

2017 AGM – Chairman's Address

10 November 2017



Welcome, I did not expect to be standing before you this morning having made an announcement to the market yesterday of a profit downgrade; for this, I sincerely apologise on behalf of myself and fellow board members. Whilst Inabox's acquisition of Hostworks was completed to accelerate a managed private and public cloud offer to our large base of SME's, the productisation of an SME offer and subsequent sales success has not ramped up fast enough to balance three enterprise customers, who are rationalising their Hostwork services, along with their associated project spend.

In contrast, our Anittel, Indirect, and Enablement businesses continue to perform strongly and I will offer further insights later in my address.

Summary of the FY17 Year

FY17 was a solid year on many fronts for the Inabox Group as we continued our drive toward the vision of being, "a leading managed telco, IT and cloud provider to mid-market corporates, SMEs, and consumer brands across Australia". As stated at last year's AGM, our clear focus on unified communications and hosted cloud, both public and private, along with tailored SME applications, such as Office 365, remains undiminished. In my address this morning I will share financial highlights from FY17, discuss Inabox's strategic acquisition of Hostworks, as well as address our key focus for FY18.

Financial Highlights for FY17

- Revenue of \$90.1m was achieved. At first glance this appears flat compared to FY16, however the board and executive decided to exit two non-profitable mobile resellers who contributed around \$10m at the revenue line but little at the EBITDA line. More importantly, they exposed the Inabox Group to an unacceptable level of risk due to the structure of the deal with Optus Mobile, which provided a sign-on payment for new customers, but left the Inabox Group with an increasing aggregate exposure if customers exited from the Optus mobile network or the reseller went into administration, within two years
- Reflecting the fact that the two mobile resellers did not contribute toward profitability, Underlying EBITDA was still \$6.1m, a 12% growth on FY16
- Underlying NPAT was \$1.1m, a 27% growth on FY16
- \$4.5m in cash was received from Telstra for the sale of the HCS business in Tasmania. This allowed Inabox to retire \$2.5m of debt with the balance being used toward a couple of small acquisitions.
- I wish to also highlight, as the HCS business was reaching its full opportunity with the Tasmanian Government and was held as "an asset for sale", under the accounting standards, it delivered a \$3m contribution to the EBITDA result in FY17. We are looking toward the growth in our Indirect and enablement businesses to fill most of this gap.

Hostworks Acquisition

In February 2017 the Inabox Group acquired all the shares of Hostworks, a well-known Australian brand offering hosted cloud services with data centres in Adelaide and Sydney. The acquisition was strategic for the group as it accelerated a key part of our product strategy which was to be a leading provider of hosted cloud services to SME's and mid-market corporates across Australia, both through our direct and indirect channels. In addition to the physical assets, Hostworks brought across highly skilled cloud engineers that are now part of the core Inabox technical team supporting the migration of SME's and Corporates from on-premise solutions to a fully hosted cloud, both public and private, or a combination of the three. Important in our productising of the Hostworks offer is the development of online tools that put the control of the hosting platform in the hands of the customer. We have also developed sales tools to assist our non-technical indirect channel partners to begin selling cloud solutions to their SME customers. Inabox's Cloud Sales Assist initiative, a unique offering designed to expedite cloud sales for resellers, won the ACCOM Award for Innovation in the SME Sector

Despite these highlights, as announced to the market yesterday, we recently experienced a small number of Hostwork's enterprise customers rationalising their services. This included a direct impact, in the first half of FY18, where these 3 customers have not met their historic project spend. Because Hostworks is primarily a fixed cost business, we now expect Hostworks to contribute negligible EBITDA for FY18.

Whilst the current FY18 outlook for Hostworks is extremely disappointing, Inabox believes the business will contribute meaningfully to earning during FY19 as new customers are added and Hostwork's services, both Public and Private cloud, are cross-sold through the Direct and Indirect business channels.

Our People

At the core of Inabox are our highly skilled and dedicated people. Today we have over 300 staff spread across 13 offices, including Manilla where we are approaching 40 staff made up of highly skilled developers and tier 1 technical support. We also added to the strength of our executive ranks in FY17 with Iain Falshaw joining as Inabox's Chief Commercial Officer, which includes primary responsibility for our product development. Iain has a deep telco background including being a Non-Executive Director for the Telecommunications Industry Ombudsman Limited and MD of ACN Pacific Pty Ltd. Michael Cheshire joined us at around the same time to lead the newly created role of Director Sales and Marketing. He joins us after being GM Symmetry Networks Australia and GM Consumer and Business Sales Vodafone. Both Michael and Iain have brought great depth and experience to an already well qualified executive team.

To all our Inabox team members, I'll take this opportunity to thank you publically for all your hard work and dedication. You are a fun group to be around but most importantly everyone goes the extra mile to serve our customers and get the job done professionally and on time.

Outlook

Beyond the cost-out initiative Damian will highlight, the three main focuses for FY18 and beyond are: Organic Growth, Organic Growth, and Organic Growth.

On the Enablement front, which is an extension of our indirect channel partner platforms, we

have passed 165,000 NBN services in operation having grown by 14,000 services in Q1. Today, most of these services are via Telstra's challenger brand "Belong". Tomorrow, spurred on by the rollout of the NBN and access to the Telstra 4G mobile network, we are in advanced negotiation with national retail brands who are looking to take TelcoInabox's white-labelled platform-as-a-service and add NBN and Mobile products to their existing consumer and SME offers. If we look toward the UK and the success of Tesco, who have become one of the country's largest Telcos, we can see that TelcoInabox is an enabler for a major shift in how Australian consumers and SME's will buy their NBN and Mobile services.

The rollout of the NBN has also given renewed life, and growth, to our 440 plus indirect channel partners. As SME's are having to choose a provider for their NBN service they are turning toward their trusted IT provider, who is also a telco reseller enabled by TelcoInabox, to provide their tablet, mobile, cloud, broadband, and office 365 solution.

In the direct channel, we are working hard to cross-sell telco, managed IT and hosted cloud services into our existing SME and mid-market corporate base. Our hosted cloud product, tailored for SME's, is soon to be in the market and we are already experiencing early indications of interest.

In FY18 we expect the Inabox Group will pass \$100m in revenue but our NPAT margins will remain suppressed as we absorbed the large D&A charges, without the associated revenue, from the Hostworks acquisition. Countering this we expect, over time, the sales success of our SME cloud offer, cross-selling of telco services to the Direct Customer base, and the uptake of Inabox's own managed voice platform, offering richer features and higher margin, which will replace the resold service we previously had in the market.

My fellow board members and I do believe there is no other company, today, who is able to provide the equivalent enablement services and we are therefore at the centre of a very exciting transformation in the Australian telecommunications and IT landscape.

To our Shareholders thank you for your support during this transitional period, the board and executive team are well invested in our mutual success. We believe the Inabox Group is at the forefront of a major shift in how consumers and SME's will acquire telecommunication services into the future. The investment in our enablement platform, acquisition to fast-track a hosted cloud SME platform, and development of our own VOIP solution, will bring growth and margin improvement over the years to come.

Thank you for entrusting your investment dollars with us, we keep that responsibility at the forefront of everything we do.