Spirit Telecom Limited (ST1)

Financial Year 2020
H1 20 Results & Strategic Outlook

Spirit delivers High-Speed Internet and Managed IT Services to support Australian SMB's growth

26 February 2020

Financial Highlights H1 20

A simple focus: *Be Australia's leading provider of IT&T services to Small & Medium Sized Businesses (SMB's)*

Financial & Commercial summary:

- Total Sales Revenue Growth: **up 33% to $12.3M on H2 19 and 51% up on H1 19**
- Recurring Revenue: **up 25% to $10.6M on H2 19 and 41% up on H1 19**
- Underlying EBITDA: **up 27% to $1.61M on H2 19 and up 343% on H1 19**
- Operational expenses as a percentage of total revenue down from 68% in H1 19 to 59% in H1 20
- Gross profit: up 30% to $8.9M on H2 19 and up 51% on H1 19.
- NPAT loss increased by $178K on H1 19 in part due to termination payments and business restructuring costs of $378K.
- Strategy execution demonstrated with B2B revenue mix up to 77% through IT/Managed Services, Data sales, acquisitions & organic growth.
- B2B Total Contract Value (TCV) for H1 20 up 32% on H2 19 and up 83% to H1 FY19. B2B services including pending installations for H1 20 up to $9.8M (pending installation $2.7M)
- Capex to revenue ratio lower at 19% for the half, expected to be lower through the year through the expansion of less capex intensive product roll out.
- B2B average data contract length sold now at 36 months in Q2.
- Spirit X digital platform showing immediate impact to increase organic growth rate with: 5,800 service qualifications (10x increase) have been put through the platform since Dec 19.
- Balance sheet strength with CBA extending an additional circa $1M in working capital for growth initiatives on top of existing $8M facility.

Total Sales Revenue

33%
to $12.3M
on H2 19

51%
on H1 19

Recurring Revenue

25%
to $10.6M
on H2 19

41%
on H1 19

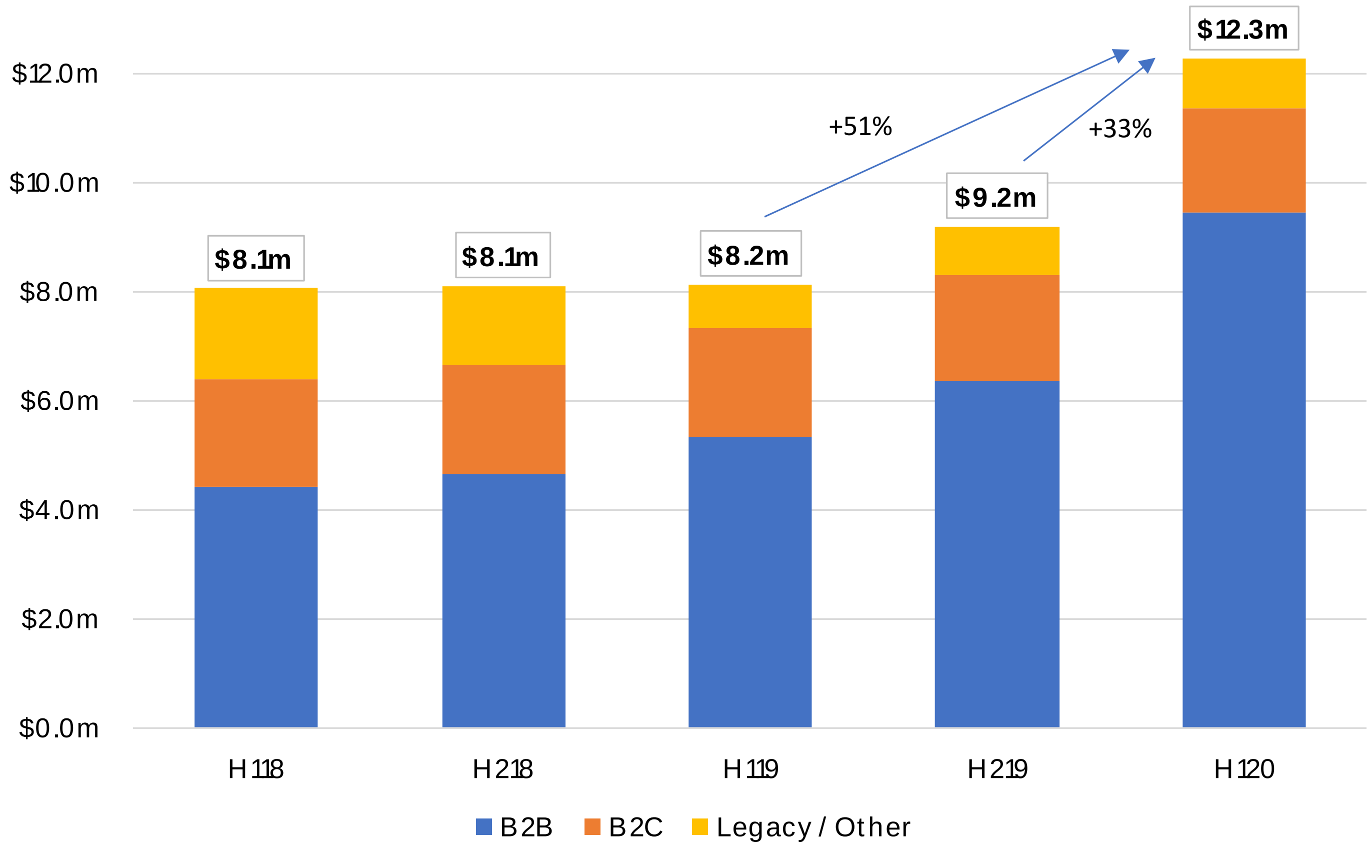
Underlying EBITDA*

27%
to $1.61M on
H2 19

343%
on H1 19

* Underlying EBITDA excludes ongoing acquisition, business restructuring cost and share based payments

Total Revenue Growth

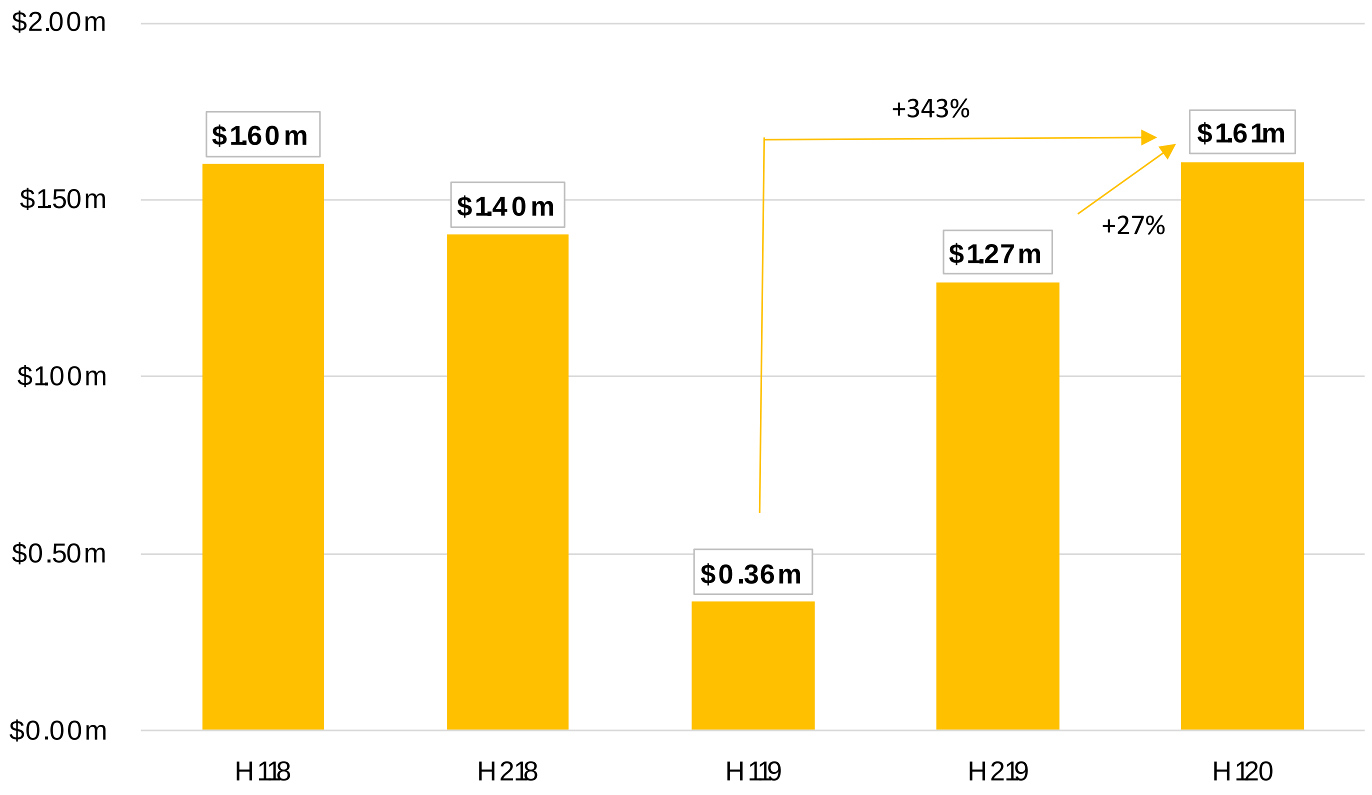


Total Revenue* up at $12.3M:

- Total revenue growth up 33% to $12.3M on previous half and up 51% to H1 19.
- B2B growth to $9.5m, up 77% on H1 19 achieved through both acquisition and cross selling products.
- Managed Service acquisitions contributed an additional $2.1m in accretive revenue for the half.
- B2C segment (residential) contribution remains steady at $1.9m.

* Total Sales Revenue includes all recurring and non-recurring revenue.
** NBN Business and Residential customers have been recategorized to B2B and B2C from Legacy / Other since the Q1 update.

Underlying EBITDA Growth

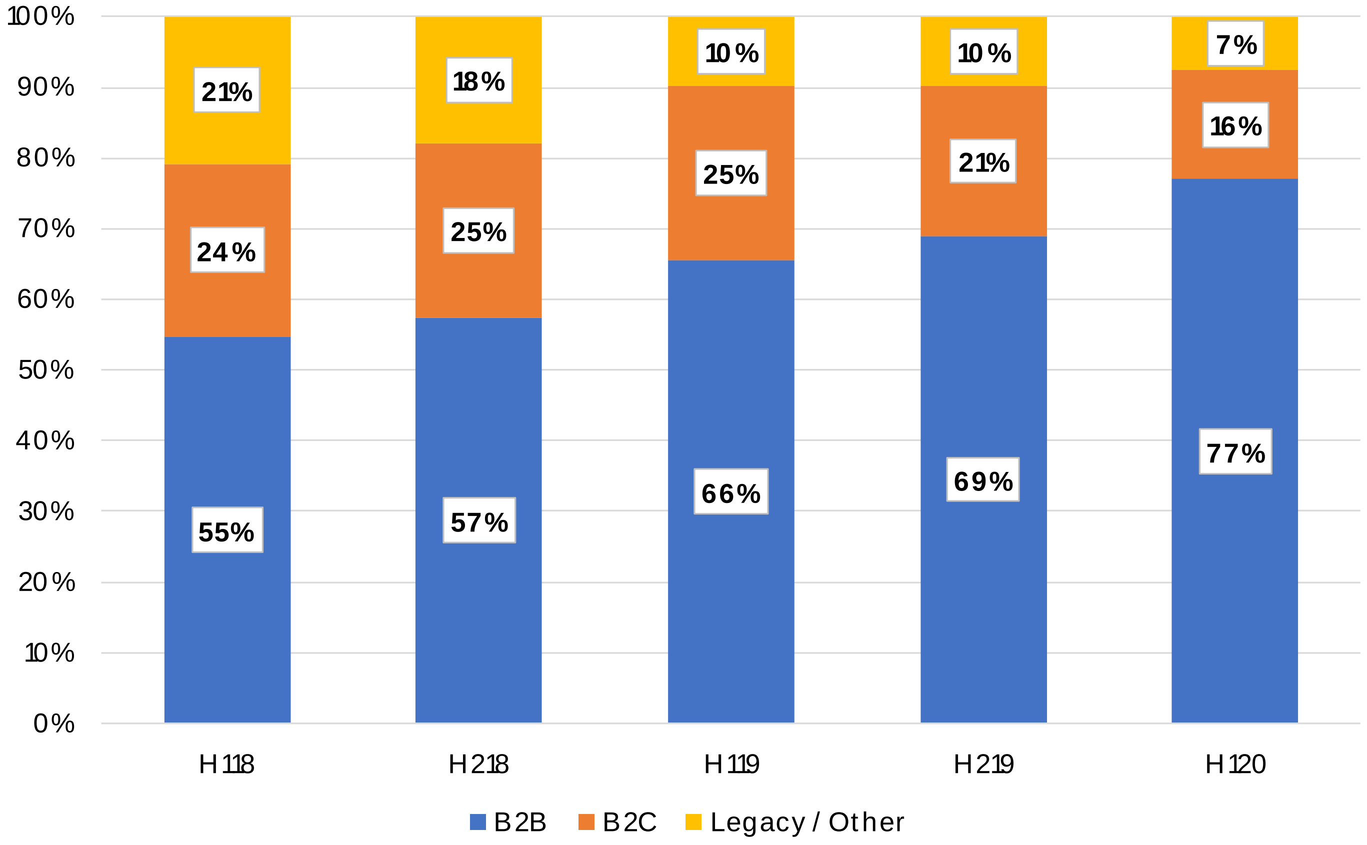


Underlying EBITDA up at $1.61M:

- Underlying EBITDA growth up 27% to $1.61M on previous half and up 343% to H1 19.
- Revenue growth, margin stability and stringent control of cost base during M&A integration delivering EBITDA growth.
- Operational expenses as a percentage of total revenue decreased from 68% in H1 19 to 59% in H1 20.

Underlying EBITDA excludes ongoing acquisition activity, business restructuring costs and share based payments

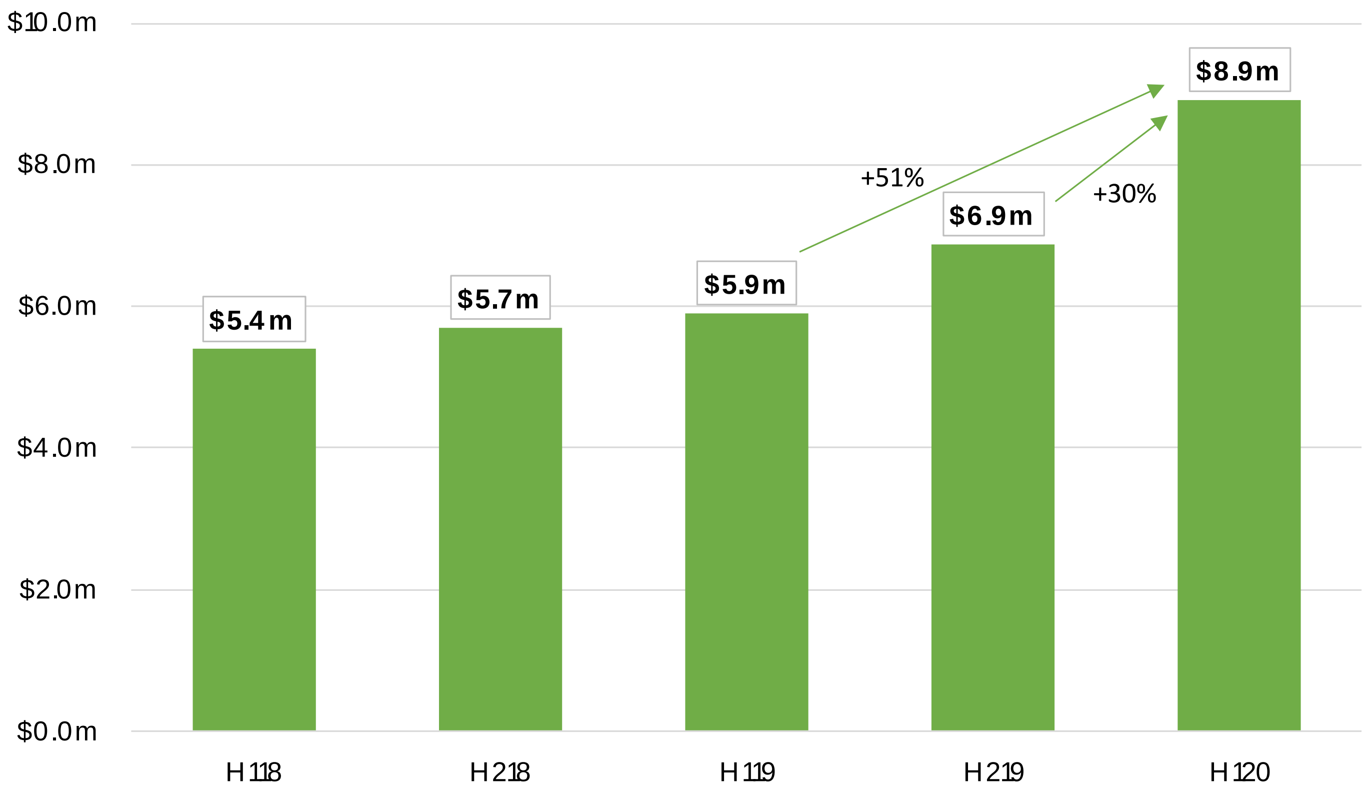
Total Revenue Mix



B2B and IT/Managed Services focus for continued growth:

- B2B Mix % uplift to 77% through IT/Managed Services, Data acquisition & organic growth.
- IT/Managed Services bundles and cross sell will further drive growth through higher ARPU, a lower capex cost base and increase in sales conversions.
- The revenue mix now maximises fixed wireless services with over the top Managed Services revenue when bundled with on-net/Internet/Data services.
- Additional MSP B2B revenue streams are also defensive against legacy products which are migrating to new Data and VOIP products.

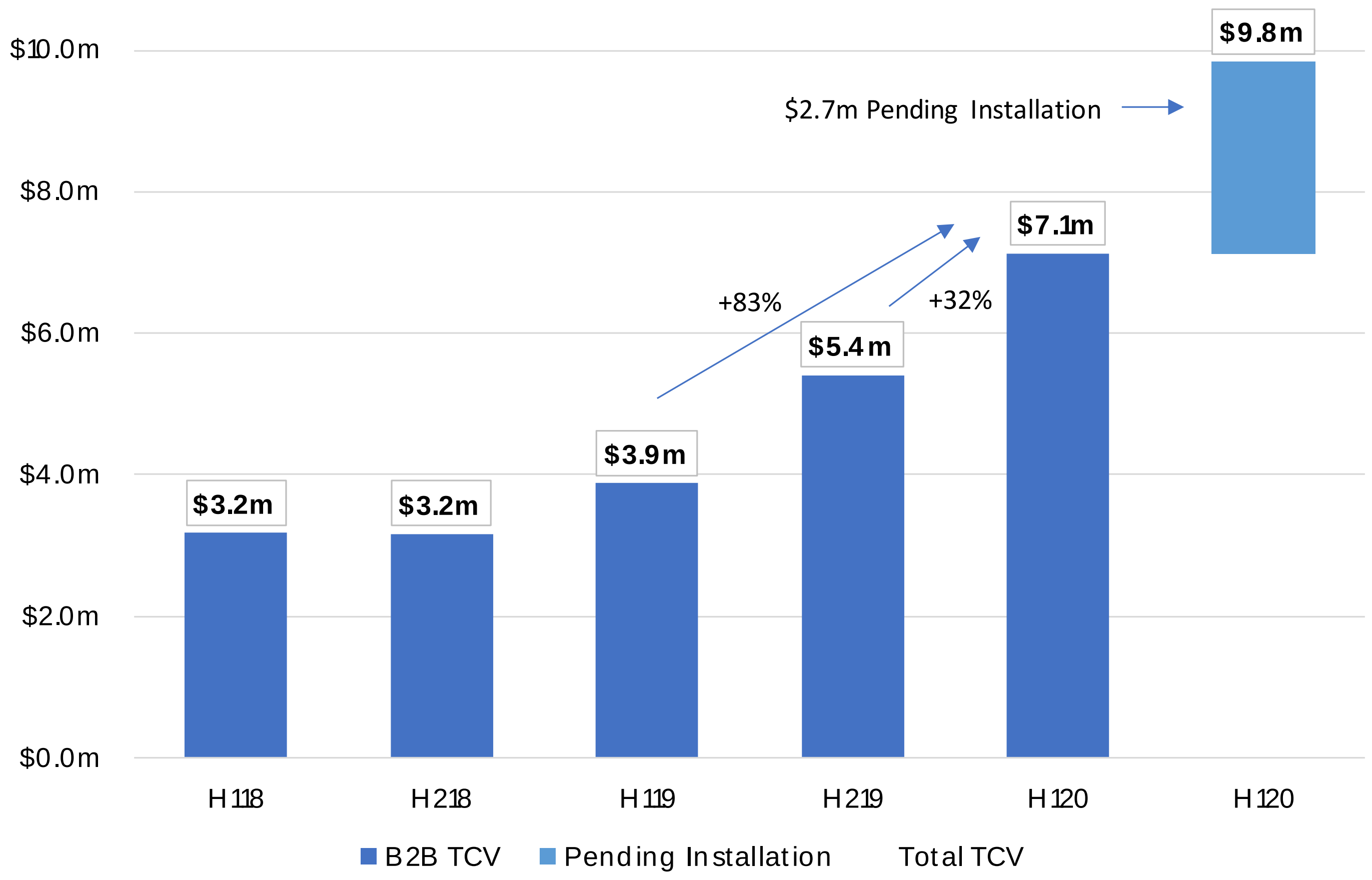
Gross Profit Growth



Gross Profit up at $8.9M:

- Gross profit growth up 30% to $8.9M on previous half and up 51% to H1 19.
- Gross profit margin at 72% even with new MSP product mix flowing though the business.

B2B Total Contract Value (TCV)

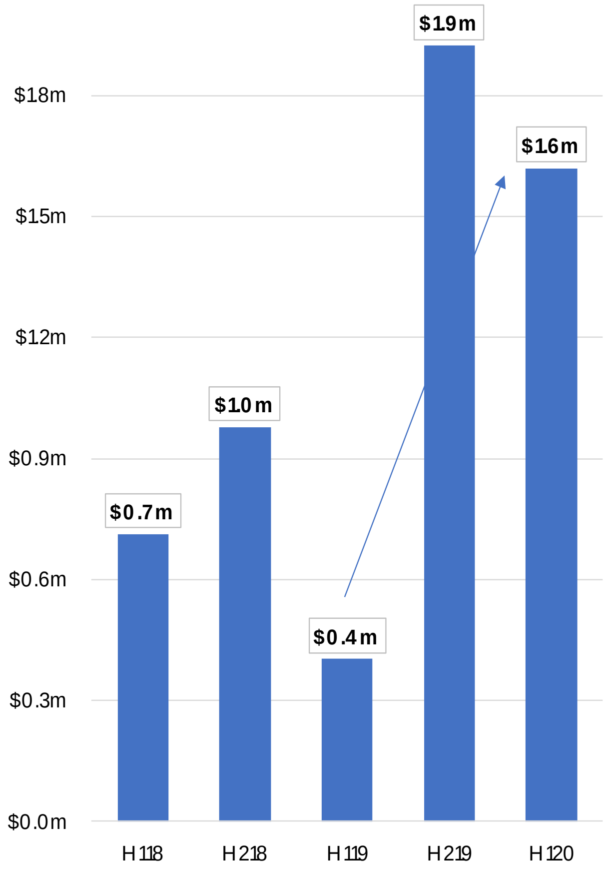


TCV uplift to $7.1m excluding pending installations:

- B2B TCV* for the half up 32% on previous half and 83% on H1 19.
- Total Data & IT services including pending installations for H1 20 up to $9.8M (pending $2.7M).
- Uplift driven through B2B telco sales and Managed Services whilst maintaining ARPU value and average contract length.

* B2B TCV incorporates recurring revenue across data, voice and managed service contracts.

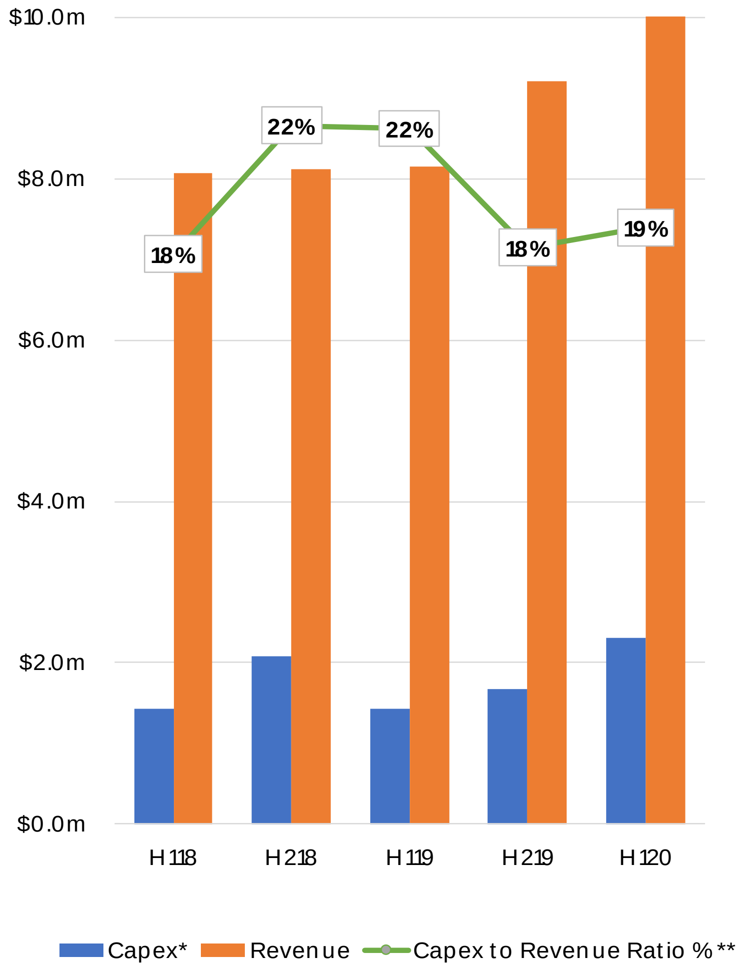
Operating Cash and Capex



Operating Cash at $1.6M, +300% on H1 19.

Capex* movements across quarters through network integration and upgrades:

- Capex ratio to revenue is 19% for the half reflecting lower capex cost** and revenue growth through Managed Services.
- Spirit X channel will continue to lower capex % as the business migrates to a more diversified product mix.
- Capex growth reflects expansion of investment in network integrations to support growth in core revenue (NSW expansion).
- Capex percentage may also fluctuate as new Fixed Wireless PoP's go online in high demand geographies like Sydney.



* Capex adjusted for government funded projects and IT Capex.

** Calculated on a rolling 12 month basis. .

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Profit and Loss

$'000s	H1 19	H1 20	% Var
B2B	4,849	8,017	**65%**
B2C	1,876	1,860	(1%)
Legacy / Other	741	681	(8%)
Total Recurring	**7,466**	**10,558**	**41%**
Non-Recurring	687	1,740	153%
Total Sales Revenue	8,153	12,298	51%
Interest & Other Income	51	159	211%
Total Revenue & Other Income	**8,204**	**12,457**	**52%**
Gross Profit *	**5,961**	**8,918**	**50%**
Gross Profit %	72.8%	72.5%	(0.3%)
Operating Expenses	(5,599)	(7,311)	(31%)
Underlying EBITDA	**362**	**1,607**	**343%**
Underlying EBITDA %	4.4%	12.9%	8.5%
Acquisition & Integration Costs	(35)	(165)	(371%)
Business restructuring costs	0	(378)	(100%)
Share Based Payments	(68)	(261)	(284%)
EBITDA	**259**	**803**	**210%**
Finance costs	(139)	(165)	(19%)
Depreciation & Amortisation	(819)	(1,567)	(91%)
Tax	137	189	38%
NPAT	**(562)**	**(740)**	**(32%)**

- B2B recurring revenue up 65% to $12.5M inclusive of Spirit IT&T.
- Non-recurring revenue growth up 153% to $1.74M.
- Underlying EBITDA +343% with a return improvement of +8.5%.
- Operational expenses as a percentage of total revenue decreased from 68% in H1 19 to 58% in H1 20.
- NPAT loss increased by $178K on H1 19 in part due to termination payments and business restructuring costs of $378K.
- Recent acquisitions will grow Revenue & EBITDA throughout FY 21.

* Gross Profit calculated on Statutory Revenue

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ST1 Accelerated Growth Plan 2020-21

A simple focus: *Be Australia's leading provider of IT&T services to Small & Medium Sized Businesses (SMB's)*

- Current BAU Revenue > $60M
- Business units & leadership team established
- Spirit X platform provides for unlimited growth in organic sales across 100,000 addresses

Organic

1. Launch Trident IT Solutions products nationally.
2. National marketing launch of Spirit IT&T bundles.
3. 300 active partners & resellers in Spirit X by Dec 20.
4. Identify $1.5M in additional Opex synergies across acquisitions.

2020-21 ST1 target

1. Build scale via Organic + M&A.
2. $80M Revenue target by Dec 20.
3. Cash flow positive after capex through Q4 FY20 – Q1 FY21

M&A

- Additional acquisition targets identified.
- At DD & negotiation stages.
- Current acquisition targets identified; have >$65M in annuity based revenue & circa $10M in EBITDA.

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Expanded Products & Business Model 2020-21

Spirit

New acquired division

Spirit X

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Revenue FY20
$26M

- A leading B2B Internet / Telco marketplace and aggregator.
- +100,000 addresses service qualified in seconds and ready for resell (B2B Internet services).
- For wholesale, resellers and direct to business.
- 3 clicks to buy.
- IP owned & developed in-house.

- High-speed Internet & Managed IT Services.
- Product bundles.
- Small-to-Medium Businesses.
- Monthly ARPU range $600-$1200.

Trident IT Solutions

Revenue FY20
$34M

- Managed IT Services.
- Complex IT Solutions.
- Medium sized businesses.
- High growth verticals: Health, Education and Aged Care.
- Data & IoT hungry verticals.
- Monthly ARPU's of $20K-$40K.

Trident Acquisition Rationale & Update

Spirit Telecom Limited (ST1) has completed its *largest* and most *strategically critical* acquisition to date with the purchase of Trident Business Group (TBG) in February 2020:

- Trident and Neptune generate combined FY19 revenues of $34M.
- Management estimated EBITDA, including synergies of approximately $1.8 -$2M for FY21.
- Combined Spirit & TBG revenues of >$60M.
- Trident Business Group specialises in IT solutions for larger Medium sized organisations such as ***Schools, Hospitals and Aged Care verticals***:
    - SMB total market = 2.1M# active businesses (Spirit IT&T)
    - IT&T education market = $2.8 billion*
    - IT&T health care market = $3.0 billion*
- The transaction is transformational and allows Spirit to cross-sell the Trident IT solutions, accompanied by the cloud, security and MSP products across its Spirit X platform nationally.
- Additionally, the transaction allows Trident to resell Spirit's high-speed data products to its existing and future client base.
- The acquisition will see Spirit create a new business division, ***Trident IT Solutions*** that complements the Company's existing strategy.
- The total consideration for the transaction is up to $6.9 million made up of 70% base consideration and 30% earnout. The transaction is split 75% cash and 25% in ST1 equity. Cash component will be paid from a mix of cash reserves and the existing CBA debt facility.

** Source: Gartner -* https://www.gartner.com/en/newsroom/press-releases/2019-10-28-gartner-forecasts-australian-banking-and-securities-i
\# ABS - https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1516/Count

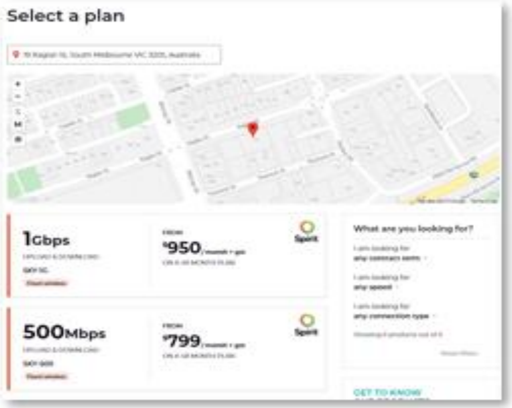
Transaction Rationale: Market Size, Scale & Demand

SMB target markets are large and moving through structural IT&T change that require high-speed data, security and cloud applications. No one provider dominates the space providing Spirit with significant category ownership opportunity:

- SMB market = 2.5M# active businesses (Spirit IT&T), IT&T education market = $2.8 billion* IT&T health care market = $3.0 billion*.
- Trident & Neptune acquisitions provides immediate mid-large market access diversifying revenues to $60M.
- National reach with recent TBG & Cloud BT acquisitions.
- With the recent acquisition of TBG (Melbourne) & CBT (Sydney) Spirit can now sell its Data & IT bundles nationally.

SpiritX

Largest Telco digital reseller platform across 100,000 addresses – direct & partner



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Target Maket | **Small & Medium Business**

Trident IT Solutions

Target Market | **Key Verticals: Schools, Hospital, Aged Care & Hospitality**

- *Source: Gartner -* https://www.gartner.com/en/newsroom/press-releases/2019-10-28-gartner-forecasts-australian-banking-and-securities-i
- #ABS https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1516/Count

Spirit X Update

The Telecommunications Industry is in need of modernising with Spirit X the digital platform spearheading the advance

Digital marketplace: Many providers and many partners in one place

Simplified interface and selection process: Designed for commodity selling

National scalability: Expandable via API interface, both in and out

Market intelligence: Spirit sits at the centre and the data flows through us

Capital mix: Lower capex intensive product mix

More products: Allows offering of expanded services as a bolt-on to Internet Services

Market scale and reach
(nationwide, any channel)

Less infrastructure, more scalable business
(higher revenues, greater profitability)

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Spirit X update: Growth Stats

Spirit X platform showing material gains in the 7 weeks since launch

Product & Usage:

- **5,800** service qualifications (10x increase) have been put through the platform since Dec 19.
- Spirit high speed network being sold in platform with additional coverage across circa **18,000** commercial buildings.
- In metro areas (sourced from seven Telco providers which include Vocus, TPG, OptiComm & Optus).
- Over **37** unique types of high-speed data product types.
- Now **100,000** addresses and **7** networks are searched in less than ***1 second.***

Resellers & Usage up:

- 150 resellers up 30**.**
- Of the 150 there are 172 unique user accounts.
- 65% wholesale accounts, 35% reseller accounts.
- Public visitors were up 98% between December to January.
- Average time spent 1.35 minutes searching for products.

Forward Outlook Growth H2 & FY21

Financial & Strategic: *scale & grow B2B revenues to $80M by CY20*

- Scale via M&A + Organic growth through Spirit X platform to $80M revenue at end of CY 2020.
- Continue to scale Spirit to achieve cash flow positive position (after capex) through Q4 FY 20 – Q1 FY 21 (Sydney network build completed).
- Continue to aggressively streamline Opex & Capex in FY20 Q4 & FY21 once revenue range >$80M.
- Maximise synergies in recent acquisition though FY20 Q4 & FY21.
- Review consumer portfolio assets for possible divestment with capital re-allocated to additional B2B acquisitions.

M&A: *continue aggressive acquisition cadence*

- Current acquisition targets identified; have >$65M in annuity based revenue & circa $10M in EBITDA.
- Additional acquisitions targets identified nationally.
- At DD & negotiation stages across multiple acquisitions.

Organic Growth: *Spirit X expansion & launch of national product bundles from acquired assets*

- 300 active partners & resellers in Spirit X by Dec 20.
- Launch Trident IT Solutions products nationally.
- National marketing launch of Spirit IT&T bundles.

Scale

M&A + Organic growth to $80M revenue target at end of CY 2020

M&A

New acquisition targets have >$65M in annuity based revenue & $10M in EBITDA

Organic

Spirit X expansion & launch of national product bundles from acquisitions to 300 partners

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