

ASX Announcement

23 February 2018

Half-Year Results FY18

- 1H FY18 Revenue of \$52.9m, up 23.6% on 1H FY17, with recurring revenue increasing to 81% of total revenue
- 1H FY18 Underlying EBITDA of \$2.4m, down 5.2% on 1H FY17
- Agreement signed with Telstra Wholesale for enablement services provides significant growth opportunity from FY19 and validates Inabox's Enablement service offering
- Bank debt facilities extended to 2020, providing funding to support organic growth initiatives
- New, higher-margin cloud and communications products and services to launch in H2 2018

Inabox Group Limited (Inabox or the Company) (ASX:IAB), a national managed telco, IT and cloud provider presents an overview of its financial results for the half year ended 31 December 2017.

Trading Update

On 9 November 2017, the Company provided a trading update and revised outlook for FY18 announcing that its Hostworks business would perform below expectations and contribute only around \$15 million in revenue for the full-year FY18 (comprised of \$8m in H1 and \$7m in H2).

Hostworks has been negatively impacted by a small number of enterprise clients rationalising their services. Its EBITDA contribution in H1 was negligible however management expects that its largely implemented growth and profitability initiatives will result in Hostworks contributing more meaningfully to earnings in FY19.

As previously announced, this has negatively impacted Inabox's H1 FY18 performance and significantly contributed to the disappointing result for the half year.

Financial Overview

Half Year ended 31 December	1H FY18 \$M	1H FY17 \$M	% Change
Revenue from continuing operations	\$52.9	\$42.8	23.6%
Earnings Before Interest, Tax, Depreciation & Amortisation (EBITDA)	\$0.7	\$2.5	(70.0)%
Net Profit After Tax (NPAT)	(\$1.6)	\$0.5	(434)%
Underlying EBITDA ¹	\$2.4	\$2.6	(5.2)%

1. Underlying EBITDA includes contribution from the HCS business, but excludes one-off redundancy and impairment costs of \$1.7m, in 1H FY17 the underlying results excludes \$0.1m of costs relating to the sale of HCS

For the half year ended 31 December 2017, Inabox delivered revenues of \$52.9m, up 23.6% on 1H FY17, with 81% of revenue being of a recurring nature. The growth was driven by contributions from recent acquisitions, new Indirect customers and an increase in services revenue and development fees from the Enablement business. This was partly offset by a reduction in revenue from the sale of the HCS Business in FY16 and its gradual migration to Telstra (the buyer) during FY17.

Underlying EBITDA¹ was \$2.4m, down 5.2% on 1H FY17, reflecting the loss of margin from the HCS Business, and Hostworks performing well below expectations. The Net Loss after Tax of \$1.6m includes an impairment charge of \$1.1m against intangible assets relating to Hostworks' customer contracts and \$0.2m relating to the rationalisation of the Anittel brand. The result was also negatively impacted by redundancy costs of \$0.4m and an increase in amortisation and depreciation expense of \$0.8m, relating to recent acquisitions.

Update on growth and profitability initiatives

Inabox announced several cost reduction initiatives on 4 December 2017, designed to improve the Company's long-term profitability without limiting its ability to service customers and deliver long term organic growth. The implementation of these cost initiatives is now largely complete, delivering annualised costs savings of over \$2 million commencing in H2 FY18.

In addition to these cost initiatives, Inabox has:

- Reviewed and impaired the entire \$1.1 million balance of intangible assets relating to customer contracts and relationships acquired from Hostworks, meaning no further write-downs of this asset will take place;
- Stabilised Hostworks' revenues, and signed a number of new clients that have the potential to grow into substantial long-term contracts; and
- Leveraged Hostworks' cloud capabilities and infrastructure to develop new cloud-based products, which are expected to deliver revenue growth in FY19.

Operational Highlights

Enablement investment delivers Telstra Wholesale deal

In December 2017, Inabox signed a landmark agreement with Telstra Wholesale to provide white-labelled enablement services to Telstra Wholesale's customers. Under the 3-year contract, Inabox will deliver back-office operational and technical support services, generating development fees and recurring SaaS revenues. The agreement has the potential to significantly grow Enablement revenues, as Telstra Wholesale signs new customers and increases the number of services provided to new and existing wholesale customers. The Telstra Wholesale agreement provides strong commercial validation of Inabox's Enablement capabilities and is already contributing to an increase in development fee income.

Indirect customers signed bring \$4m in annualised revenue

Inabox signed new agreements with three established retail service providers who will migrate in the second half of FY18. They will add over \$4m in annualised revenue to the Indirect business. This will largely replace revenue lost in FY17 when the Company terminated a number of unprofitable reseller agreements. The Indirect channel's offering, which includes Telstra Wholesale's 4G mobile services, Microsoft Office 365 Fast Lane and the provision of a single point of access to multiple carriers continues to draw interest from new and existing customers, and the launch of new cloud-based products are expected to further drive growth in FY19 and beyond.

Cloud Capabilities leverage Hostworks' platform

Inabox has developed 'Cloudinabox' which provides a simplified product allowing SMEs to easily transition IT infrastructure and applications to the cloud. Cloudinabox, which is currently in beta testing, leverages Hostworks' cloud expertise and infrastructure. The services will be cross-sold to customers in both the Direct and Indirect channels. Cloudinabox is one of a number of high-margin products the Company has developed in-house, and it is expected to be launched in 2H FY18.

New products, including Hosted Voice, will drive FY19 revenue growth

Inabox launched a new premium Hosted Voice product in July 2017, tailored to meet the needs of larger SME customers by providing call centre functionality and drag and drop configuration for easy call management. The product is already receiving strong support from Inabox's existing customer base, and it is expected to drive organic growth in 2H FY18 and beyond.

Bank financing facilities extended to 2020

In December, the Company extended its existing financing arrangements with the Commonwealth Bank of Australia for 3 years to 2020. Inabox continues to operate within its funding and covenant parameters and, as at 31 December 2017, had undrawn capacity of \$1.2m. These facilities are expected to provide ample funding to support the Company's current growth and profitability initiatives.

Outlook

Inabox remains on-track to deliver revenue of over \$100m in FY18 and expects 2H FY18 EBITDA will be broadly in line with 1H FY18. While the growth and profitability initiatives implemented in H1 are expected to result in an improvement in H2 EBITDA, offsetting the reduction in revenue from the sale of the HCS Business in FY16 and the loss of revenue in Hostworks associated with the customer rationalisation described in the Trading Update above.

Inabox's unique communications as a service platform, its cloud-capabilities and new higher-margin products and services are expected to drive organic growth in 2H FY18 and FY19. With the recent acquisitions now integrated, Hostworks' revenue stabilised, and cost reduction initiatives implemented, the Company's management team is focusing aggressively on converting its strong pipeline of opportunities into sales. Furthermore, commercial discussions continue with a growing number of national brands interested in Inabox's Enablement capabilities.

Ends.

About Inabox Group Limited

Inabox provides technology platforms and solutions that deliver next gen telco, IT and cloud services. We do this via highly automated systems, a national team of over 300 knowledgeable and engaged people, plus over 15 years of experience.

Telcoinabox, Hostworks, Anittel, iVox and Neural Networks are all part of the Inabox Group.

www.inaboxgroup.com.au

Inabox contact details:

Damian Kay, CEO & Managing Director
E: damian@inaboxgroup.com.au or T: +61 413 888 655