



**27 May 2019**

**ARQ GROUP (ASX: ARQ)**

**2019 Annual General Meeting  
Chair's Introduction and CEO's Presentation**

In accordance with ASX Listing Rule 3.13.3, attached is a copy of the Chair's introduction and the CEO's presentation to be delivered at the Annual General Meeting which will be held today.

As previously advised, the AGM will be webcast live. The webcast will be accessible via this URL link <https://webcast.openbriefing.com/5183/>. **Participants will need to register to access the webcast**, which will be activated 15 minutes prior to the start of the meeting.

An archive of the event will also be placed on the Investor Announcements page of our corporate website after the event.

**Anne Jordan**  
Company Secretary

E: [anne.jordan@arq.group](mailto:anne.jordan@arq.group)

**ENDS.**

**About Arq Group**

Arq Group, previously Melbourne IT Group, is Australia's leading digital solutions partner.

Arq Group is the dynamic space for smart thinkers. Creating unforgettable experiences, solving complex challenges, and providing seamless, end-to-end solutions – from design thinking to customer solutions, leading mobile, cloud and analytical insights, digital marketing to web design - Arq Group powers the growth of businesses, big and small.

Founded in 1996, Arq Group has evolved from the leading Australian domains and hosting business to a leading digital services partner. Today, the company builds and manages innovative channels to market for many of the country's largest enterprises, whilst simultaneously supporting half a million small businesses throughout their online journey.

Arq Group currently has approximately 850 employees, and offices in Melbourne, Sydney, Brisbane and Auckland.





# 2019 Annual General Meeting

27 May 2019



# Board of Directors



**Andrew Reitzer**  
Chair &  
Non-Executive Director



**Martin Mercer**  
CEO & Managing  
Director



**Larry Bloch**  
Non-Executive Director



**Simon Martin**  
Non-Executive Director



**Naseema Sparks AM**  
Non-Executive Director



**Andrew Macpherson**  
Non-Executive Director

# Auditors & Share Registry



**David Petersen**  
Ernst and Young



**Nicholas O'Hagan**  
Link Market Services

# Agenda

- Chair's introduction
- CEO's address
- Q&A
- Formal Business
- General Q&A



# CEO's address

27 May 2019

# FY18 Result: underlying EBITDA of \$37.6m

The Group delivered Underlying EBITDA of \$37.6m, which was comfortably within the guidance range provided to the market in August 2018.

## Financial Results<sup>1</sup>

**Total Revenue**  
**\$213.0m**  
(↑8%)

**Underlying EBITDA<sup>2</sup>**  
**\$37.6m**  
(↓3%)

**Underlying EPS<sup>2</sup>**  
**14.3cps**  
(↓16%)



## Dividend

Final dividend of 4.5 cents per share (fully franked) for a total dividend of 8.0 cents per share (fully franked)



## Enterprise

Another strong performance driven by growth in mobile applications and data & analytics;

- revenue up 18% and underlying EBITDA up 26%
- new customer wins continue with strong customer renewals



## Balance Sheet

1.8x Net Debt/EBITDA



## Small & Medium Business

SMB performance was negatively impacted by lower than expected solutions sales;

- revenue down 2% and underlying EBITDA down 18%
- steady progress on solutions sales recovery



1. FY17 prior year financial information has been restated for the impact of new accounting standards adopted as of 1 January 2018, specifically AASB 15: Revenue from Contracts with Customers and AASB 9: Financial Instruments.

2. Underlying EBITDA and Underlying EPS exclude one-off and non-recurring expenses and take into account the pro forma contribution of WME Group prior to May 2017.

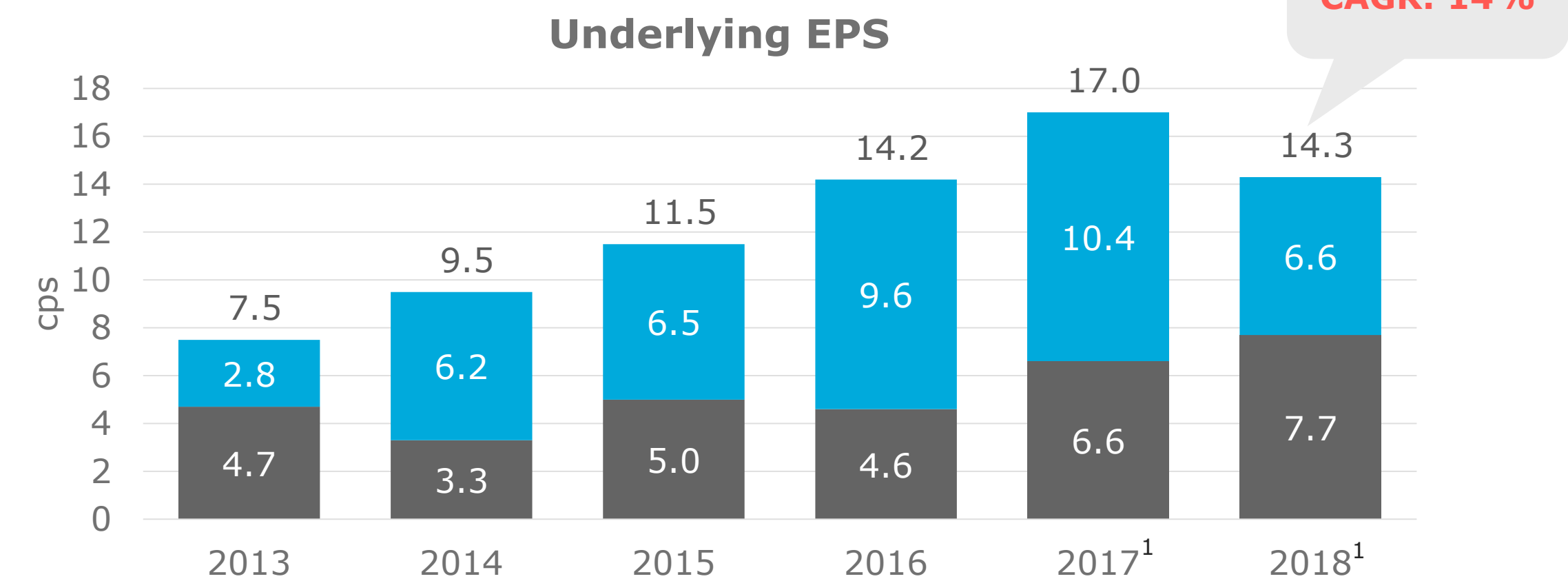
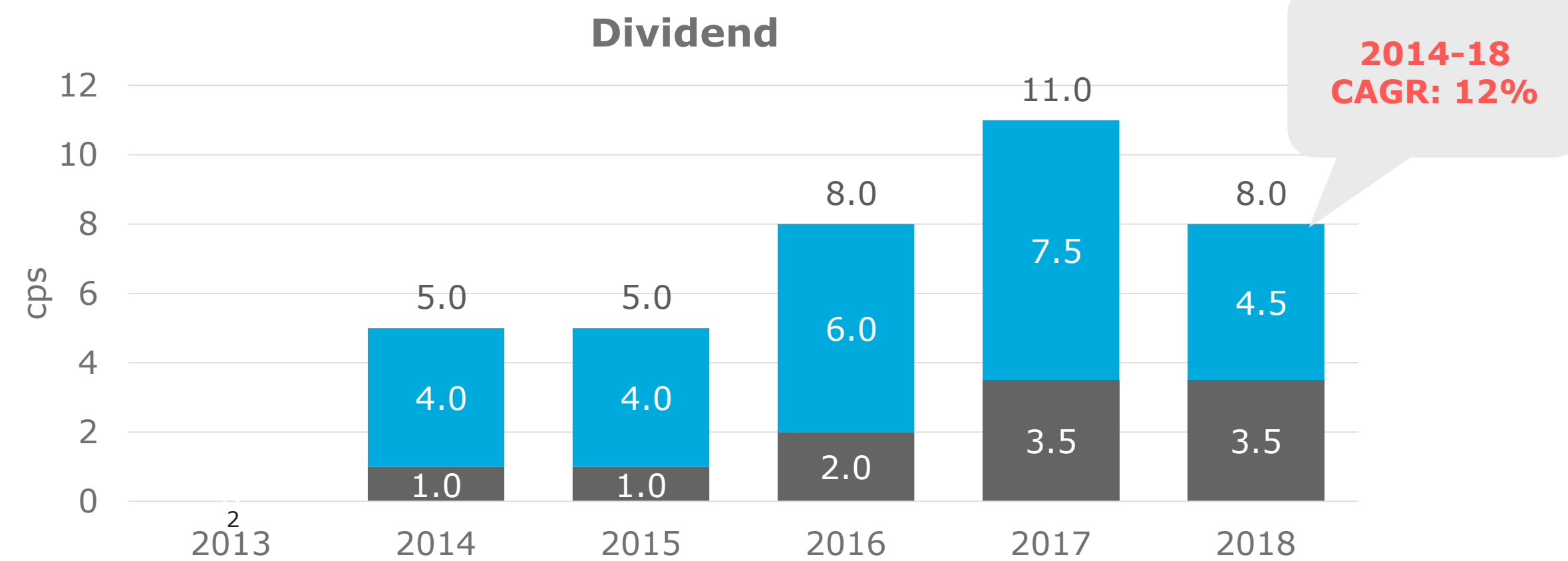
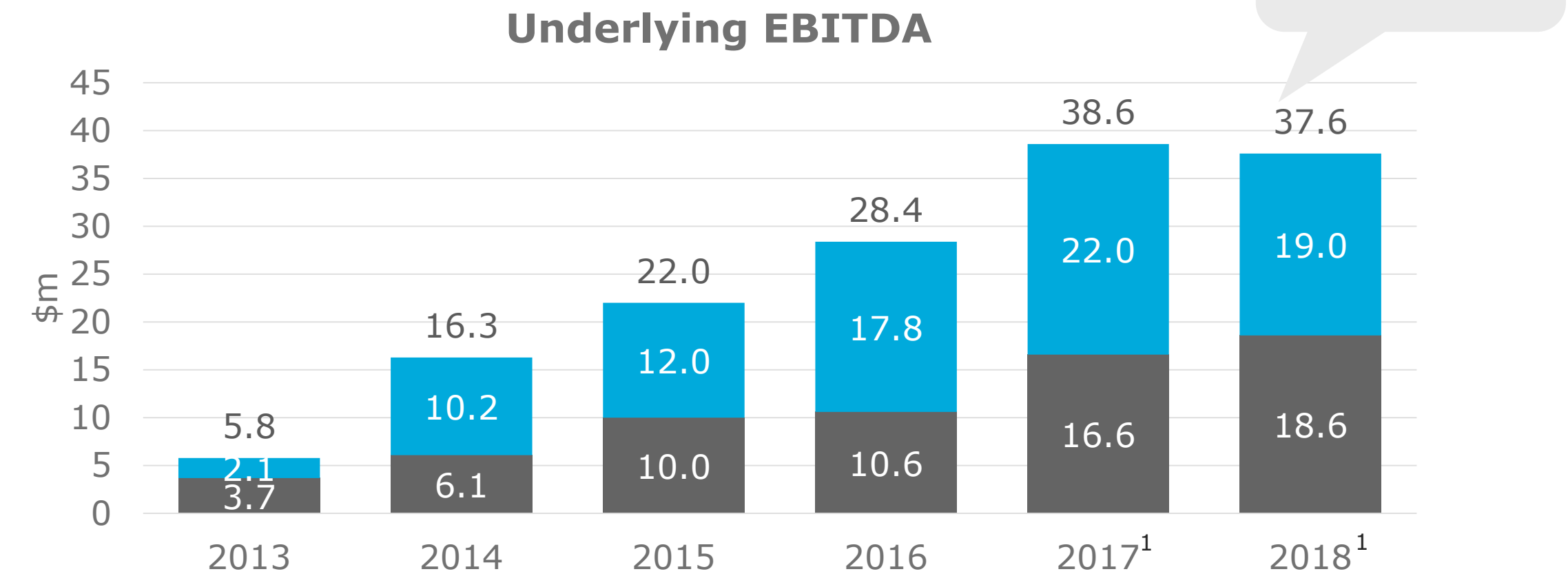
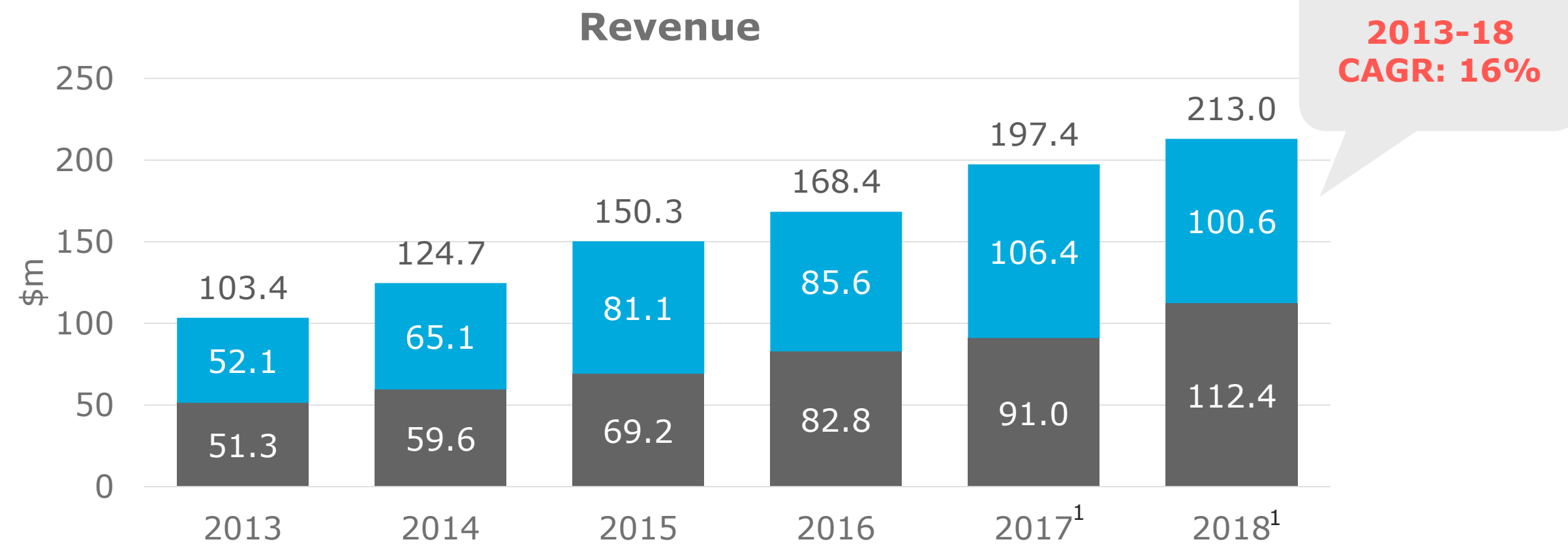
# FY18: a transformational year

## Transformational year sets up a return to growth in 2019

- Development and launch of **new brand** and company identity
- Moved into **new offices** in Melbourne and Sydney
- Secured a **new debt facility** for the Group
- **New Chair** appointed, Mr Andrew Reitzer commenced on 1 August 2018
- Another **strong year for the Enterprise business unit** with good **growth to continue** in 2019
- **Improvement in operating cash conversion** following working capital optimisation project
- Challenging year for SMB but **good progress made on restoring growth** in Solutions
- Declining **non-core operations** of SMB **split out for sale**



# Track record: history of growth



1. On 1 January 2018, the Group adopted two new accounting standards, AASB 15: Revenue from Contracts with Customers and AASB 9: Financial Instruments. FY18 financial information (and FY17 prior year comparative) have been presented on this basis. Financial information for periods prior to 1 January 2017 are presented in accordance with the previous accounting standards, AASB 118: Revenue, AASB 132: Financial Instruments: Presentation and AASB 139: Recognition and Measurement.

2. A one-off special dividend of 25.0 cents per share was paid in 2013 following the divestment of the Group's DBS business unit. No other dividend was paid to shareholders in that year

H2  
H1

# Enterprise: operational highlights

- **Key 2019 customer wins** including ABC, First State Super, Isentia, ME Bank, Prosopa, SITA, Visy and Jetstar
- 82% of Enterprise customer base in **long term customer partnerships** including;
  - 80% of Australia's Top 10 Most Valuable Brands\*
  - 45% of the ASX Top 20 (by market cap)
- >70% of new projects have a direct **innovation** component utilising new technologies or Ways of Working
- 82%\*\* user satisfaction score (up by 7% YoY) as a result of our **Human Centred Design** approach
- **Deep Technical Expertise** Achieved AWS Mobile competency, first and only Australian MSP Provider to achieve this competency extending on our existing competencies of eCommerce, Solution provider, Public Sector Channel Partner, Channel Partner and MSP Partner
- **Quality Solutions** - ISO 9001:2015 and ISO27001:2013. IRAP and PCI Solutions
- Recruited approximately **60 billable staff YTD**

\*Brand Finance 'Australia 100 2019 – The annual report on the most valuable and strongest Australian brands'. January 2019

\*\* Usability scoring for Arq Enterprise Mobile engagements

# Enterprise: customers won in 2019 (YTD)





# SMB Direct: operational highlights

- Touch point **NPS at a two year high** of >45% (March and April)
- Solutions recovery plan progressing but more to be done;
  - April 2019 first month of net **customer growth** in over 12 months and **ARPU increasing**
  - May 2019 on track to be the single highest **new solutions sales** month in over 12 months
- Bricks and Clicks, Netregistry successfully **partnered with Channel 7 and Xero** to focus on assisting small businesses take their next step in their digital journey
- Implemented **new payment gateway** in a partnership with Braintree for processing customer credit cards (migrating ~700,000 credit cards into the system)
- staff **attrition slowing markedly** (~1.2% April – annualized rate of 14%)
- **Sale of TPP** reseller business announced

# Sale of TPP reseller business: transaction summary

- Arq Group has **sold its TPP reseller business** to CentralNic plc.
- Total **transaction funds are \$24.4m<sup>1</sup>** on an **implied multiple of 4.2x** FY2018 EBITDA.
- Arq Group will receive an **upfront cash payment of approximately \$21.3m and deferred cash payments of \$3.1m** (\$2.3m in year 1 and \$0.8m in year 2).
- The completion date for the transaction is **30 June 2019<sup>2</sup>**.
- ARQ Group will initially use the funds from the sale to reduce net debt to approximately \$53.1m immediately after completion, providing balance sheet flexibility and increased financial capacity.
- The Group anticipates that approximately **\$2.0m of additional ('stranded') costs** associated with the Indirect SMB business **will be removed** over the course of the next three years (skewed towards the back end of the three year period)<sup>3</sup>.

1. Arq Group will receive fees associated with the separation of approximately \$3.1m as part of a Transitional Services Agreement (TSA) over the next two years.  
2. The completion date is conditional on the acquirer securing appropriate financing.  
3. Refer to pages 7 and 9 of the FY18 results investor presentation for further detail.

# Outlook: FY19

Underlying EBITDA	H1 FY19	H2 FY19	FY19
Group	Materially lower than PCP (as foreshadowed for 6 months)	Materially higher than PCP	Growth on prior year will be distorted by an exceptional contract included in H1 FY18.
Core Operations			We expect growth compared to prior year. Future growth will be underpinned by the progressive removal of \$2M of “stranded” costs over the next 3 years.
Enterprise	Materially lower than PCP (as foreshadowed for 6 months)	Materially higher than PCP	We expect low double digit growth compared to prior year. Growth on prior year will be distorted by an exceptional contract included in H1 FY18 and a relatively slow first quarter in FY19.
SMB	Lower than PCP – starting off a lower base due to decline in H2 2018	Higher than PCP due to steady recovery in solutions sales over 2019	We expect low single digit growth compared to the prior year. Future growth will be underpinned by the progressive removal of \$2M of “stranded” costs over the next 3 years.
Non-core Operations			Material contribution to the result. The sale of TPP reseller business has been completed. There is still uncertainty surrounding the quantum and timing of the reduction in spend of a large customer.



# Important notice and disclaimer

## Summary information

This presentation contains summary information about the Company and its activities and is current as at the date of this presentation. The information in this presentation is a general background and does not purport to be complete or provide all information that an investor should consider when making an investment decision. It has been prepared by the Company with due care but no representation or warranty, express or implied, is provided in relation to the accuracy or completeness of the information. Statements in this presentation are made only as of the date of this presentation unless otherwise stated and the information in this presentation remains subject to change without notice. The Company is not responsible for updating, nor undertakes to update, this presentation. It should be read in conjunction with the Company's other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange ("ASX"), which are available at [www.asx.com.au](http://www.asx.com.au).

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## Effect of rounding

A number of figures, amounts, percentages, estimates, calculations of value and fractions in this presentation are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this presentation.

## Past performance

Information relating to past performance and activities included in this presentation is given for illustrative purposes only and should not be relied upon as (and is not) an indication of the Company's views on its future performance or condition. Investors should note that past performance, including the past share price performance of Arq Group, cannot be relied upon as an indicator of (and provides no guidance as to) future performance including future share price performance. The historical information included in this presentation is, or is based on, information that has previously been released to the market.

## Financial data

All dollar values are in Australian dollars (\$) or A\$) unless stated otherwise.

## Future performance

This presentation contains certain forward-looking statements. The words "expect", "anticipate", "estimate", "intend", "believe", "guidance", "should", "could", "may", "will", "predict", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future financial position and performance are also forward-looking statements.

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group