Half Year 2020 Results and Guidance Update

Rene Sugo CEO
Chris Last CFO
John Boesen CTO

25 February 2020

Sydney

View the MNF Journey

Find out where it all began…
https://mnfgroup.limited/about

Financial Results

FY19 H1 v FY20 H1

Key results summary

Recurring Revenue
Up 52% to $48.3m

EBITDA^
Up 52% to $16.9m

Underlying NPAT-A#
Up 35% to $6.5m
Statutory NPAT at $3.7m

Recurring Gross Margin
Up 39% to $27.8m

Gross Margin
Up 26% to $45.0m

Underlying EPS-A #
Up 30% to 8.5 cps

^ EBITDA excludes restructure costs, net interest, non-cash share plan costs, tax, depreciation and amortisation. % growth in EBITDA has FY19 H1 adjusted for AASB 16 Lease accounting
# Underlying NPAT-A & EPS-A exclude acquisition costs, amortisation of acquired customer contracts & acquired software and tax effected restructure costs only

Financial summary FY20 H1

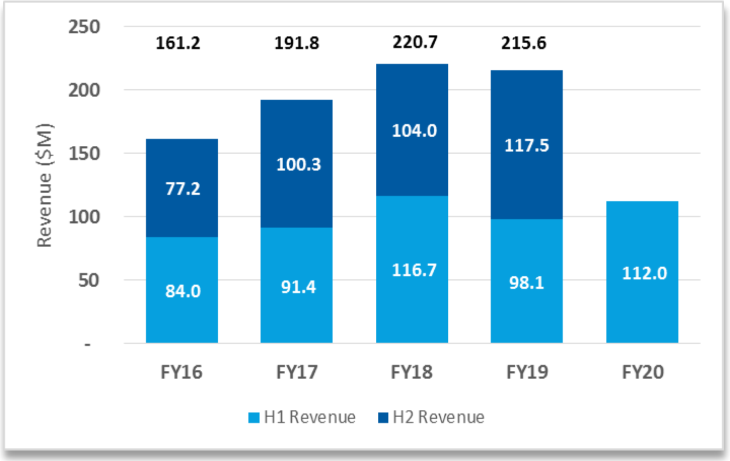
Reported Result	FY20 H1	FY19 H1	Δ
Revenue	$112.0m	$98.1m	14%
Gross Margin	$45.0m	$35.8m	26%
Gross Margin %	40.2%	36.5%	+3.7% pts
EBITDA^	$16.9m	$11.1m	52%
NPAT	$3.7m	$3.1m	20%
Underlying NPAT-A#	$6.5m	$4.8m	35%
Earnings per share (cents)	4.83	4.18	16%
Interim dividend per share - fully franked (cents)	2.50	2.10	19%

^ EBITDA excludes restructure costs, net interest, non-cash share plan costs, tax, depreciation and amortisation. % growth in EBITDA has FY19 H1 adjusted for AASB 16 Lease accounting

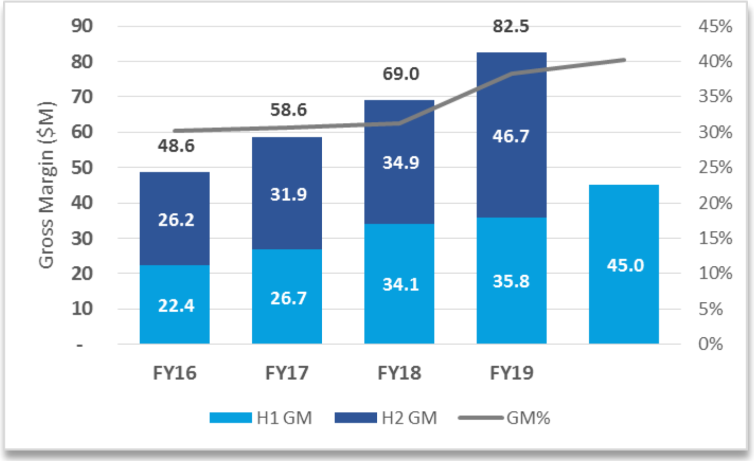
Underlying NPAT-A & EPS-A exclude acquisition costs, amortisation of acquired customer contracts & acquired software and tax effected restructure costs only

MNF at a glance

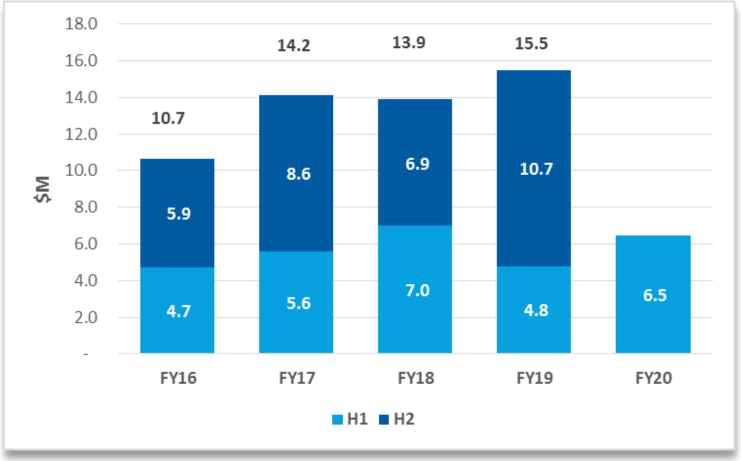
Revenue



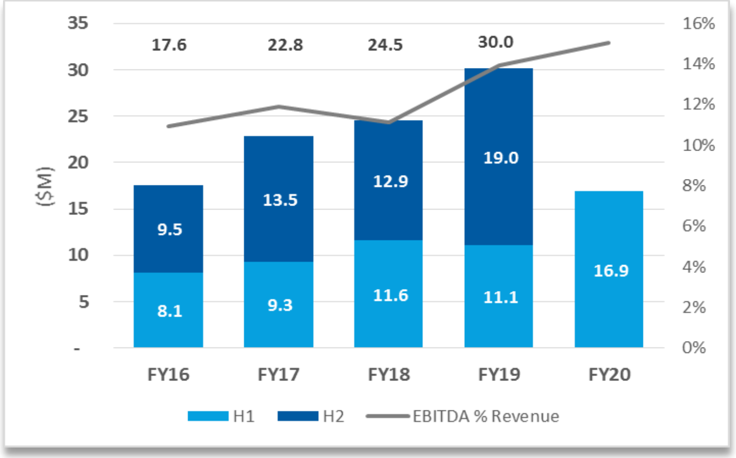
Gross margin



Underlying NPAT-A

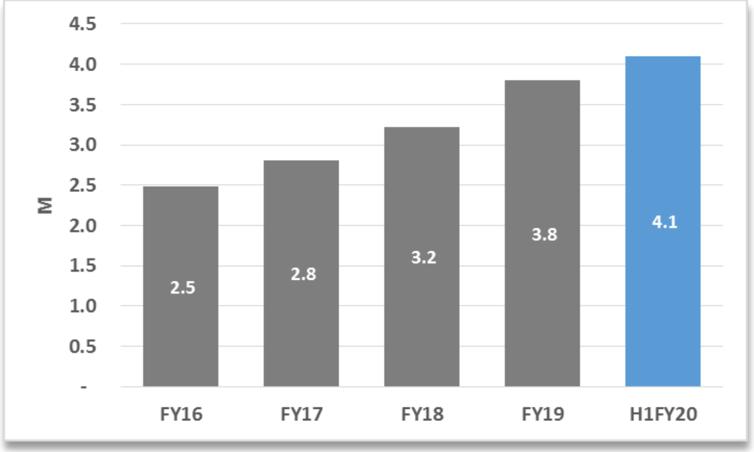


EBITDA



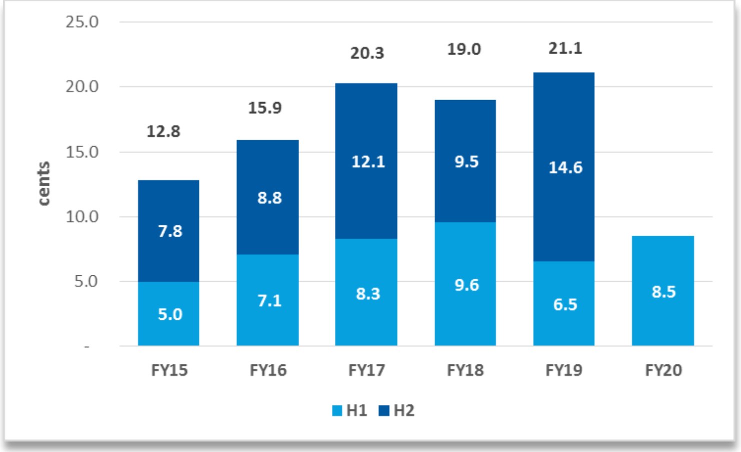
FY19 EBITDA adjusted to reflect the impact of AASB 16

Phone numbers



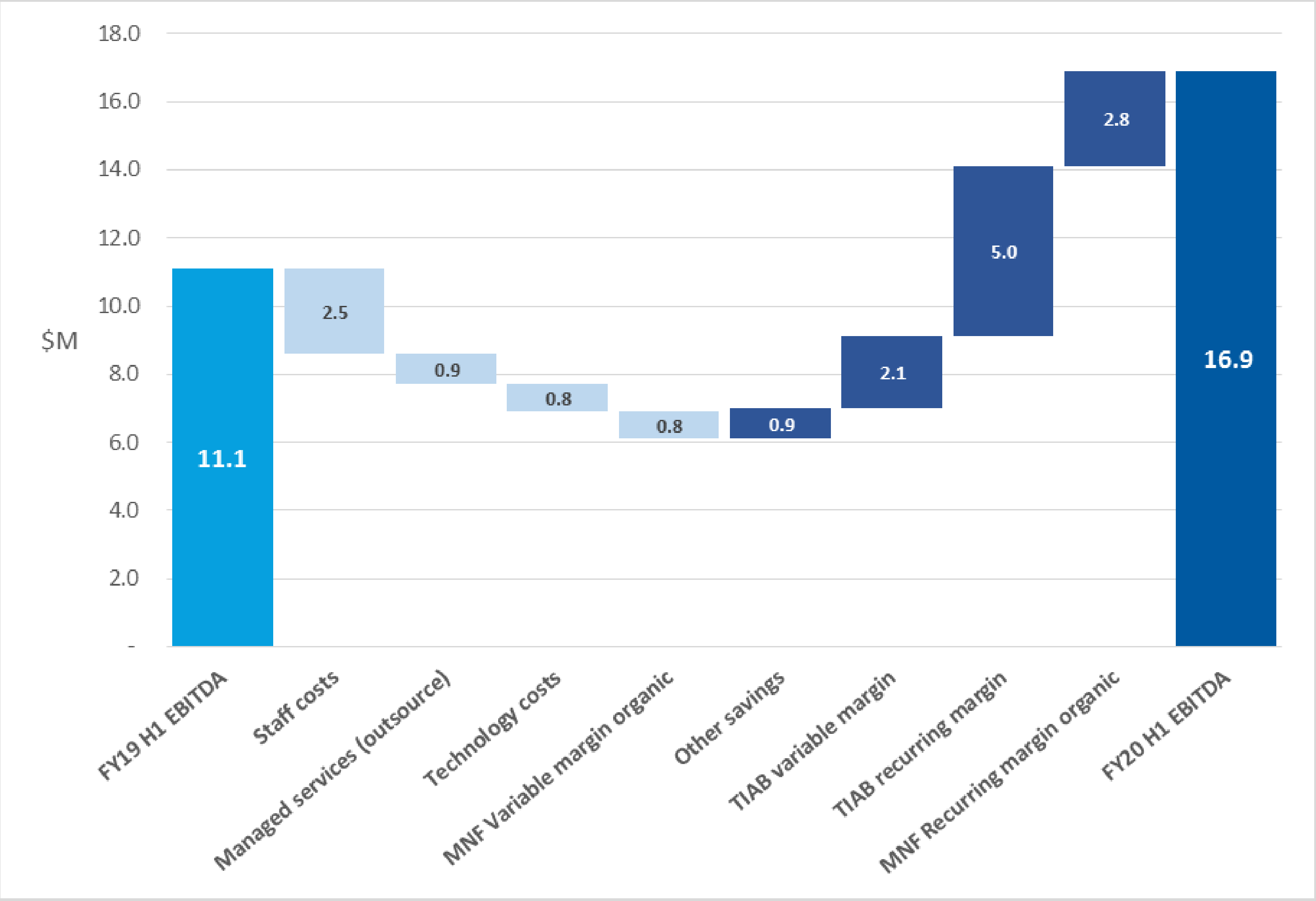
FY20 H1 phone number annualised growth rate of 16%

Underlying EPS-A



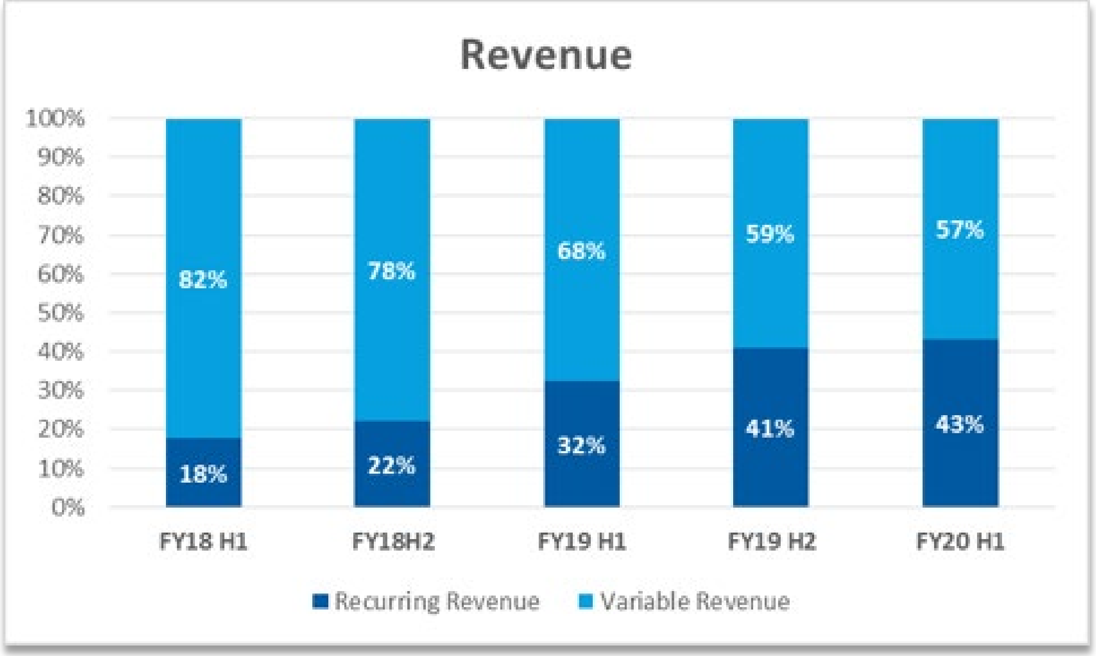
Underlying NPAT-A & EPS-A exclude acquisition costs, amortisation of acquired customer contracts & acquired software and tax effected restructure costs only

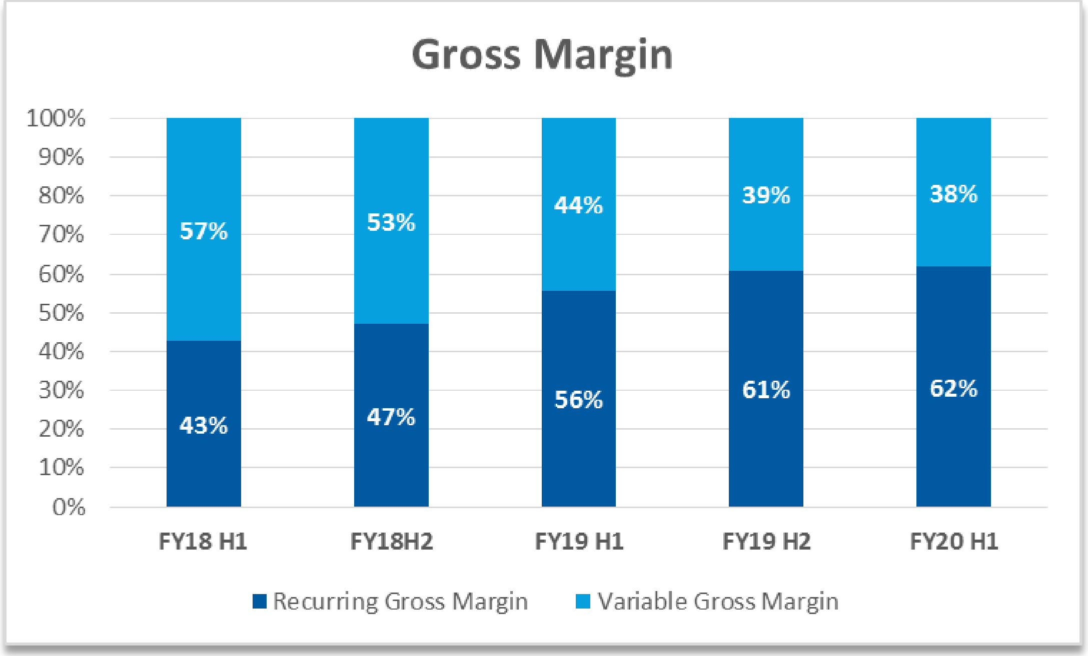
FY19H1 to FY20H1 EBITDA waterfall



- Increases in Staff Costs, Managed Services and Technology costs due largely to the addition of the TIAB team. Corporate restructure completed in Q2 creating savings for H2
- MNF margin decrease is mainly due to Direct segment legacy products
- Increase in TIAB margins due to additional 5 months contribution
- MNF recurring margin organic growth represents 22% growth for Domestic Wholesale and 13% growth for Global Wholesale margins on FY2019/H1.

Continued shift to recurring revenue





- Business continues to transform into a recurring revenue business.
- Recurring revenue tends to be higher margin and sticky in nature from long term repeat customers.

- Gross Margin from recurring services grew strongly– to 62% of overall margin contribution.
- Trend expected to continue as business continues to focus on recurring business.

Update

Telco-In-A-Box

Strategic Rationale

- Acquired in December 2018 for $33.8m (7.5 x EBITDA)
- Consolidation of large wholesale customer base into the MNF Domestic Wholesale business

Integration Update

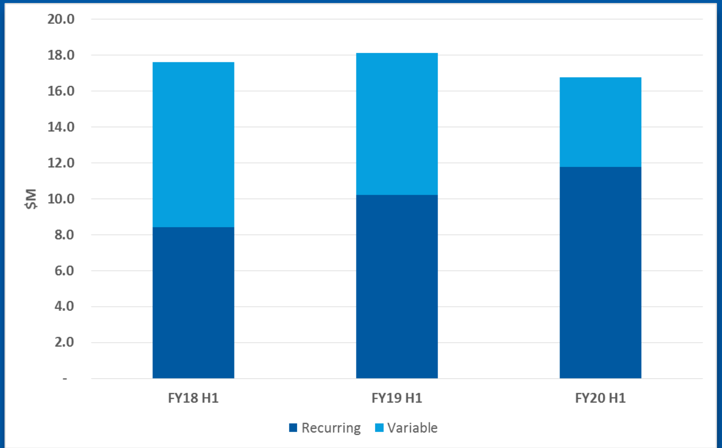
- Corporate restructure complete in H1 - $1.3m once-off charge (not included in EBITDA)
- Network and Software platform consolidation ongoing

Performance Update

- TIAB legacy product obsolescence, end-user churn & customer consolidation – circa $2.1m impact at margin in H1
- Divested two small legacy businesses – circa $500K impact at margin in H1
- Contribution at EBITDA is steady and TIAB has delivered considerable benefits – staff, scale, customers, products

Direct segment

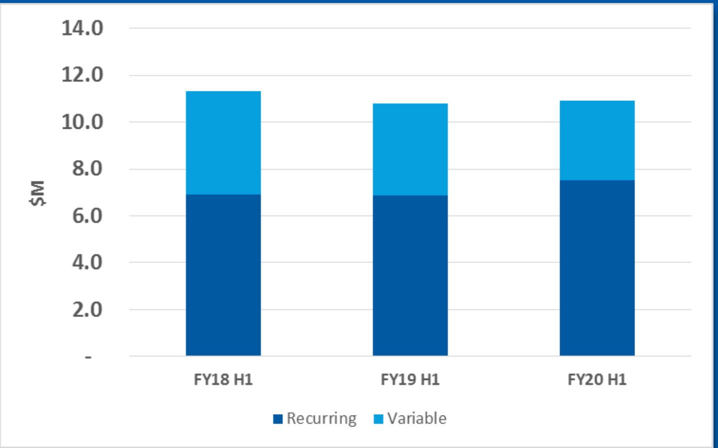
Revenue trend



Revenue	FY18 H1	HoH Δ	FY19 H1	HoH Δ	FY20 H1
Variable	$9.2m	-14%	$7.9m	-37%	$5.0m
Recurring	$8.4m	21%	$10.2m	16%	$11.8m
	$17.6m	**3%**	**$18.1m**	**-7%**	**$16.8m**

- Continued growth of recurring revenue services due to Small Business and Enterprise and Government sub-segments
- Variable revenue impacted $1.8m due to sale of assets with minimal margin impact – residential DSL customer base and two small ex-TIAB retail businesses

Gross margin trend

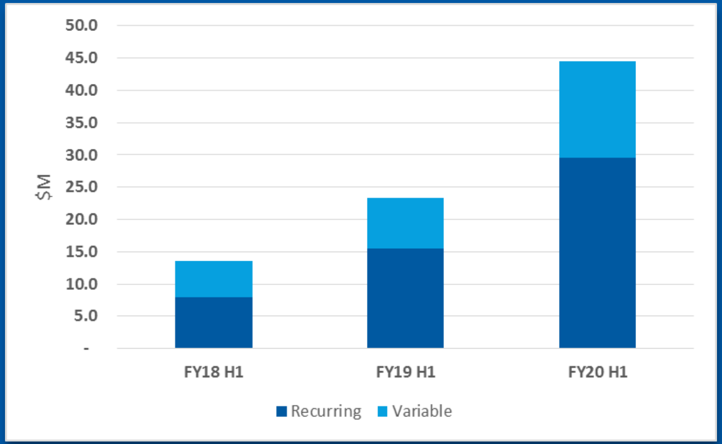


Gross margin	FY18 H1	HoH Δ	FY19 H1	HoH Δ	FY20 H1
Variable	$4.4m	-11%	$3.9m	-13%	$3.4m
Recurring	$6.9m	0%	$6.9m	9%	$7.5m
	$11.3m	**-4%**	**$10.8m**	**1%**	**$10.9m**
Margin %	**64%**		**60%**		**65%**

- Variable margins impacted by $0.5m due to divested assets
- Recurring margins impacted by $0.4m due to change in allocation of distribution costs, so underlying organic recurring margin growth would be 15%
- Overall gross margin % up to 65% after divesting low yielding products

Domestic wholesale

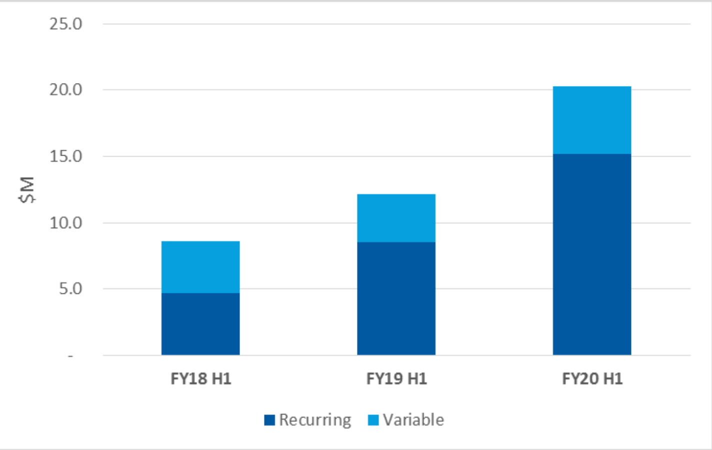
Revenue trend



Revenue	FY18 H1	HoH Δ	FY19 H1	HoH Δ	FY20 H1
Variable	$5.6m	39%	$7.8m	92%	$15.0m
Recurring	$7.9m	96%	$15.5m	90%	$29.5m
	$13.5m	**72%**	**$23.3m**	**91%**	**$44.5m**

- Business continues to see strong organic growth – driven by number portability, and cross selling of new services
- Underlying organic growth of 18% in recurring revenue
- Overall revenue increase assisted by 5 additional months of TIAB relative to FY19 H1

Gross margin trend



Gross margin	FY18 H1	HoH Δ	FY19 H1	HoH Δ	FY20 H1
Variable	$3.9m	-8%	$3.6m	42%	$5.1m
Recurring	$4.7m	83%	$8.6m	77%	$15.2m
	$8.6m	**42%**	**$12.2m**	**66%**	**$20.3m**
Margin %	**64%**		**52%**		**46%**

- Organic growth in domestic margin of 22% on PCP
- Overall gross margin % lower due to blend of TIAB resale products which are typically lower margin. Margin % will improve as customers migrate to on-net voice services
- Recurring margins now make up 75% of segment margin

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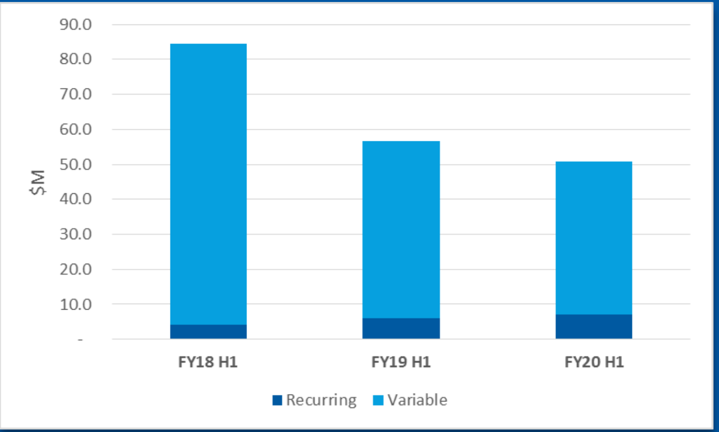
Global wholesale

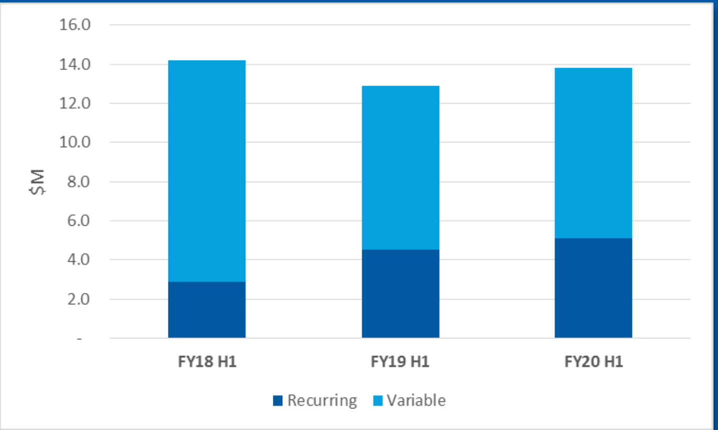
Revenue trend



Revenue	FY18 H1	HoH Δ	FY19 H1	HoH Δ	FY20 H1
Variable	$81.1m	-38%	$50.7m	-14%	$43.6m
Recurring	$4.3m	40%	$6.0m	18%	$7.1m
	$85.4m	**-34%**	**$56.7m**	**-10%**	**$50.7m**

- Solid organic recurring revenue growth of 18% due to global customer's demand for number portability and additional voice services
- TNZI business stemming variable revenue decline as business transforms, and margin increases

Gross margin trend



Gross margin	FY18 H1	HoH Δ	FY19 H1	HoH Δ	FY20 H1
Variable	$11.3m	-26%	$8.4m	4%	$8.7m
Recurring	$2.9m	55%	$4.5m	13%	$5.1m
	$14.2m	**-9%**	**$12.9m**	**7%**	**$13.8m**
Margin %	**17%**		**23%**		**27%**

- Lower margin conversion for recurring revenue due to increase in fixed network operating costs of $0.6 m per annum
- New network capacity has been doubled to allow for 5 years growth
- Variable margins have stabilised and we should see growth going forward

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Cash flow and Net Debt

Operating cash flow	H1 FY19 $M	H2 FY19 $M	H1 FY20 $M
Receipts from customers	104.7	125.1	115.6
Payments to suppliers & employees	(105.5)	(111.7)	(103.4)
Cash generated from operations	**(0.8)**	**13.5**	**12.1**
Net Interest	(0.5)	(0.9)	(1.6)
Income taxes paid	(4.3)	(1.4)	(1.9)
Net cash from/(used in) operating activities	**(5.6)**	**11.1**	**8.6**
EBITDA	*9.8*	*17.4*	*16.9*
Cash conversion rate (CCR) %	***-8%***	***78%***	**72%**

- Underlying FY20 H1 cash conversion rate is at 79% after adjusting for the cash outflows after restructuring costs
- FY20 H2 cash conversion rate targeted at over 85%
- CAPEX in H1 was $6m, and the company is well on track to keep total CAPEX below $15m for the full year

Net Debt	H1 FY19 $M	H2 FY19 $M	H1 FY20 $M
Debt	54.4	55.6	30.0
Cash	(10.5)	(15.5)	(38.6)
Net Debt/(cash)	**43.9**	**40.1**	**(8.6)**

- $25.6m of debt was repaid following the raising of net $49.7m in November 2019
- The business is sufficiently funded to execute current business objectives
- The Group's finance facilities continue to consist of a $60.0m revolving credit facility of which $30.0m is undrawn as at 31 December 2019
- The Group's Balance Sheet is well positioned to support future acquisitions with $39m cash and $30m undrawn debt

Re-affirm FY20 EBITDA Guidance

	FY20 Statutory
EBITDA ($M)	36.0 - 39.0
NPAT ($M)	10.0 - 12.0
Underlying NPAT-A ($M)	14.7 -16.7
Earning Per Share (cents)	12.5 -15.0

- EBITDA guidance includes positive impact arising from the adoption of AASB16 lease accounting standard
- NPAT guidance includes revised forecasts for restructuring costs, lower R&D Tax benefit and non-cash employee share plans and amortisation costs
- Underlying NPAT-A calculation has been revised to now only adjust for amortisation arising from acquisitions
- EPS includes impact of the 2019 equity raise and the introduction of share plans covering all MNF Group staff
- H1 EBITDA performance of $16.9m is at 47% of low range guidance. Over last 4 years company has on average achieved 44% of full year EBITDA in H1

1. EBITDA excludes restructure costs, net interest, non-cash share plan costs, tax, depreciation and amortisation. % growth in EBITDA has FY19 H1 adjusted for AASB 16 Lease accounting
2. Underlying NPAT-A & EPS-A exclude acquisition costs, amortisation of acquired customer contracts & acquired software and tax effected restructure costs only

Business overview

John Boesen, CTO

Today's software and tech giants are chasing a **$70Bn opportunity** – revolutionising how we communicate…

Microsoft Google cisco

twilio zoom dialpad

bandwidth RingCentral®

Gartner – Forecast Analysis: Unified Communications, Worldwide (January 2019) ID: G00348983
IDC – Market Analysis Perspective: Worldwide Real-Time Communications (CPaaS), 2018 Doc # US44316218
Gartner – Forecast Analysis: Contact Centers, Worldwide (April 2019) ID: G00386360

...but they are **hamstrung** by a telecom environment that is stuck in last century

Upfront CapEx — High risk ✗

Physical connectivity — Not agile ✗

Heavy regulation — Complex ✗

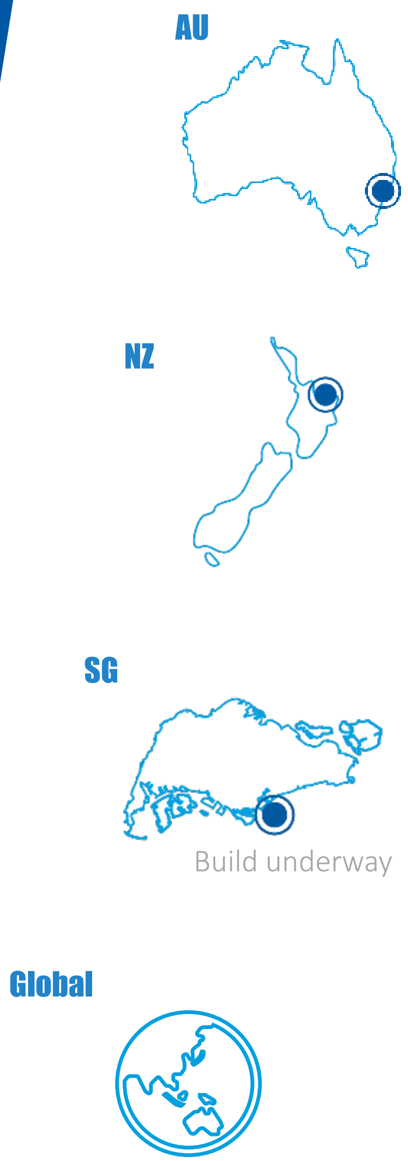
Routing complexity — Costly ✗

Porting unavailable — Can’t scale ✗

Cloud vendors want a cloud backbone that can **power** their global ambitions

- API connectivity — Agility & scale
- SaaS / OpEx — Low risk
- Fully compliant — Seamless
- VoIP network — Future-proof
- Full porting support — Growth driver
- Optimised routing — Seamless

MNF provides the cloud backbone of software and infrastructure that is key to the $70Bn communications revolution



API connectivity

Domestic PSTN

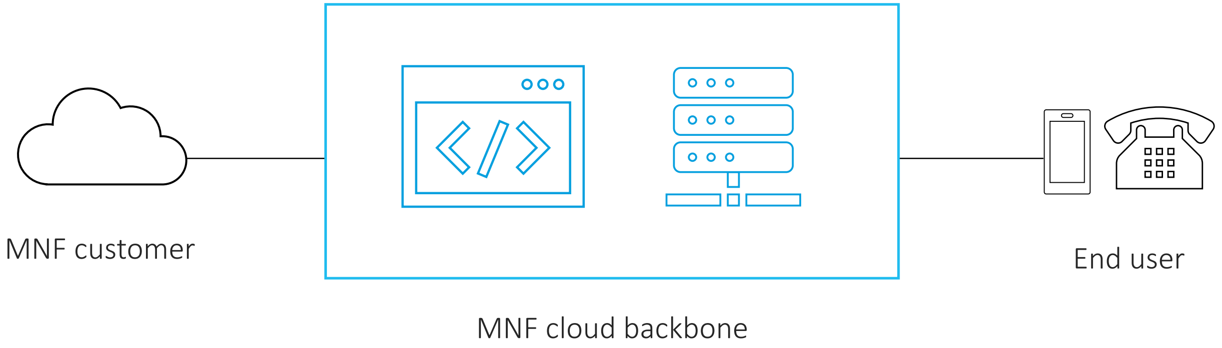
Cloud numbers

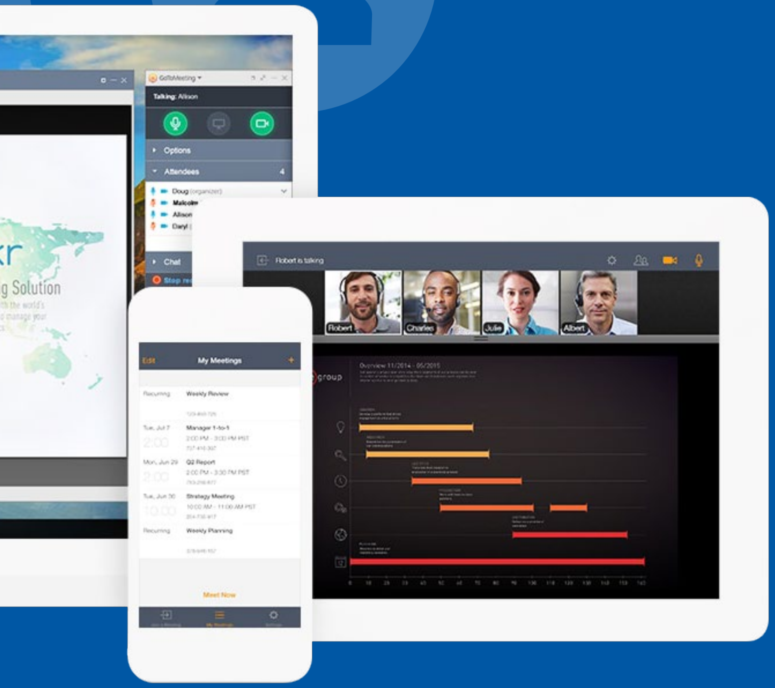
Number porting

Optimised routing

Unique differentiator

Combining **both** software **and** infrastructure solves the key challenges of carrier connectivity, scale and reliability **in one relationship**





MNF has a strong understanding of LogMeIn's (NASDAQ: LOGM) vision for cloud communications, working with our GoTo Unified Communications & Collaboration (UCC) products for nearly a decade.

They provide us with in-country capabilities optimized for the cloud in the Australian region, allowing us to focus on innovating our GoTo product suite rather than the intricacies of telecom infrastructure.

GoToMeeting by LogMeIn

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Long term opportunity

The worldwide shift to cloud communication has only just begun

Software & tech is driving rapid innovation

Legacy networks are being disconnected

Global, multi-decade transition ahead

MNF is already capturing this opportunity, and poised for multi-decade growth

MNF is the AU/NZ carrier partner of choice for leading UCaaS, CPaaS and CCaaS vendors

*Gartner – Magic Quadrant for Unified Communications as a Service, Worldwide (30 July 2019) ID G00354149

Powering experiences

MNF underpins the voice, video, messaging and telco capabilities that connect your daily life

Texting, calling and browsing at home…

…collaborating and conferencing at work…

…communicating via everyday apps and ads…

…or chatting with friends & colleagues overseas

Powering global call routing

MNF provides international voice services on behalf of leading communication providers

Fully managed by TNZI, communication providers are able to reduce toll fraud, optimise quality and control costs – without the need for global infrastructure

In partnership with:

Spark nz

Underpinned by MNF capabilities:

0800

Toll Free Numbers

Toll Fraud Detection

Call Analytics Data

Any-to-Any Connectivity

Global Calling (Routing)

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Powering secure communications

MNF provides testing and monitoring services that combat number hijacking.

Fully managed by TNZI, communication providers are able to increase margin and provide their customers with assurance of secure, reliable communications.

In partnership with:

sure.

Underpinned by MNF capabilities:

Number Testing

Fraud/Hijack Monitoring

Call Analytics Data

Any-to-Any Connectivity

Global Calling (Routing)

Powering in-app privacy

MNF underpins ‘masked numbers’ for leading CPaaS vendors and online marketplaces

Number masking enables marketplace users (such as drivers and riders) to call and text each other, using temporary numbers that protect their privacy

In partnership with:

Uber

carsales

twilio

Underpinned by MNF capabilities:

- Virtual Numbers
- Voice Calling (SIP Trunks)
- 2-Way SMS
- Any-to-Any Connectivity
- Ephemeral

Powering global collaboration

MNF underpins voice and video calling for leading UCaaS vendors and conferencing providers

Our capabilities allow software vendors to localise their products, offer full PSTN replacement and win customers away from legacy telcos

In partnership with:

Webex Teams

Microsoft Teams

zoom

RingCentral®

Underpinned by MNF capabilities:

- Virtual Numbers
- Voice Calling (SIP Trunks)
- Video Calling (SIP Trunks)
- Conferencing (SIP Trunks)
- Any-to-Any Connectivity
- Global calling (Routing)

Powering advertising & analytics

MNF underpins call analytics for major advertising networks and e-commerce companies

Our capabilities allow advertising vendors to present trackable numbers in search results, connect calls in real time and capture call data

In partnership with:

Google Ads

carsales

Underpinned by MNF capabilities:

- Virtual Numbers
- Toll Free Numbers
- Geo-Location Data
- Call Analytics Data
- Any-to-Any Connectivity

Powering smart cars & IoT

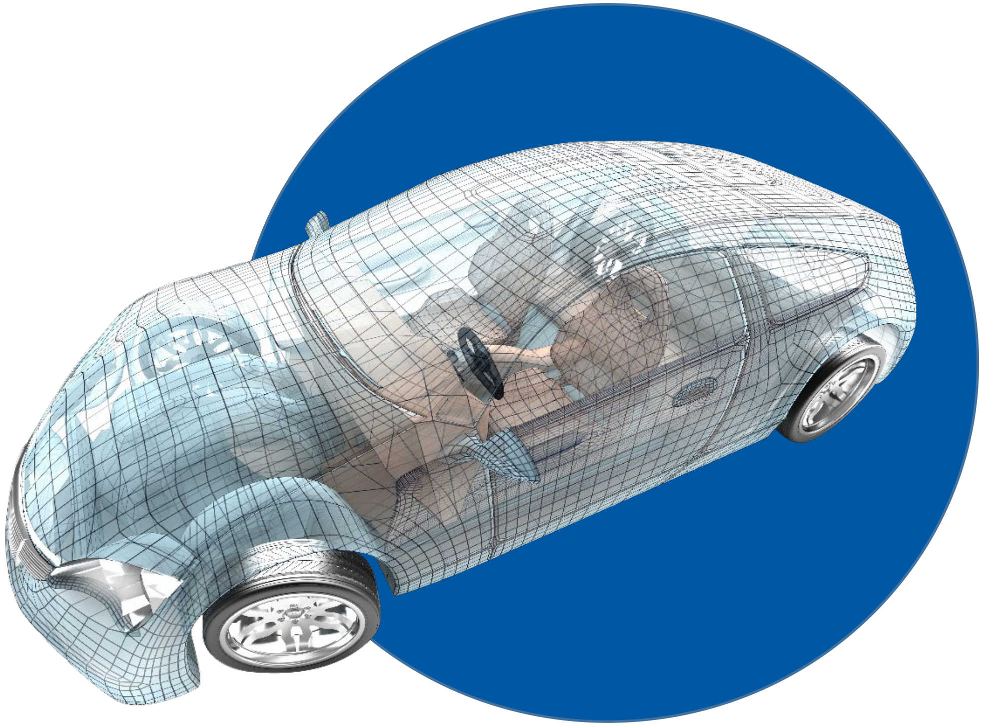
MNF underpins emergency calling systems built into prestige cars and SUVs

Our capabilities enable car makers to pinpoint drivers in distress, and seamlessly dispatch local repairers or emergency services

In partnership with:

JAGUAR

LAND ROVER



Underpinned by MNF capabilities:

- 0800 — Toll Free Numbers
- Geo-Location Data
- Call Analytics Data
- Any-to-Any Connectivity
- Global calling (Routing)

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Powering NBN calling

MNF underpins VoIP calling for NBN resellers, mobile networks and challenger telcos.

Our capabilities ensure that NBN providers can win customers that want to keep their landline numbers as they move from copper and ISDN.

In partnership with:

vodafone

Southern Phone

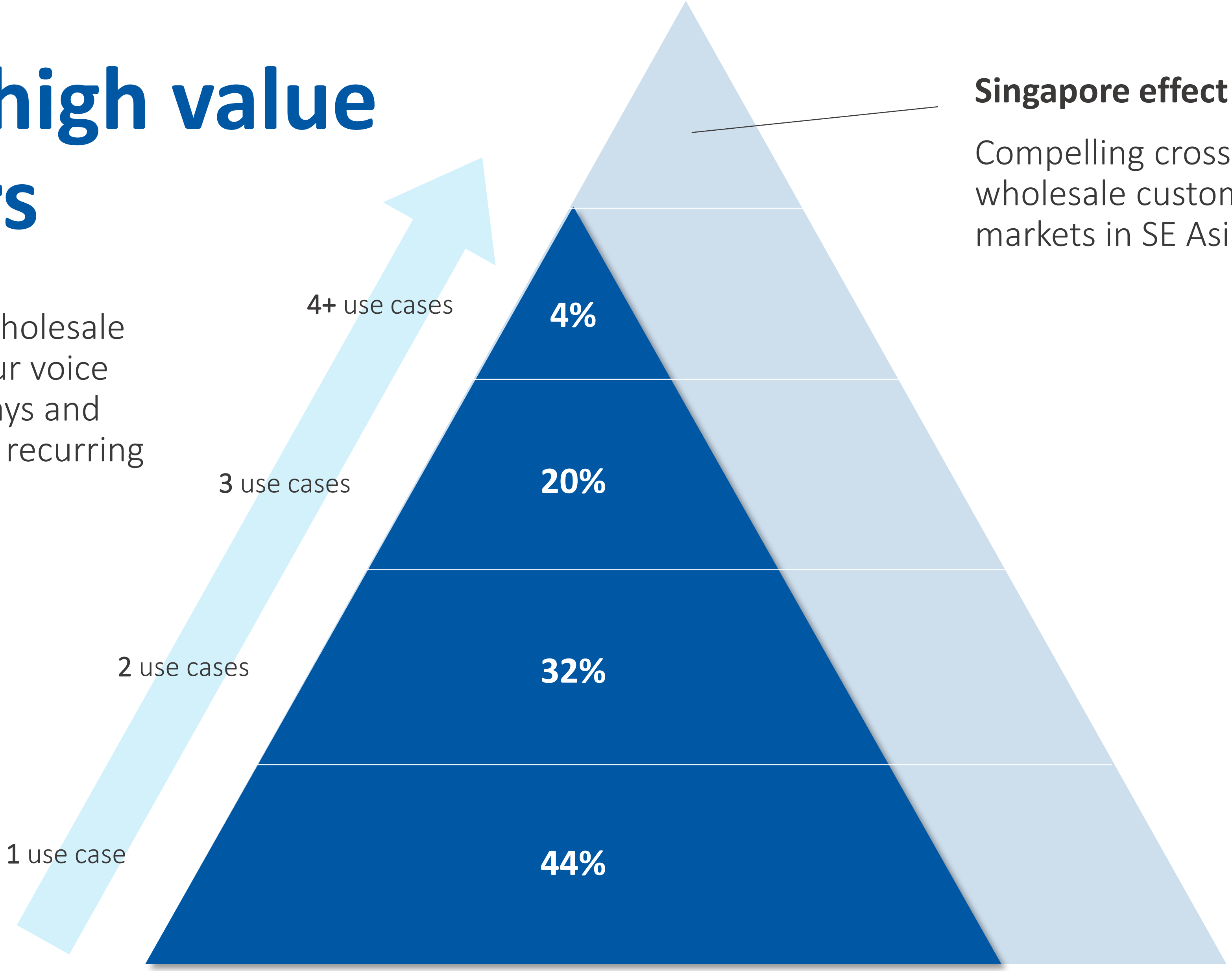
Aussie Broadband

Underpinned by MNF capabilities:

- Virtual Numbers
- Voice Calling (SIP Trunks)
- Ring on Mobile (CLI & Routing)
- IPND & 000 Compliance
- Any-to-Any Connectivity
- Global calling (Routing)

Creating high value customers

Domestic and global wholesale customers are using our voice capabilities in more ways and more regions – driving recurring revenue growth



Singapore effect

Compelling cross-sell to existing wholesale customers and a new markets in SE Asia

Source: MNF Group proprietary data (Domestic Wholesale and Global Wholesale customers in FY2020)

Strategy

South East Asia is our growth focus, and we plan to enter these immense markets over the coming years

Currently generating $8.78 EBITDA per phone number, based on circa 5% market share of Au/NZ phone numbers

Our largely software-defined network means AU capabilities can be replicated globally

AU/NZ
30M

Current TAM based on population size

650M+
AU / NZ / SG + SE Asia

SE Asian TAM based on population size

SE Asia includes: Brunei, Cambodia, Indonesia, Lao, Malaysia, Myanmar, Philippines, Thailand, Timor-Leste and Viet Nam (ex. China, India and Singapore). Sources: ABS (2019), Stats NZ (2019), Singstat (2019), UN DESA (2019)

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Snapshot

Singapore

Strategic ambition

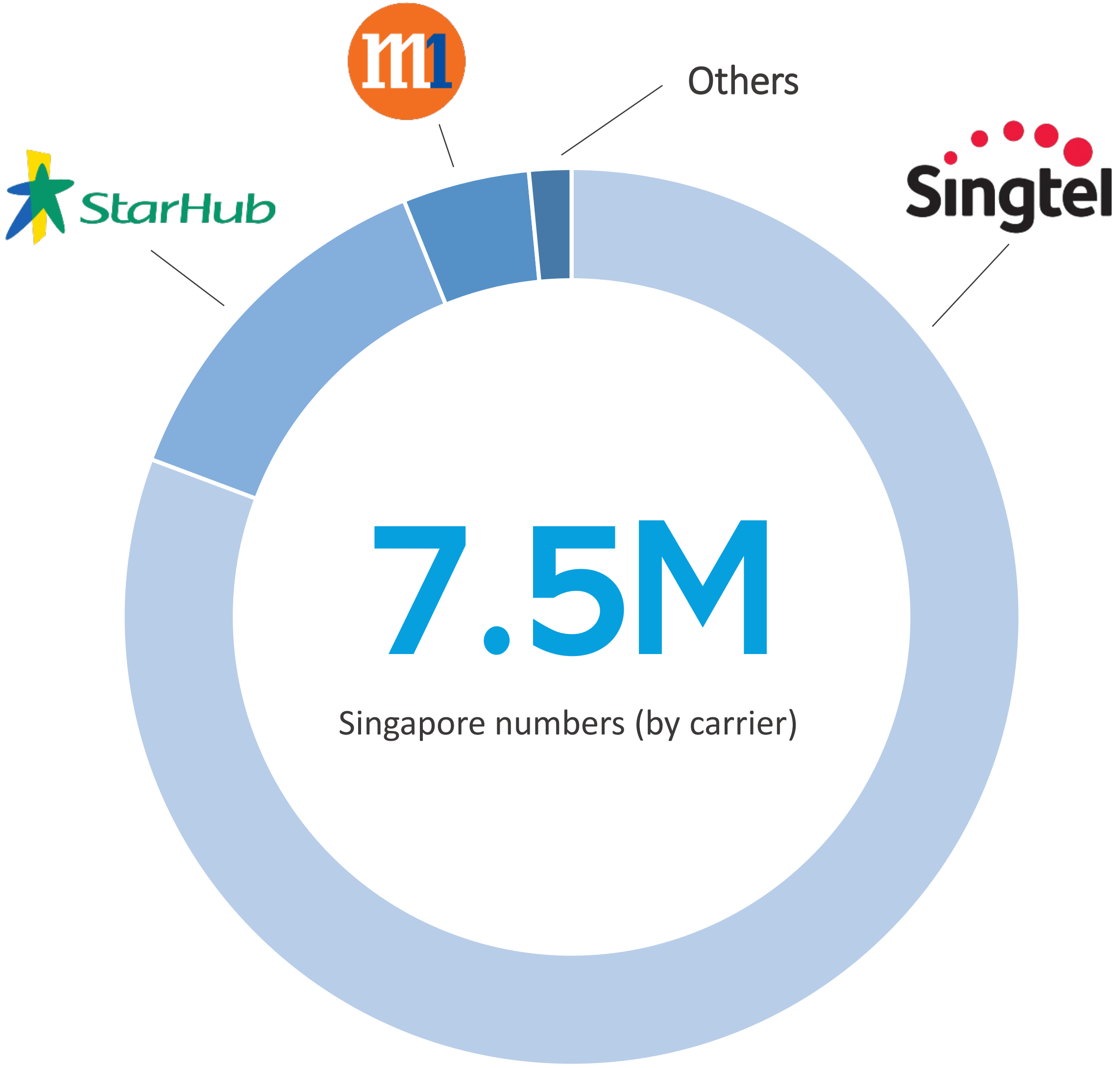
Targeting 10% market share within 5 years of network launch

Disruptor DNA

First fixed voice network to launch in Singapore since 2000

Ripe for competition

97% of fixed phone numbers carried by just 3 incumbent networks



Source: IMDA (2020), MNF Group data

Singapore network update

Strong demand

Pipeline of global customers actively looking to enter the Singapore market

Clear differentiator

MNF will offer wholesale capabilities that are not easily accessible from domestic carriers

Launch Target H1 FY21

Core infrastructure in place - awaiting final interconnect testing by domestic carriers

Our *4-dimensional* growth strategy

Geography

Expand infrastructure and presence throughout the Asia-Pacific region

Software

Expand our communications platform with new capabilities and products

Market share

Acquire new customers with targeted brands and tailored products

Wholesale partnerships

Build long term customer relationships with steady margin growth

Acquisitions

Careful strategic addition of businesses that compliment or expand our capabilities

Thank you

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Visit our new corporate website
http://mnfgroup.limited

Investor Webinar

When: Tuesday 25th February 2020

Time: 9am to 10am

Register here:
FY20 Half Year Results Registration

Glossary

- API – A set of coding standards for developers wishing to connect different bits of software.
- Copper access network – Telephone wires, cables and physical equipment connecting subscribers to a local exchange.
- CCaaS - Software that enables customer service through an in-house or outsourced contact center, delivered as-a-service via the cloud.
- CPaaS – A framework for developers to add telecom capabilities to their software, without needing to build backend infrastructure.
- MVNO – A way to provide mobile services without need to build an independant mobile network.
- Porting – The process of transferring a phone number from one telecom carrier to another.
- PSTN – The global network of phone users, encompassing every phone number in the world.
- Recurring Revenue – Revenue that is billed every month regardless of user activity, typically high margin and stable.
- SLA – The agreed standard of service reliability between a customer and a service provider.
- SIP Trunk – A way for voice and video calls to travel over VoIP networks. It is the digital equivalent of a phone line.
- Termination – The process of routing a phone call, from one telecom provider to another, until it reaches the recipient.
- Transaction Revenue – Revenue that is billed when a user makes a phone call, typically low margin and variable.
- UCaaS – Software that enables users to call, conference and message from a single interface, delivered as-a-service via the cloud.
- Virtual Number – A phone number that is operated on a VoIP network without needing an underlying phone line service.
- Virtual PBX – A business phone service, typically connecting multiple business users, delivered as-a-service via the cloud.
- VoIP – A way of turning phone calls into data that can transmitted over the internet and routed to any recipient.

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