

Spirit Telecom Limited (ASX:ST1)

Spirit delivers high speed Internet & Managed IT services to support Australian SMB's & Essential industries.

Capital Raising Presentation

15 April 2020

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Executive Summary

Capital Raising	<ul style="list-style-type: none"> • Placement to sophisticated and professional investors of 83.3 million shares at \$0.11 per share to raise approximately \$9.2 million <ul style="list-style-type: none"> • Tranche 1: Unconditional placement of 78.8m shares to raise approximately \$8.7m • Tranche 2: Conditional placement of 4.5m shares (for Directors / Employees) to raise approximately \$0.5m • Funds raised will be used to strengthen Spirit's balance sheet in order to capitalise on potential acquisition opportunities, fund general working capital and costs of the offer
M&A Strategy Update	<ul style="list-style-type: none"> • Spirit is quickly becoming a leading provider of high speed Internet & IT / MSP services to SMB's and essential industries such as Hospitals, Schools, Aged Care and Government • Over the last 12 months Spirit has completed and successfully integrated 6 acquisitions in the Telco & IT Services segment • The rapidly changing environment that is being caused by the COVID-19 virus presents Spirit with a unique opportunity to drive an accelerated growth agenda through M&A • Spirit will continue its disciplined approach to transaction structures: <ul style="list-style-type: none"> • Mix of cash and scrip consideration; • Earn out structures; • Escrow of scrip consideration; and • Immediately EPS accretive for Spirit shareholders. • Currently assessing opportunities that range in size from revenues of approx. \$3.0 million to >\$30.0 million • The Company currently has 2 potential acquisitions in advanced Due Diligence
Strategic Rationale	<ul style="list-style-type: none"> • Accelerate growth via acquisitions that have a strategic fit with existing business units / customer verticals • Significant cross sell and operating expense synergies • Immediately EPS accretive for Spirit shareholders

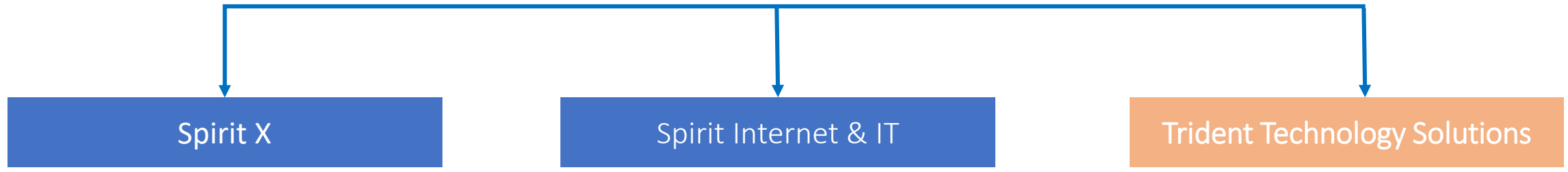
Spirit Update

April 2020

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Business Overview



Current Revenue Run Rate : approx. \$60M

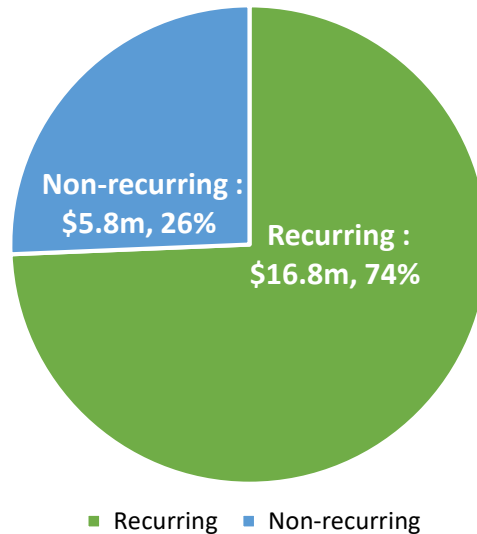
- A leading B2B Internet / Telco marketplace and aggregator
- +100,000 addresses service qualified in seconds and ready for resell (B2B Internet services)
- For wholesale, resellers and direct to business.
- 3 clicks to buy
- IP owned & developed in-house

- High-speed Internet & Managed IT Services
- Product bundles
- Small-to-Medium Businesses
- Monthly ARPU range \$600-\$1,200

- 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

Defensive Portfolio with Upside during COVID-19

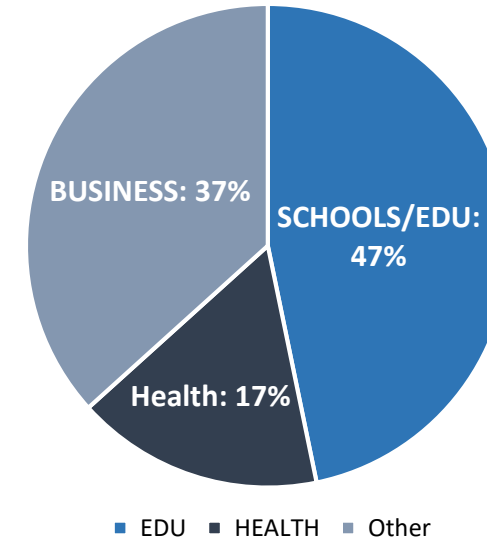
Revenue Mix by Revenue Type



Revenue Mix:

- Recurring & non-recurring revenue split for the FY20 financial year to 31 March (unaudited)
- Includes two (2) months of trading for Cloud Based Technologies and Trident & Neptune Group (acquired in Jan-Feb 20)

B2B Revenue Mix by Key Sector

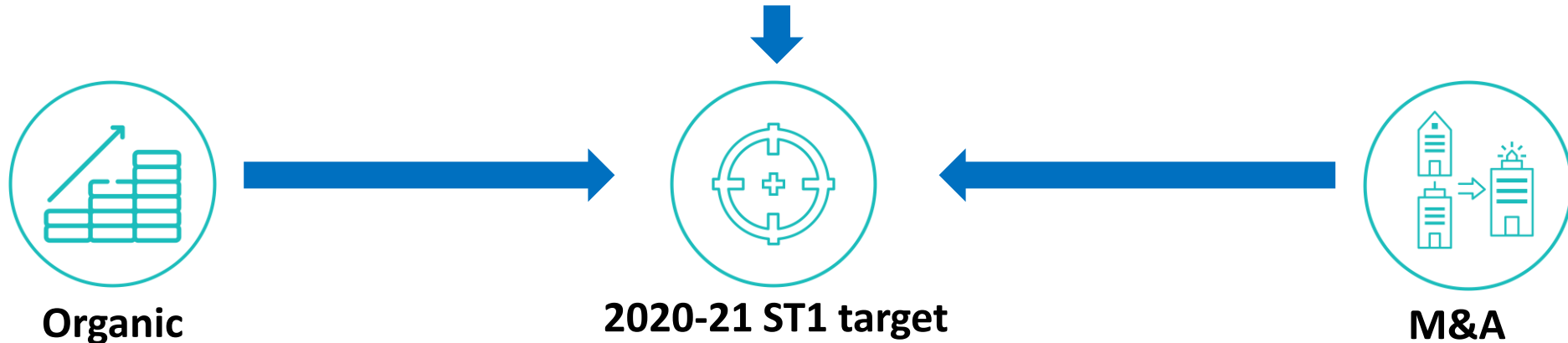


B2B revenue analysis by key industry segments:

- Prepared on the basis of Trident Group revenue contribution from 1 July to give a more representative view of the current business composition
- Note: Trident & Neptune Group only consolidated in the Spirit Group effective 1 February 2020
- Key sectors of Education and Health resilient to market conditions
- B2B sector ~2,500 customers with no single concentration > 5%

Growth Strategy Update

- **BAU revenue run-rate > \$60M plus**
- Business units & leadership team established
- Spirit X platform provides for unlimited growth in organic sales across 100,000 addresses



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

1. Build scale via organic + M&A
2. \$100M Revenue target by Dec 21
3. 15% Normalised EBITDA (before M&A costs)

1. Multiple acquisition targets identified
2. At DD & negotiation stages
3. Current acquisition targets identified; revenue opportunities from \$3.0m to >\$30m in revenue

M&A Strategy Update

- Spirit is quickly becoming a leading provider of high speed Internet & IT / MSP services to SMB's and essential industries such as Hospitals, Schools, Aged Care and Government
- Over the last 12 months Spirit has completed and successfully integrated 6 acquisitions in the Telco & IT Services segment
- The rapidly changing environment that is being caused by the Covid-19 virus presents Spirit with a unique opportunity to drive an accelerated growth agenda through M&A
- Additional balance sheet strength provided by the Offer, together with \$3.0 million increased capacity via bank facilities will allow Spirit to capitalise on opportunities that arise and that are qualified through well established DD processes
- Spirit will critically evaluate opportunities in line with its existing SMB strategy and verticals
- Spirit's is currently focussed on acquiring cashflow positive businesses that have a core customer base with a low probability of customer default (eg education, healthcare verticals)
- Spirit will continue its disciplined approach to transaction structures:
 - Mix of cash and scrip consideration;
 - Earn out structures;
 - Escrow of scrip consideration; and
 - Immediately EPS accretive for Spirit shareholders.
- Currently assessing opportunities that range in size from revenues of approx. \$3.0 million to >\$30.0 million
- The Company currently has 2 potential acquisitions in advanced Due Diligence.

Forward Outlook Growth H2 & FY21

Financial & Strategic: *scale & grow B2B revenues to \$80 million revenue run-rate by end CY2020*

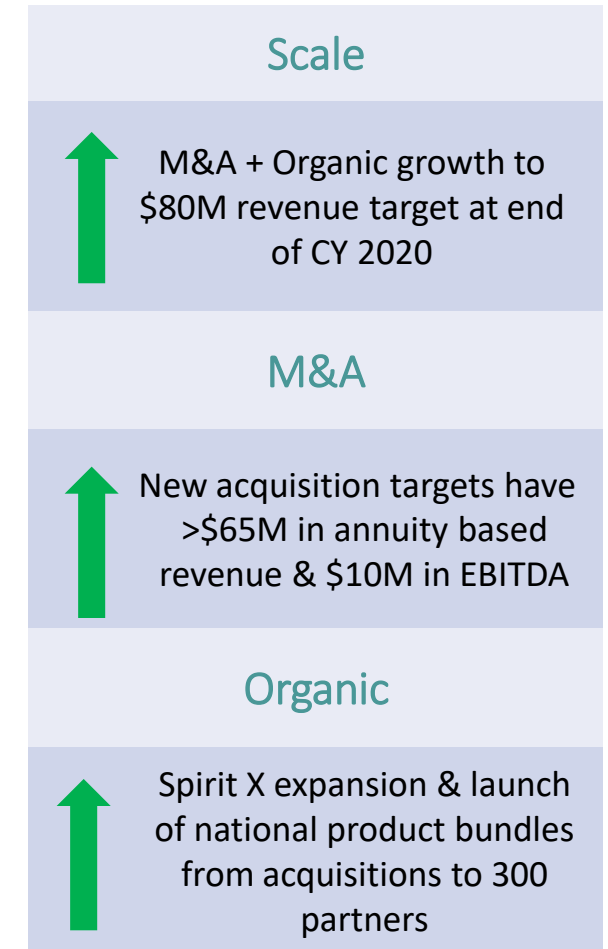
- Scale via M&A + Organic growth through Spirit X platform to \$80 million run-rate by end CY2020
- Continue to scale Spirit to achieve cash flow positive position (after capex) through Q4 FY 20 – Q1 FY 21 (Sydney network build completed)
- Continue to aggressively streamline Opex & Capex in FY20 Q4 & 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*

- Currently assessing opportunities that range in size from revenues of approx. \$3.0 million to >\$30.0 million
- The Company currently has 2 potential acquisitions in advanced Due Diligence

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



Details of the Offer

April 2020

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Details of the Offer

Structure	<ul style="list-style-type: none">• Placement to sophisticated and professional investors of 83.3 million shares at \$0.11 per share to raise approximately \$9.2 million<ul style="list-style-type: none">• Tranche 1: Unconditional placement of 78.8m shares to raise approximately \$8.7m• Tranche 2: Conditional placement of 4.5m shares to raise approximately \$0.5m• Tranche 2 is expected to include Director / Employee participation subject to Shareholder approval
Offer price	<ul style="list-style-type: none">• Issue price of \$0.11 per new Spirit Telecom share under the placement (“Placement Price”)• Represents:<ul style="list-style-type: none">• 21.4% discount to last traded price of \$0.140 at 8 April 2020• 19.3% discount to 5 day VWAP of \$0.136 at 8 April 2020
Ranking	<ul style="list-style-type: none">• New shares will rank equally with existing shares on issue
Use of Funds	<ul style="list-style-type: none">• Strengthen the Company’s balance sheet in order to take advantage of potential acquisition opportunities• General working capital• Costs of the Offer
Lead Manager	<ul style="list-style-type: none">• Shaw and Partners is acting as Lead Manager to the Placement

Timetable

Indicative Placement timetable	Date
Trading Halt lifted and Placement announcement	9:00am Wednesday, 15 April 2020
Unconditional Settlement (New Shares under the Offer)	Friday, 17 April 2020
Allotment and Issue of New Shares under the Offer	Monday, 20 April 2020
Normal trading commences (New Shares)	Tuesday, 21 April 2020
Company EGM to be held	Thursday, 28 May 2020
Conditional Settlement (New Shares under the Offer)	Friday, 29 May 2020
Allotment and Issue of New Shares under the Offer	Monday, 1 June 2020

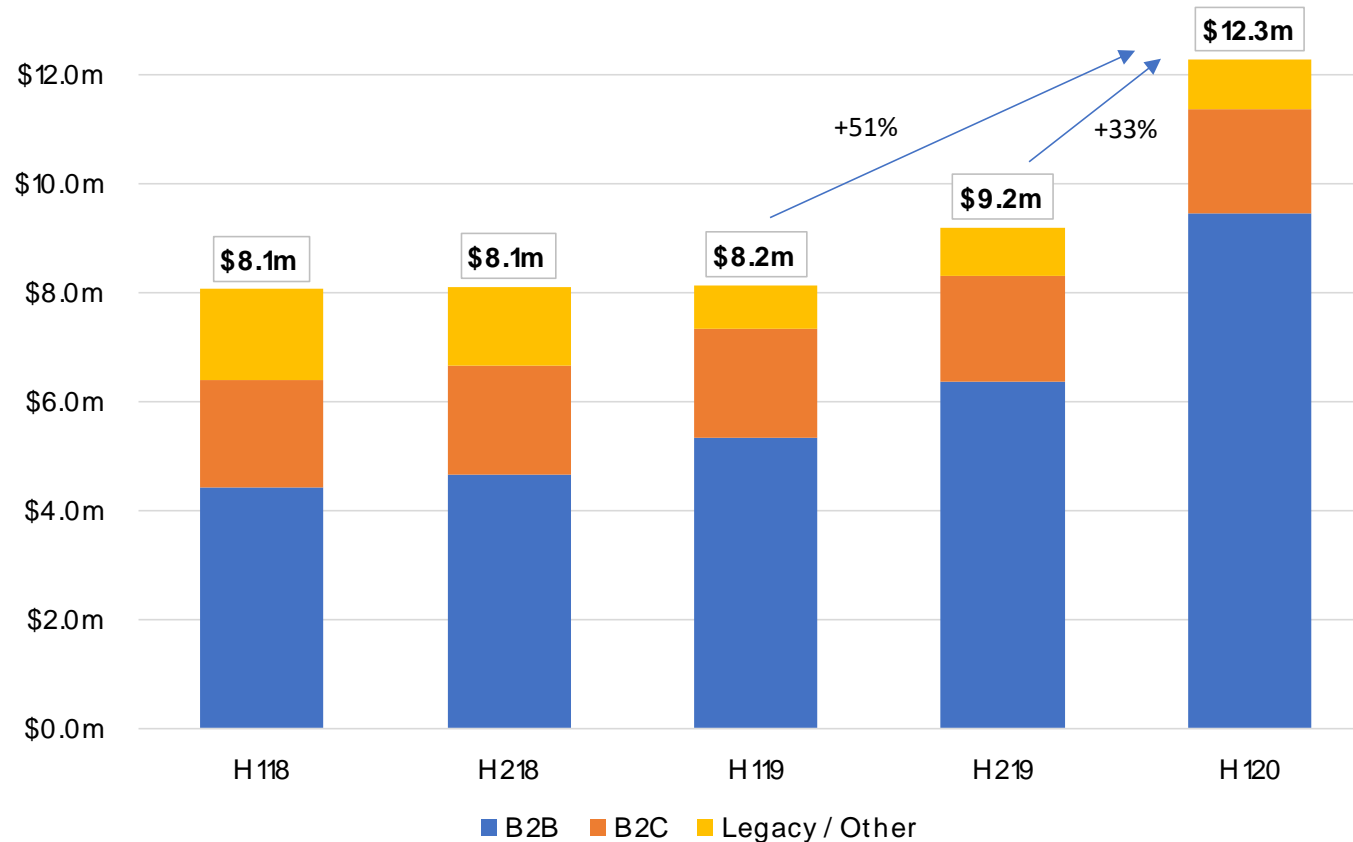
Appendix A : 1H FY20 Results

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Total Revenue Growth



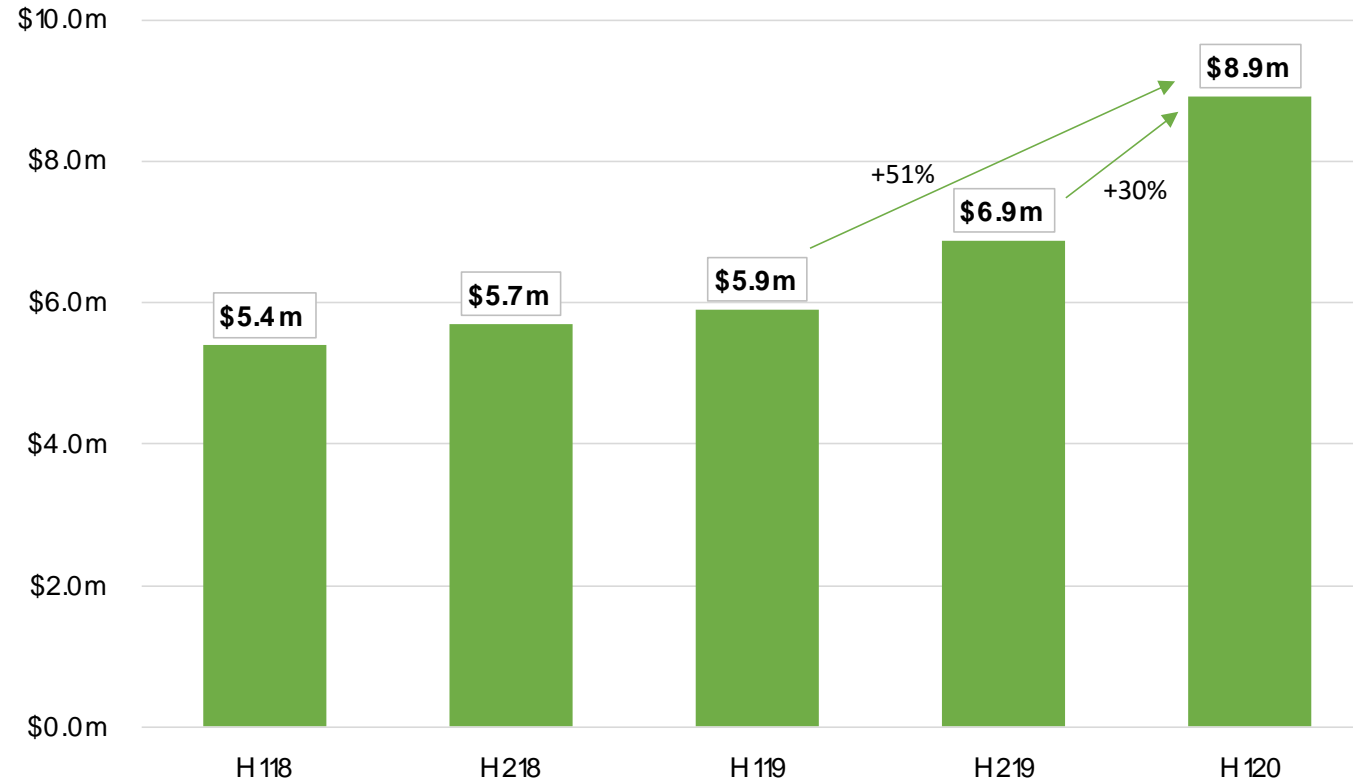
Total Revenue* up at \$12.3M:

- 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.

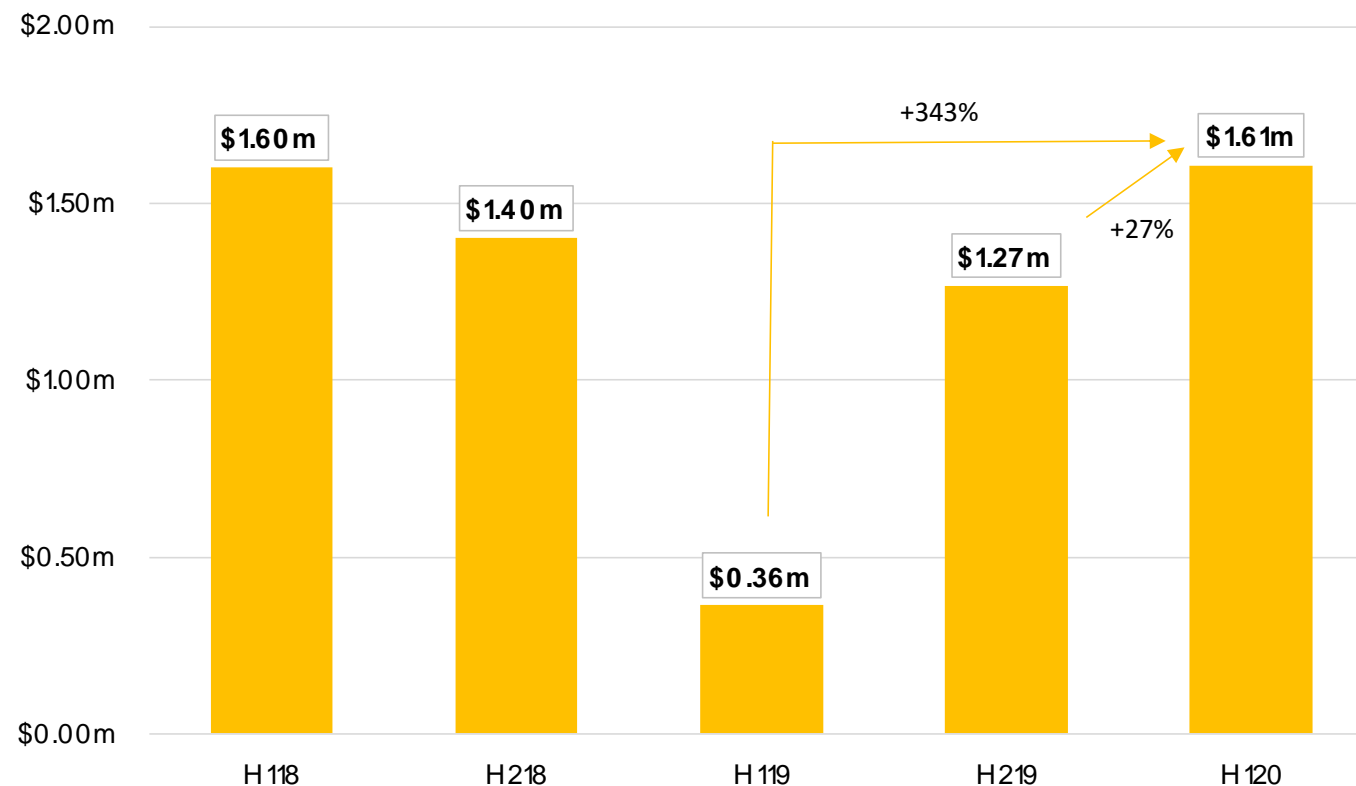
Gross Profit Growth



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 through the business.

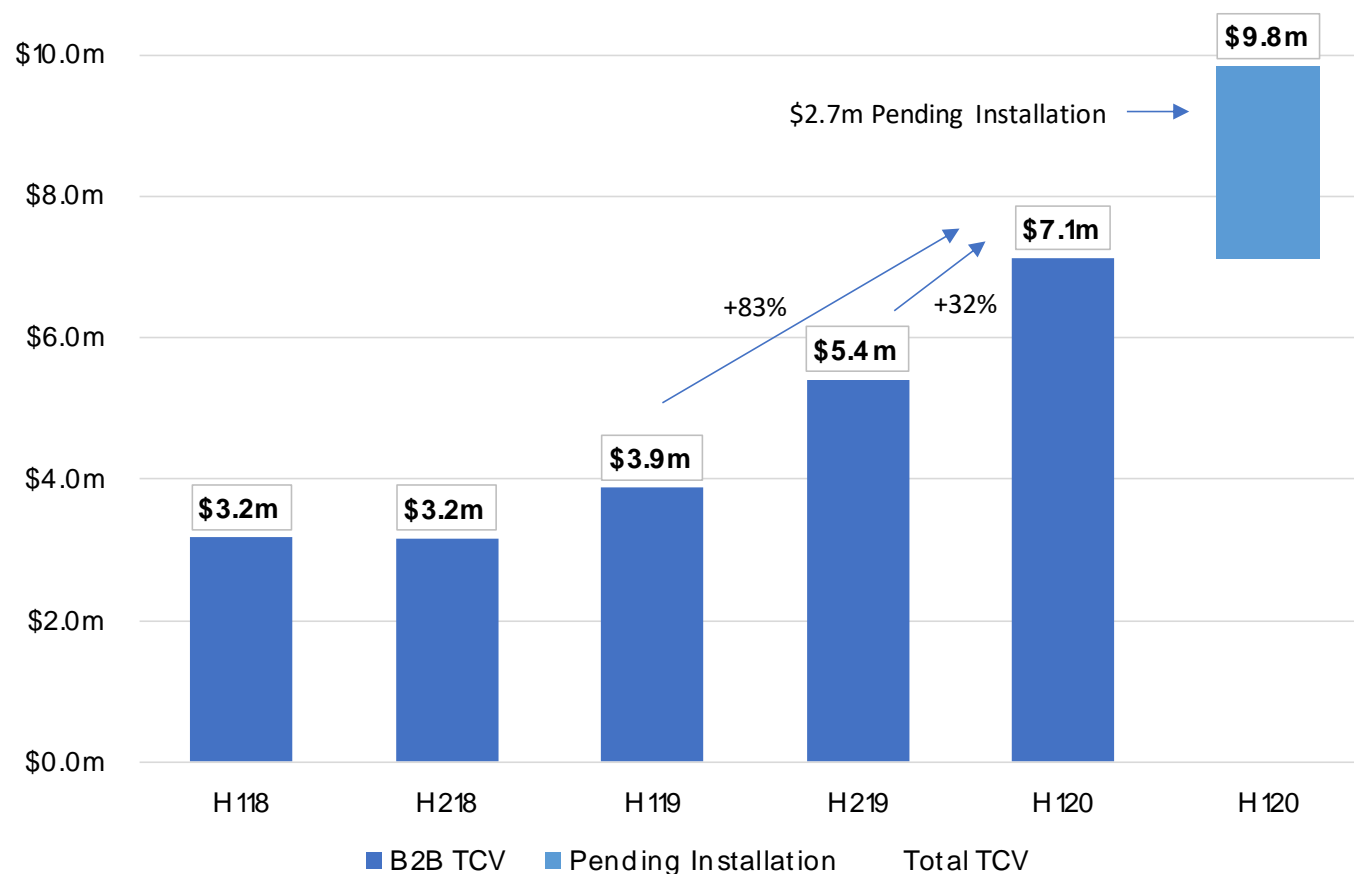
Underlying EBITDA Growth



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.

B2B Total Contract Value (TCV)

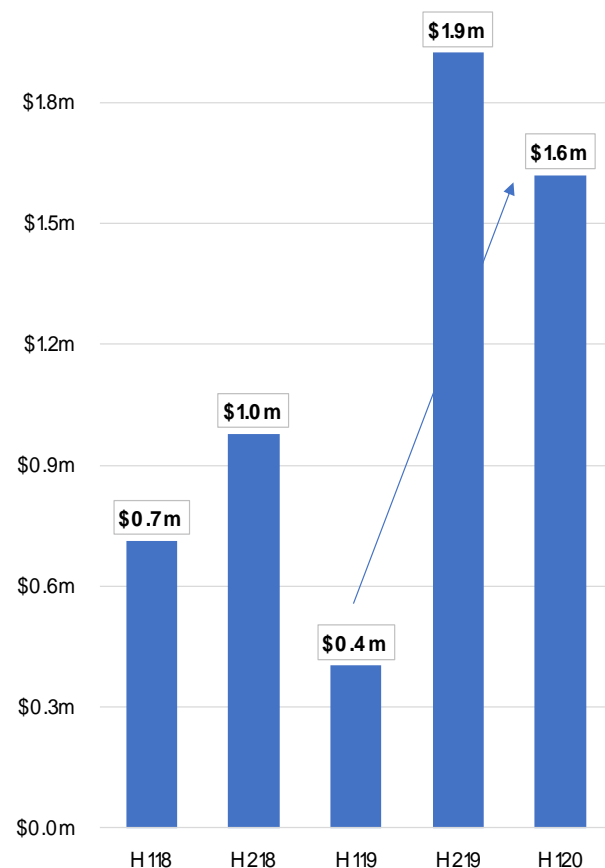


TCV uplift to \$7.1m excluding pending installations:

- 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.

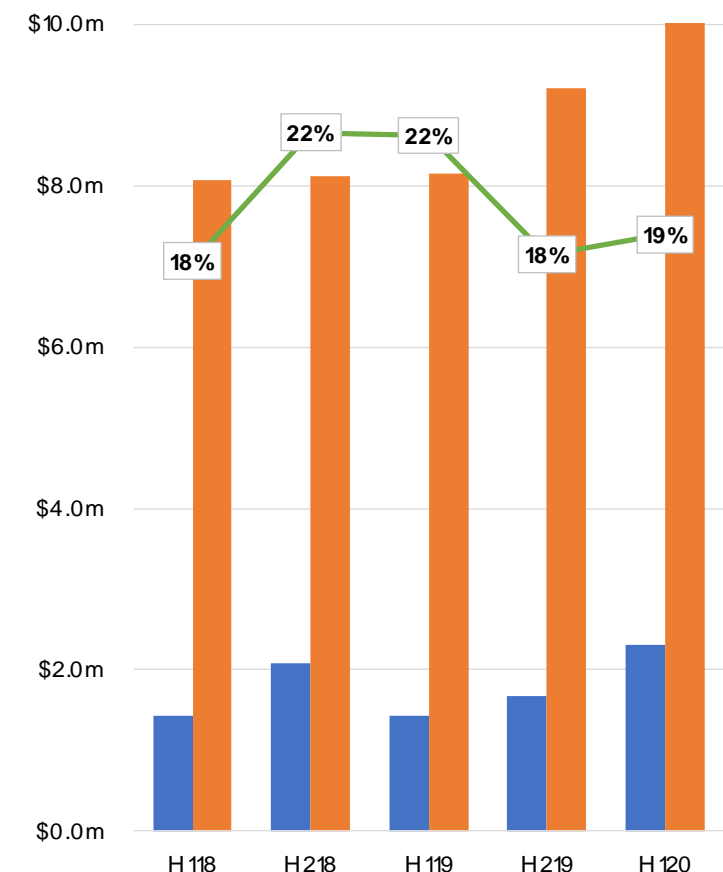
Operating Cash and Capex



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* Revenue Capex to Revenue Ratio % **

* Capex adjusted for government funded projects and IT Capex.

** Calculated on a rolling 12 month basis. .

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Appendix B : Trident and Neptune

Acquisition of Trident and Neptune

Refer to ASX Announcement 18 February 2020 for additional information

Highlights and key terms of the Trident & Neptune Group acquisition:

- Trident and Neptune generate combined FY19 revenues of \$34M.
- Management estimated EBITDA, including synergies of approximately \$1.8M -\$2M for FY21.
- Total purchase price of up to \$6.9M (which includes an earnout component) paid as a combination of cash & Spirit equity being a split of 75% Cash and 25% Spirit shares if hurdles are met over CY20 and FY21.
- Transaction EBITDA multiple range of 3.8x to 4.6x (earn-out structure dependant).
- Further upside in additional revenues by cross selling the Spirit high speed data network into TBG client base.
- Cash component will be paid from a mix of cash reserves and the existing CBA debt facility.
- 30% of the total consideration has been agreed to be applied to an earn-out structure in equal proportion based upon EBITDA performance over CY20 & FY21. The earnout consideration is to be split in the same proportion of cash (75%) and Spirit equity (25%).
- On completion, Spirit will issue the completion shares at a deemed issue price of \$0.20 (20 cents) per share, with the shares escrowed for 12 months from completion date. The earn-out component will be issued at a 30-day Volume Weighted Average Price (VWAP) at the relevant time. The Company will utilise its capacity under ASX Listing Rule 7.1 for the completion shares.

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