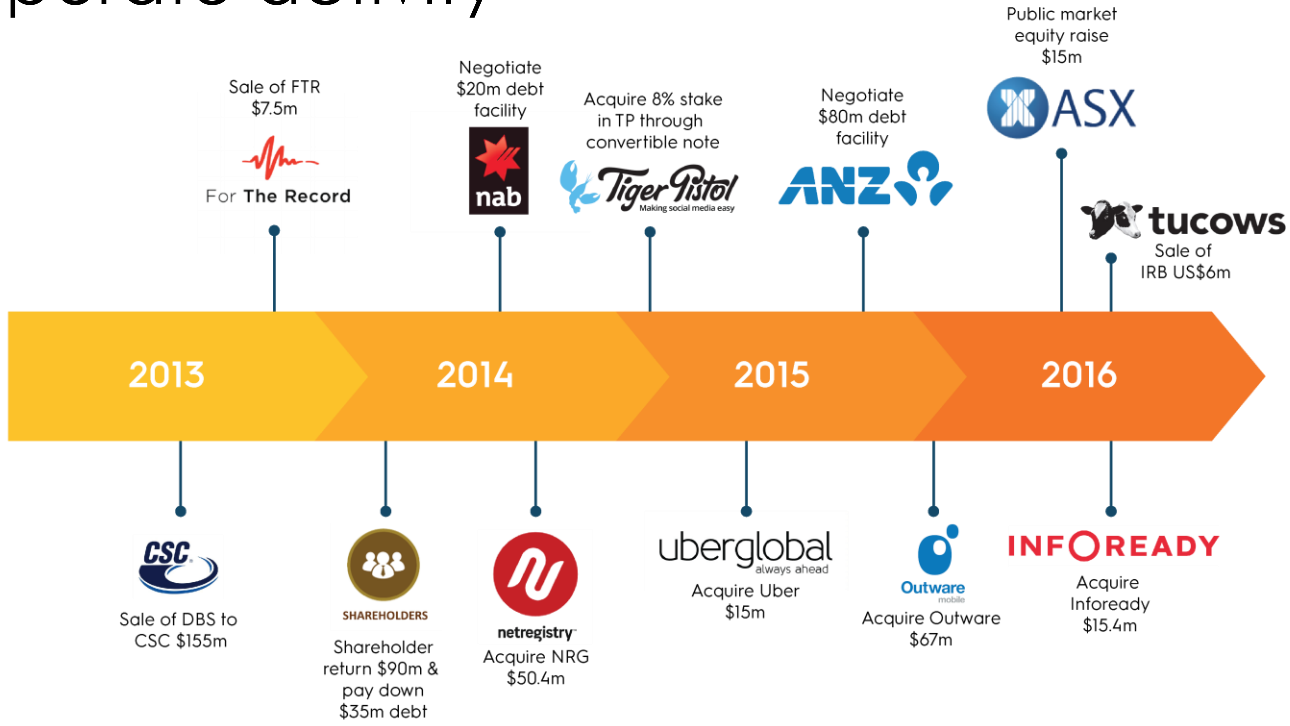

### Underlying EPS (cents)




*Underlying figures have excluded transaction costs, synergy costs, 2015 warranty provision write back, 2015 unwinding of discount on other financial liabilities, 2014 impairment charge, and includes the full year impact of acquisitions made during the respective years and profit after tax attributable to non-controlling interest in Outware.

Transforming Melbourne IT

# **Reshaping the Business:** 3 years of corporate activity



# Purpose and Vision

MELBOURNE IT GROUP

## Fuelling our customers' success through the smart use of technology.

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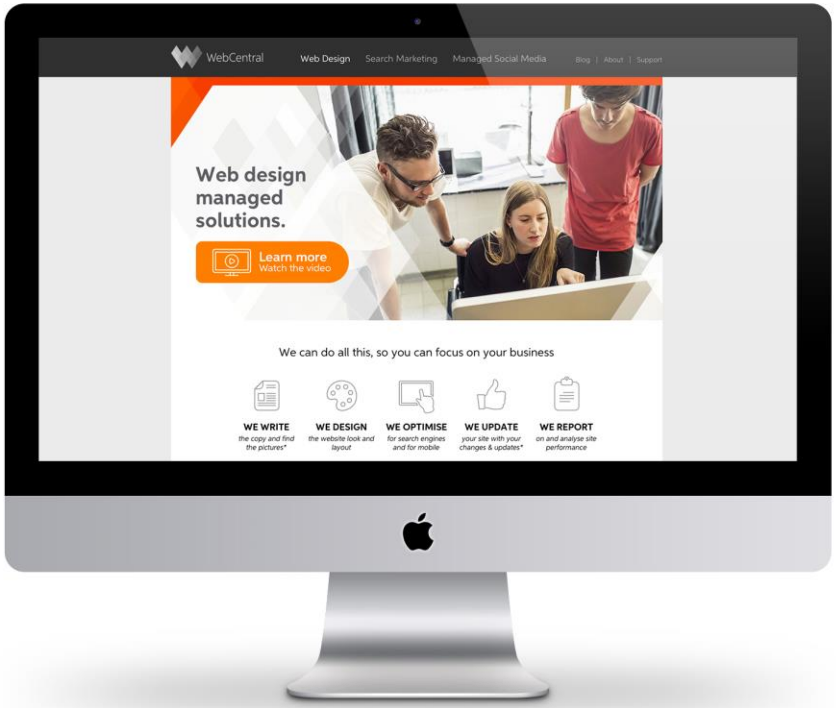
Transforming Melbourne IT

# Growth Drivers – SMB

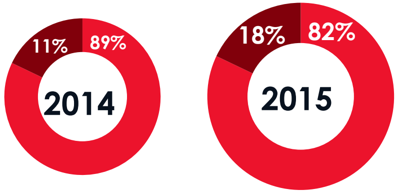



SMB

# **SMB:** facts and figures

MELBOURNE IT GROUP

1. **More than 300 employees** with offices in Melbourne, Sydney, Brisbane and Canberra
2. **Largest Australian** domain name and web hosting provider, with more than 40% market share
3. We have helped fuel the success of **more than 600,000 Australian SMB customers**
4. **A portfolio of SMB brands:** MELBOURNE IT, netregistry, WebCentral, DOMAINZ THE KIWI WEBXPERTS
5. **Growing web solutions business** – the key to revenue growth and value creation




18% Solutions Revenue – managed marketing services comprising web design and digital marketing

82% Components Revenue – domain names, web hosting and email

# SMB Long Term Strategy

## SOLUTIONS SEGMENT

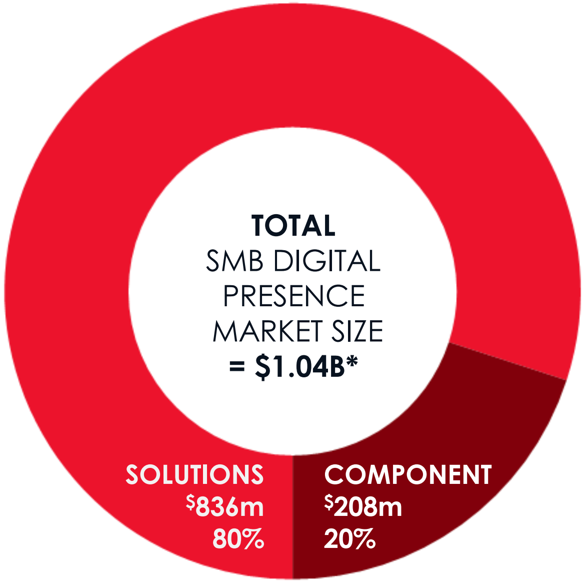
**80%**

- 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

## COMPONENT SEGMENT

**20%**

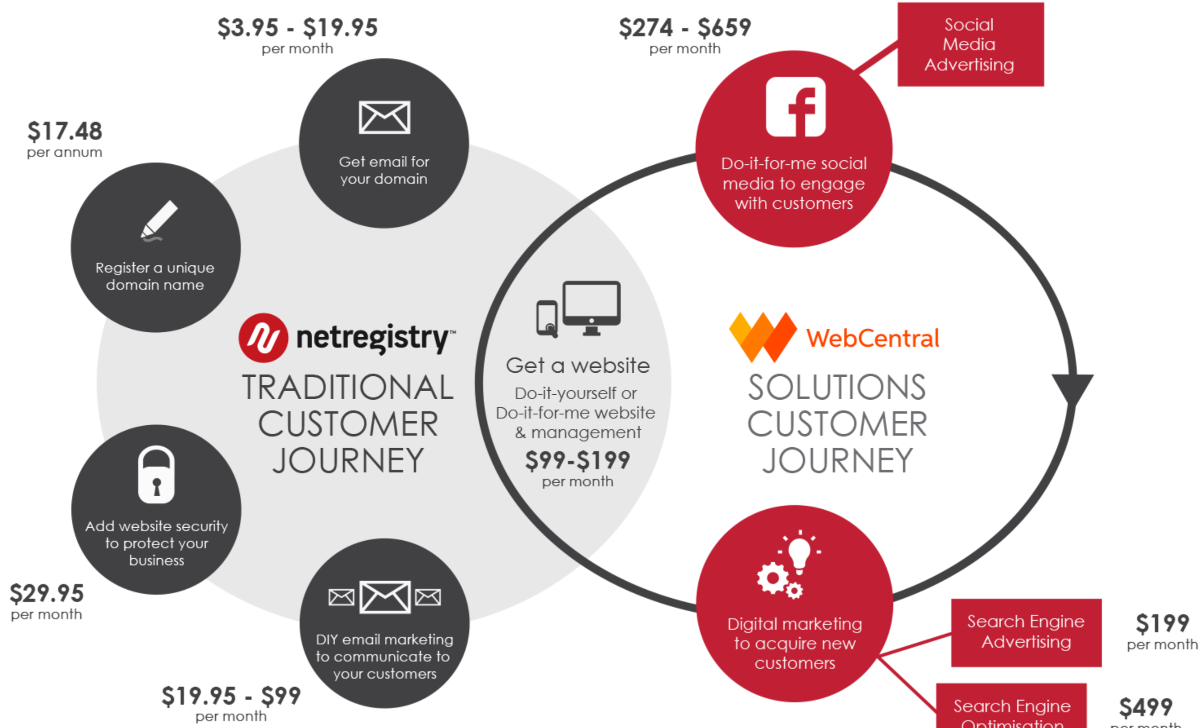
- Domains, web hosting, and email are key components for SMBs but account for only 20% of the market by value
- MIT No. 1 in the Australian market but highly competitive with large competitors driving commoditisation
- Average ARPU $5-$50pm




* MIT analysis. Market size 2014

Transforming Melbourne IT

# **Customer Journeys:** the key to revenue growth and value creation



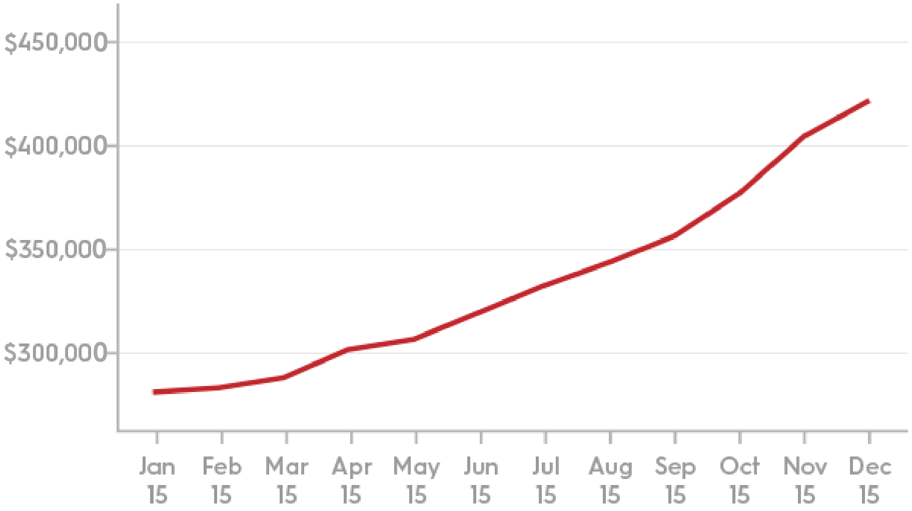

* $ amounts are list prices

Transforming Melbourne IT

# **Solutions Revenue:** Growing Strongly

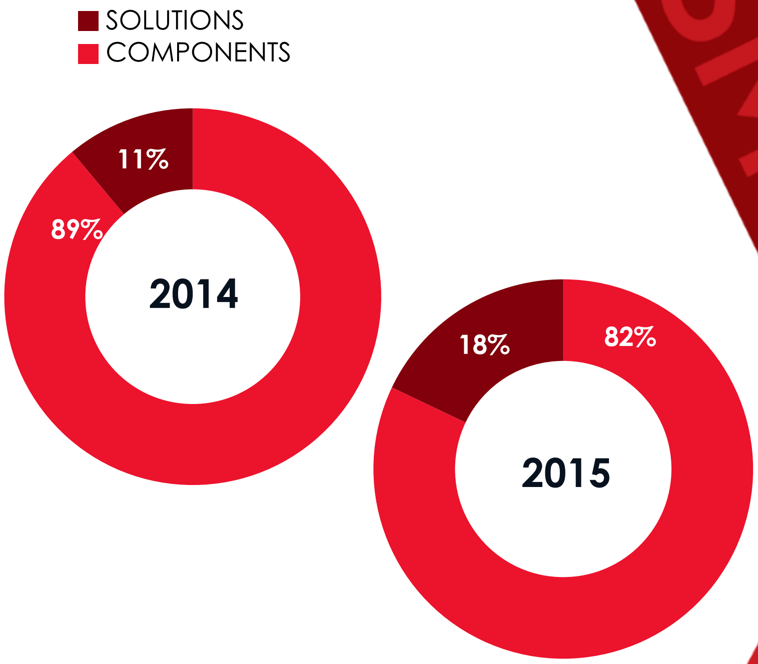
MELBOURNE IT GROUP

## 2015 SOLUTIONS REVENUE DIRECT*




* 6 month rolling average

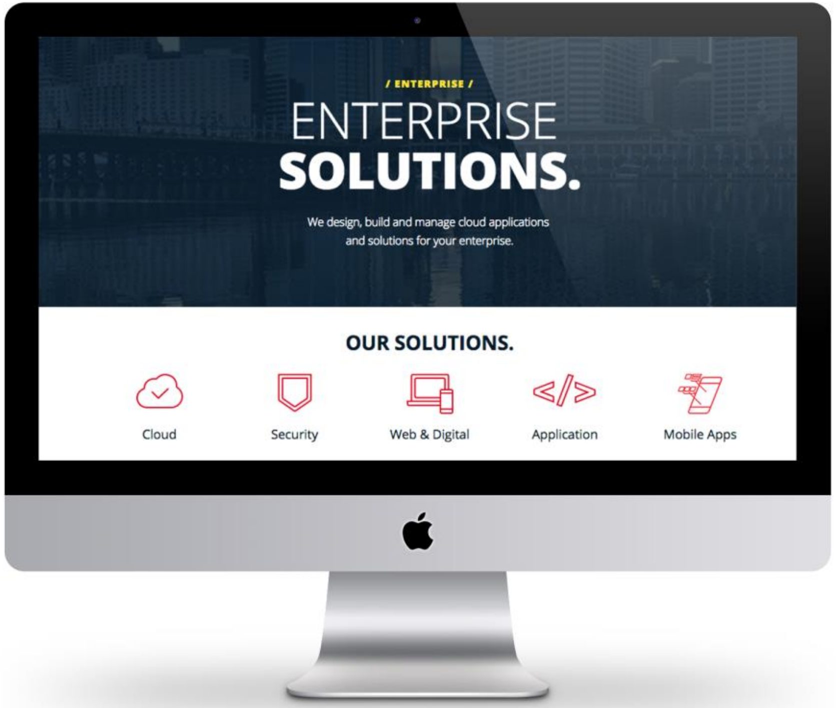
## REVENUE SPLIT BY PRODUCTS




SMB

Transforming Melbourne IT

# Growth Drivers – Enterprise Services



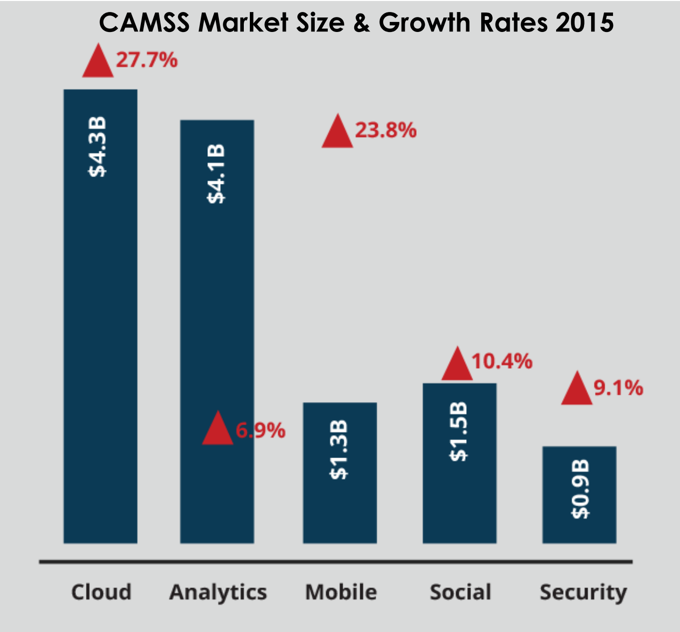

ES

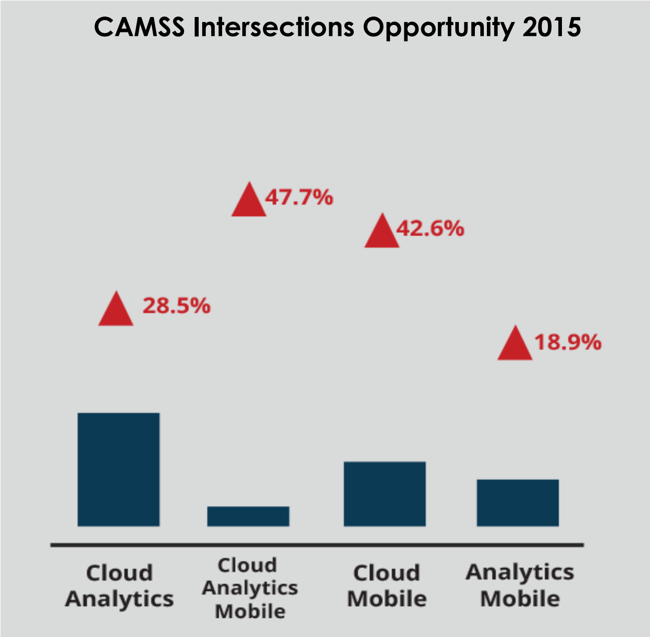
# **ES:** facts and figures

1. **Successful reinvention more than 350 employees** with offices in Melbourne, Sydney, Brisbane and Canberra
2. **Strong Growth**, underlying EBITDA growing
3. **Expertise:** Outware founders retained; InfoReady founders retained; AWS Foundation partner in Australia, Premier AWS Partner, AWS Managed Services certified Partner
4. **Culture of Innovation and Customer Excellence**
5. **Enterprise Grade.** Blue Chip customer base. Significant recurring revenues and repeatable project revenue. Governance and balance sheet suitable for Enterprise & Government customer partnering

# **Digital Solutions:** an attractive and strongly growing market

"**Completeness of solution**" will drive significant growth for ES



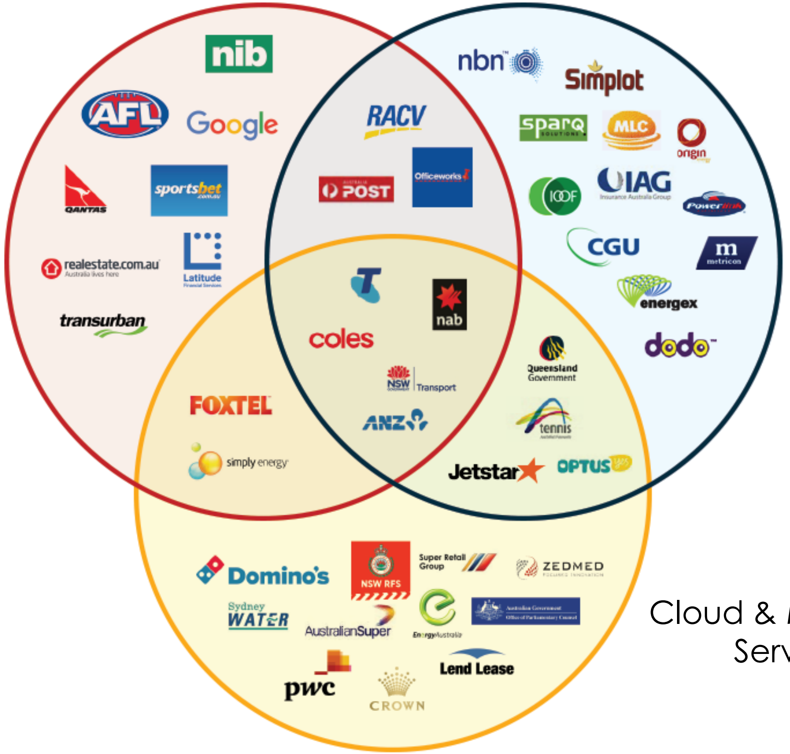

Key: ▲ Annual Growth Rate 2015

Source: IBM 2015

ES

# **Revenue Synergies:** unlocking the "intersection opportunities"

Mobile
(Outware Mobile)




Data & Analytics
(Infoready)

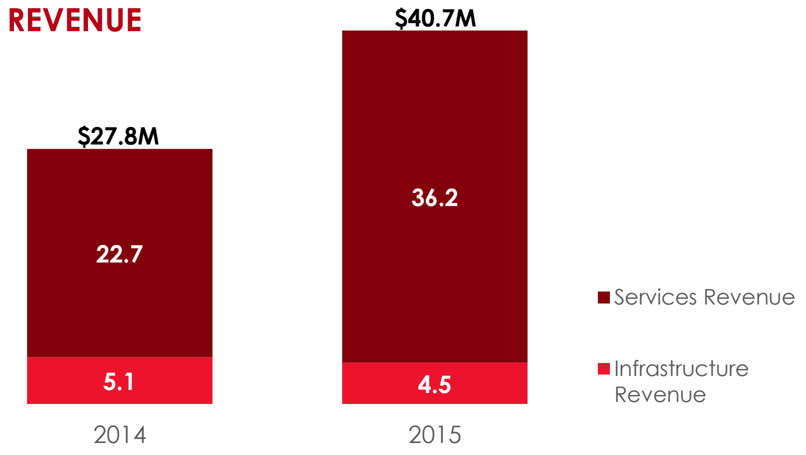
Cloud & Managed
Services

# **Enterprise Services:** it's all about services and solutions

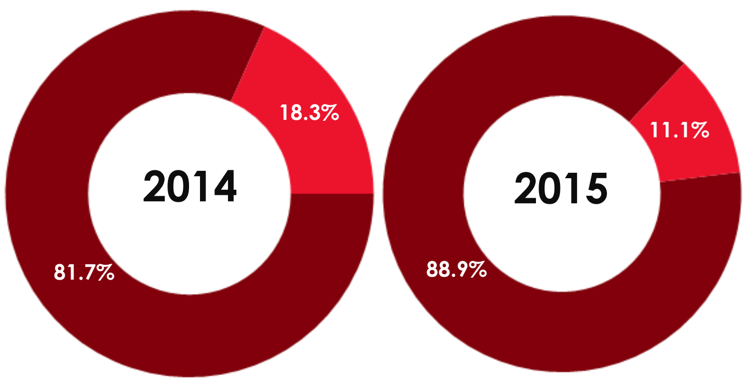
**Enterprise Services continues to successfully execute on its digital solutions strategy:**

- Consistent execution - managed services and professional services revenues now contributing 89% of total revenues, up from 82% in 2014
- Expansion includes capabilities in cloud, mobile, security, data and analytics and application development professional services

## REVENUE




## SPLIT BY SERVICES



# Conclusions

1. Encouraging 2015 results: disciplined execution against a clear strategy is delivering results
   - underlying NPAT $10.7m,  up 22% versus pcp , underlying EPS 11.55c, up 21% versus pcp
2. Transformation well advanced and we are assembling a platform for growth;
   - $10m Integration savings being delivered ahead of time - developing a track record,
   - acquisitions performing well: Outware Systems and Infoready – adding capability in Enterprise Services - strategic and accretive,
   - cash generative business model with recurring revenue streams- strong free cash flow of $8.3m in FY15,
3. Good momentum going into 2016: profit guidance of $27.9m - $29.9m underlying EBITDA (+30% based on middle of range versus 2015)
4. Transition to a digital solutions well advanced in Enterprises and gathering momentum in SMB
5. Future growth leveraged to the growth in digital solutions