ASX Announcement

30 August 2019

MOQ continues growth momentum after reporting solid FY19 results

MOQ Limited (ASX: MOQ) released to the market its financial results for twelve months ended 30 June 2019 (FY19).

FY19 Overview

- Revenue increased 15% to $67.9 million; driven by
  - Growth in Services of 6% to $31.3 million with Recurring Services now representing 43% of all services sold and delivered
  - Technology Sales increased 23% to $36.5 million;
- Operating cashflow is up 79% to $3.4 million (FY18: $1.9 million)
- Strong cash position up 32% to $5.2 million, which provided headroom for the post balance date acquisition of Wardy IT Solutions
- Profit After Tax increased 103% to $2.3 million as a result of a favourable tax ruling that resulted in $1.4m of deferred tax assets taken up as a result of $5.1 million in additional tax losses being recognised.
- Normalised EBITDA of $2.2 million is in line with FY18 results however Reported EBITDA decreased to $1.3 million due to the impact of one-off costs.
- As disclosed, MOQ announced the acquisition of Wardy IT on 12 August 2019 – unaudited pro-forma revenue from this acquisition in FY19 was $14.2 million with normalised EBIT of c. $1.5 million

Commenting on the Company's FY19 financial performance, MOQ CEO & Executive Director Joe D'Addio said: "Over the past twelve months we have continued to make significant progress in advancing our growth agenda. The year featured solid organic growth particularly within the Recurring Services and Technology Sales segments and culminated in the announcement of the acquisition of Wardy IT Solutions in early August 2019. MOQ maintains a healthy cash position post Wardy and we are excited by the opportunity to drive momentum and sustainable growth in combination with the Wardy team in FY20 and beyond."

Continued growth across its businesses

MOQ's revenue growth of 15% to $67.9 million reflects the strength of the business segments and the ability to scale the platform and capitalise on our investment strategy.

For MOQdigital, MOQ's Integration Services business, focused investments over the last few years in the NSW operations, expanding the Sales and Marketing team, fine tuning the Managed Services business and growing its presence in the Applications, Data and Analytics market space have been the key drivers for continued organic growth.

Recurring revenue growth of 19% to $13.5 million was driven by strong underlying demand as MOQdigital successfully onboarded six new major clients during FY19. As a result, this segment now represents 43% of all services sold and delivered by MOQ and is anticipated to grow further with increasing opportunity pipeline and once integrated alongside of Wardy IT. This growth was achieved despite delays in the realisation of contracted revenue from our largest contract win.

The delays to the contract have primarily arisen out of unforeseen complexities resulting in higher than expected workload to migrate and transition the client's applications and data. As a result, MOQ incurred significant and unexpected labour costs which particularly impacted Professional Services revenues during H2 FY19, generating a considerable loss of momentum and an FY19 Professional Services result on par with FY18.

We have included a provision in MOQ's FY19 accounts of $200,000 due primarily to the additional staff resourcing required with all such one-off costs associated with the project being incurred in FY19. Despite the substantial expenses already incurred by MOQ on this project, we recognise the importance of this 5-8 year project with potential revenue of c.$15 million MOQ has therefore adopted a longer term view and remain in active discussions with the prime contractor with regards to a potential recoupment of additional fees.

In regard to Skoolbag, the implementation of price increases across all school subscriptions over FY19 from $1 to $3 per student per year has increased our monthly recurring revenue from $117k at the end of FY18 to $210k by the end of FY19. Rollout of the new e-newsletter feature in Skoolbag will be available to all customers from September 2019 following a successful beta test pilot. Additionally, earlier in the financial year, a brand new Skoolbag mobile app was released, and reached #1 in December 2018 for the Top Charts on Apple App Store and Google Play Store.

MOQ maintained its strong financial position following solid technology sales and profitable growth, with cash balance up 32% to $5.2 million as at 30 June 2019. Cash from operating activities delivered exceptional growth, up 79% to $3.4 million due to strong revenue growth.

Reported EBITDA of $1.3 million has been adjusted for a number of one-off expenses including the contract mentioned above ($200k), taxation advice ($350k) and M&A related costs incurred in connection with Wardy and other opportunities ($280k) resulting in a normalised EBITDA of $2.2 million.

	FY17	FY18	FY19
Normalised EBITDA	**1,827,719**	**2,167,434**	**2,164,314**
Adjustments			
Implementation of Service Management System	(469,000)		
Integration of Tetran acquisition	(278,000)		
Restructure of Professional Services and Management	(323,000)		
M&A consulting and due diligence fees			(280,661)
Tax advisory fees (successfully claiming $1.5m deferred tax assets)			(349,462)
Provision for doubtful debts			(200,000)
Reported EBITDA	757,719	2,167,434	1,334,191
Interest Income	15,684	13,284	19,035
Depreciation & Amortisation	(519,007)	(611,779)	(724,612)
Net Profit before Tax	254,396	1,568,939	628,614
Income Tax Credit / (Expense)	(153,420)	(439,758)	1,659,410
Statutory Net Profit after tax	100,976	1,129,181	2,288,024

Solid market growth potential

*"Public cloud services in Australia reached **$3.5 billion in 2017** and are expected to grow to **$9.8 billion in 2022** at a total five-year CAGR of 22.9%. Over the forecast period the PaaS segment is expected to have the highest CAGR of 41% albeit growing from a small base of $1.32 billion in 2017. The growth in PaaS will mostly be driven by the **continuing surge in cloud-based database, application development software, and data analytics/AI**. Currently, the SaaS segment is the largest contributor and accounts for 64% of the Australia public cloud services market. IDC expects the market share among the different segments to be relatively stable during the forecast period"[1]*

MOQ is continuing to position itself so as to leverage the Digital Transformation trend with the strategic decision in FY19 to invest in both growing MOQdigital's capability as well as driving acquisitive growth through the Wardy IT Solutions transaction.

As announced to the market, MOQ is scheduled to complete the acquisition of Wardy IT on 30 August 2019. The Board and Management is looking forward to providing further commentary on MOQs outlook in mid-late September alongside an updated investor presentation.

Commenting on MOQ's positive outlook in FY20, Mr D'Addio said: "The business has performed well and made significant progress through FY19 despite some challenges to our momentum in the second half of the year. It is a great credit to the quality and commitment of our people to the MOQ culture and strategy. We are working hard to set ourselves up for an even stronger FY20 boosted by the recent acquisition of Wardy IT Solutions. This acquisition is a further step to establishing MOQ as a leading mid-tier IT solutions provider and is anticipated to grow our services revenues in the Digital Services market in FY20 and be the basis for accelerated growth in FY21 and beyond.

"We look forward to providing further insight on this acquisition following settlement and building our momentum from increased market demand for digital transformation services and solutions. We will maintain focus on our core strengths which is to increase our revenue streams by converting our recurring services pipeline into sales, and to integrate and leverage our recent acquisition to deliver strong future shareholder returns."

Despite some unforeseen challenges during FY19, MOQ continued to advance our business platform, balancing short term returns with key strategic decisions and actions to maintain momentum as it evolves further into a high value, market leading publicly listed technology company geared around servicing the needs of enterprises seeking to drive digital transformation initiatives.

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[1] *Source: IDC's Semiannual Public Cloud Tracker, H1 2018*

Investor Briefing

An investor call will be hosted by Joe D'Addio (CEO & Executive Director) and Danny Loh (CFO) at 11:30am AEST today, Friday 30 August 2019.

To pre-register for the briefing and avoid a queue while calling, please register at the following link:

https://services.choruscall.com.au/diamondpass/moq-10001776-invite.html

If you are unable to pre-register, at the time of the call please dial one of the numbers below and provide the **conference ID: 10001776** to the operator.

Australia Toll Free: **1 800 870 643**

Australia Local: **+61 2 9007 3187**

The live webcast will be accessible by using the link below. Questions will need to be submitted electronically through this webcast interface. For those wishing to access the webcast please register by clicking on the following link: https://services.choruscall.com.au/webcast/moq-190830.html

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About MOQ Limited

MOQ is a global award winning, cloud systems integrator with more than 250 employees which provides ICT Consulting, Integration, Managed Services and Solutions around data, applications, and infrastructure that enables digital business. Our strategy is to build annuity revenue streams through managed services and commercialised IP to capitalise on a rapidly growing digital economy.

Our purpose is to enable our customers to achieve more through the smart use of technology as they embrace digital transformation. We pride ourselves on building lifetime relationships with our customers by driving outcomes to get the best results the business needs.

For more information, please visit: https://www.moq.com.au/