Inabox acquisition of Anittel

telcoinabox

anittel

iVox

neuralnetworks

fixed

mobile

data

IT platforms

billing

customer support
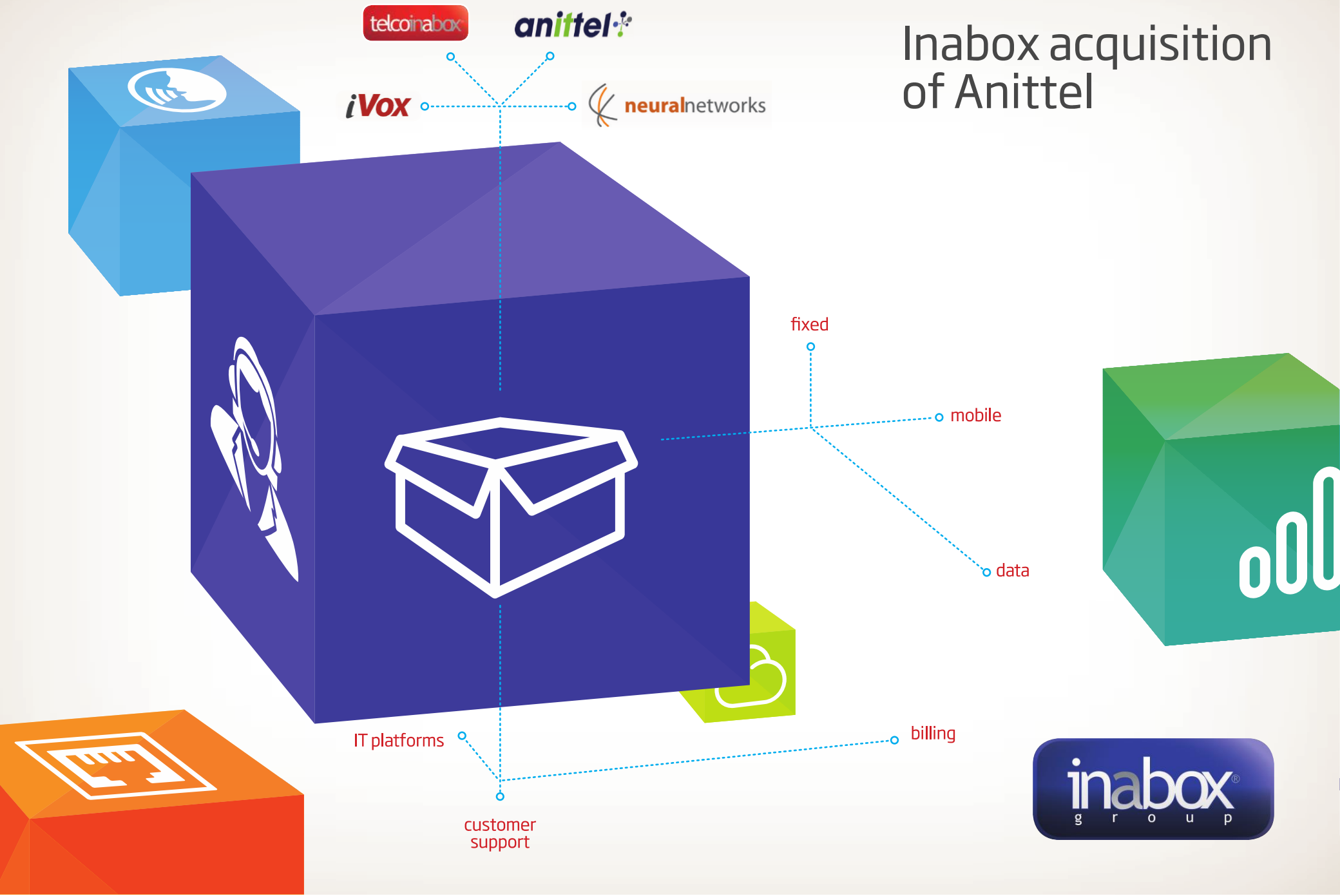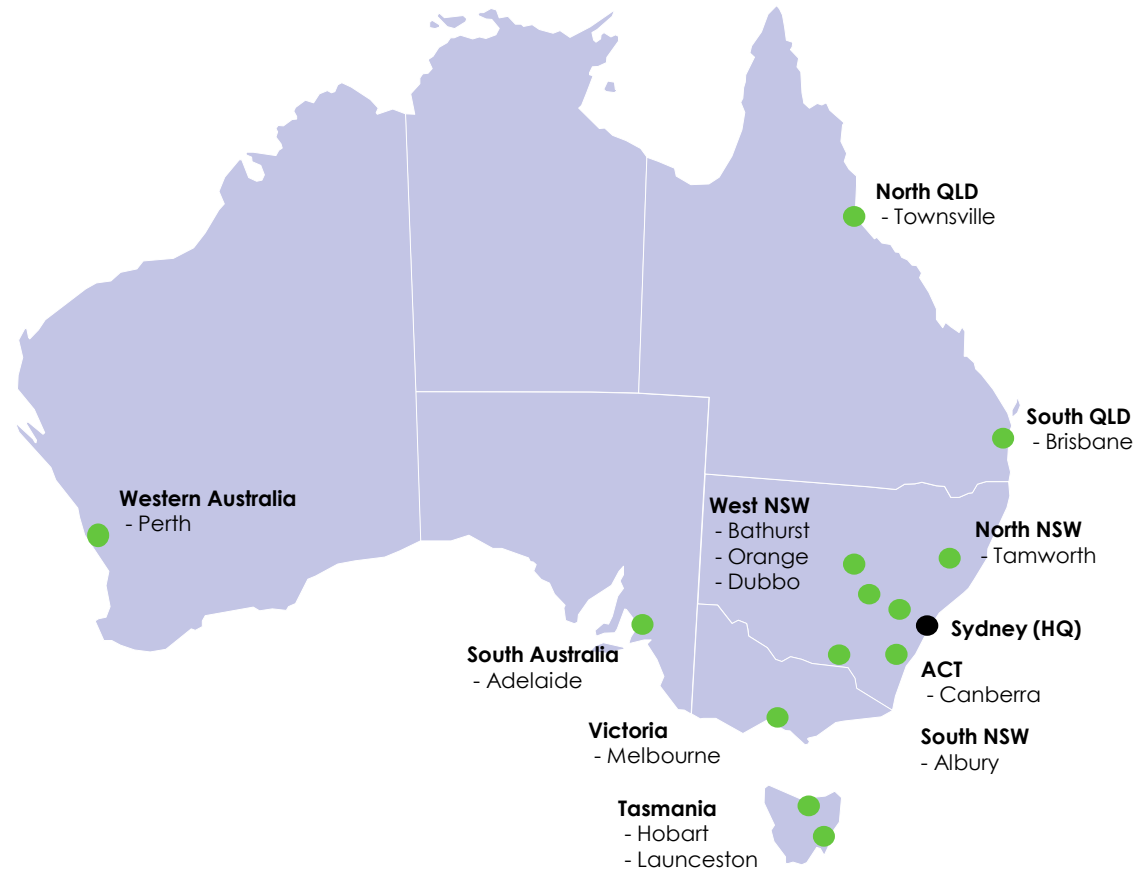
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Background

- **Acquisition** - On November 5, 2014, Inabox announced the acquisition of the operating businesses of Anittel (ASX:AYG)

- **Rationale** – Creation of a complete end-to-end IT, cloud and communications solutions provider with a physical presence in 14 locations across metropolitan and regional Australia

- **Consideration** - Total consideration of approximately $9.88million

  - $500,000 in cash, $1.5m of deferred conditional cash consideration and 6,153,846 IAB shares with a market value based on last close pre-announcement of approximately $7.88 million

- **Integration** – The business will continue to operate within the IAB structure under the Anittel brand and with substantially the same staff and management. Anittel's Chairman and CEO, Peter Kazacos, will consult to Inabox, focusing on integration of the business and growth opportunities

- **Opportunities** – Extensive cross-sell and up-sell opportunities through Inabox's 300+ channel partners and Anittel's 1,000+ clients which include SMEs, corporations, not-for-profits and Government departments. Significant cost savings through the elimination of back office and corporate overheads

- **Timing** – Subject to Inabox and Anittel shareholder approvals and other conditions, Completion to occur on 1 January 2015

- **Information** – Detailed information included in Notice of Meeting to be distributed to Inabox shareholders in mid/late November

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A Snapshot of Anittel

Anittel has a scalable, national footprint across Australia

- Anittel has 14 offices and a presence in all State capitals and many regional hubs around Australia. Head office is in North Sydney.

- Its team comprises approx. 130 highly qualified staff, which allows Anittel's customers to leverage a national pool of resources, skills and expertise

- Anittel's IT capabilities will be available to support Inabox's channel partners around Australia as they roll out NBN, hosted voice and cloud products

North QLD
- Townsville

South QLD
- Brisbane

Western Australia
- Perth

West NSW
- Bathurst
- Orange
- Dubbo

North NSW
- Tamworth

Sydney (HQ)

South Australia
- Adelaide

ACT
- Canberra

Victoria
- Melbourne

South NSW
- Albury

Tasmania
- Hobart
- Launceston

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A Snapshot of Anittel

Products	Partners	Customers	Awards

Products

- **IT Products**
  - Software and hardware from leading global partners
- **IT Services**
  - **Managed IT Support -** Includes system monitoring, proactive maintenance and trouble shooting support across entire workstation, server and network environment
  - **Managed Services -** Outsourced IT support service that is designed and tailored to each client's requirement
  - **Professional Services -** Strategic IT planning, project management, life cycle planning, technology audits
  - **Cloud and IaaS -** Cisco Hosted Collaboration Solution and Cloud Computing

Customers

Diverse base of over 1,000 clients in both the private and public sectors, with a focus on long-term client relationships and 'embedded' consultants working within client businesses

Anittel's HCS

- **The Platform**

  - The Cisco Hosted Collaboration Solution ('HCS') is an enterprise grade hosted unified communications and collaboration service

- **The Investment**

  - Anittel has made a multi-million dollar investment building and deploying over 8,000 end points on one of the few HCS Platforms in Australia

  - Investment made to support the Tasmanian Government contract won by Anittel in 2012. The contract has a 5 year initial term with two 3 year options

- **The Market Opportunity**

  - Platform can scale to more than double its current capacity in Tasmania. Inabox believes the addressable market in Tasmania exceeds 25,000 end points

  - The platform is able to be extended to mainland Australia through the addition of a node, leveraging the substantial investment made to date in the core platform

  - The HCS Platform extends IAB's current Hosted Voice offering (which is SME focused), into corporate, enterprise and government

  - IAB believes the 100+ seat UC and IP telephony market in Australia is around 2.5m handsets

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What Does Anittel Bring Inabox?

New Markets	▪ Combined group will be able to offer clients end-to-end IT, cloud and communications solutions ▪ Moves IAB to a direct sales and service model in the large SME, corporate &Government segments ▪ Enhanced regional presence to support NBN connection, Hosted Voice and cloud adoption
Increased Scale	▪ Historical (FY14) combined revenues in excess of $80m ▪ Combined group will have over 200 staff ▪ National footprint - 14 locations across metropolitan and regional Australia
Complementary Services	▪ Cross-sell and up-sell through Inabox's existing 300+ wholesale partners and Anittel's 1,000+ clients (SMEs, corporations, not-for-profit organisations and Government departments) ▪ National IT services capability, supports the roll out of Hosted Voice by Inabox's resellers ▪ IT products and services able to be sold through the Inabox voice sales channels
New Platform	▪ Enterprise grade Cisco HCS platform already deployed with over 8,000 end points ▪ Extends Inabox's Hosted Voice offering to corporate, enterprise and Government through Anittel's direct sales force and Inabox's channel partners ▪ Expected to provide significant further annuity revenue growth for Inabox
Financial Strength	▪ Increased equity base supports assumed debt and provides scope for further growth ▪ FY14 revenues of $47m and $36m (for IAB and Anittel) provides greater scale for future profitability ▪ Significant savings in back office and corporate overhead

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The Combination

	Inabox	Anittel
Markets	Indirect model to consumer and small SMEs through enablement and wholesale channels	Direct model to larger SME, corporate and Government
Customers	300+ indirect wholesale channel partners and enterprise enablement customer	1000+ larger SME, corporate and Government customers
Brands	Channel partners sell under their own brand	Anittel sells directly under its own brand which will be retained
Capability	Experts in managed wholesale and enablement telecommunications and cloud services	Experts in managed IT, HCS and cloud services
Team	Approximately 76 Staff, predominantly based in the Sydney Head Office.	Approximately 130 Staff working from 14 offices around Australia
Service	Australian based team providing white labelled and wholesale support	Australian based teams providing IT and cloud service, delivery and support

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Creating an end-to-end ICT Provider

PRODUCTS

1 VOICE
– PSTN
– ISDN
– Optus Multiline
– Inbound (1300/1800)
– SIP Trunk
– Hosted PBX

2 MOBILE
– Optus 3G
– Telstra 3G

3 CONNECTIVITY
– ADSL2+
– Telstra BDAS
– AAPT MBE
– Soul / TPG EFM
– WAN / IP VPN
– IP Transit
– NBN

4 CLOUD
– Web & Domain
– Email
– Dedicated Server
– Cloud Virtual Server
– Backup
– Storage
– Co-location

NEW PRODUCT

5 IT PRODUCTS
– Software and hardware from leading global partners

SERVICES

6 SYSTEM ENABLEMENT
– Service Provisioning
– Service Management
– Payment Processing and Gateways
– Billing & Rating
– Bill Production
– CRM (Basic)
– Reporting

7 NETWORK ENABLEMENT
– Core Routing
– Authentication (Radius)
– User/Traffic Management
– Local Peering
– IP Transit

8 CUSTOMER ENABLEMENT
– Technical Support
– Customer Care
– Provisioning

NEW SERVICES

9 MANAGED IT SUPPORT
– system monitoring
– proactive maintenance and trouble-shooting support
– server and network environment

10 MANAGED SERVICES
– Outsourced IT support service

11 PROFESSIONAL SERVICES
– Strategic IT planning
– project management
– life cycle planning
– technology audits

The acquisition of Anittel adds:
• IT Products
• Managed IT Support
• Managed Services
• Professional Services
• Cisco HCS platform

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Channels
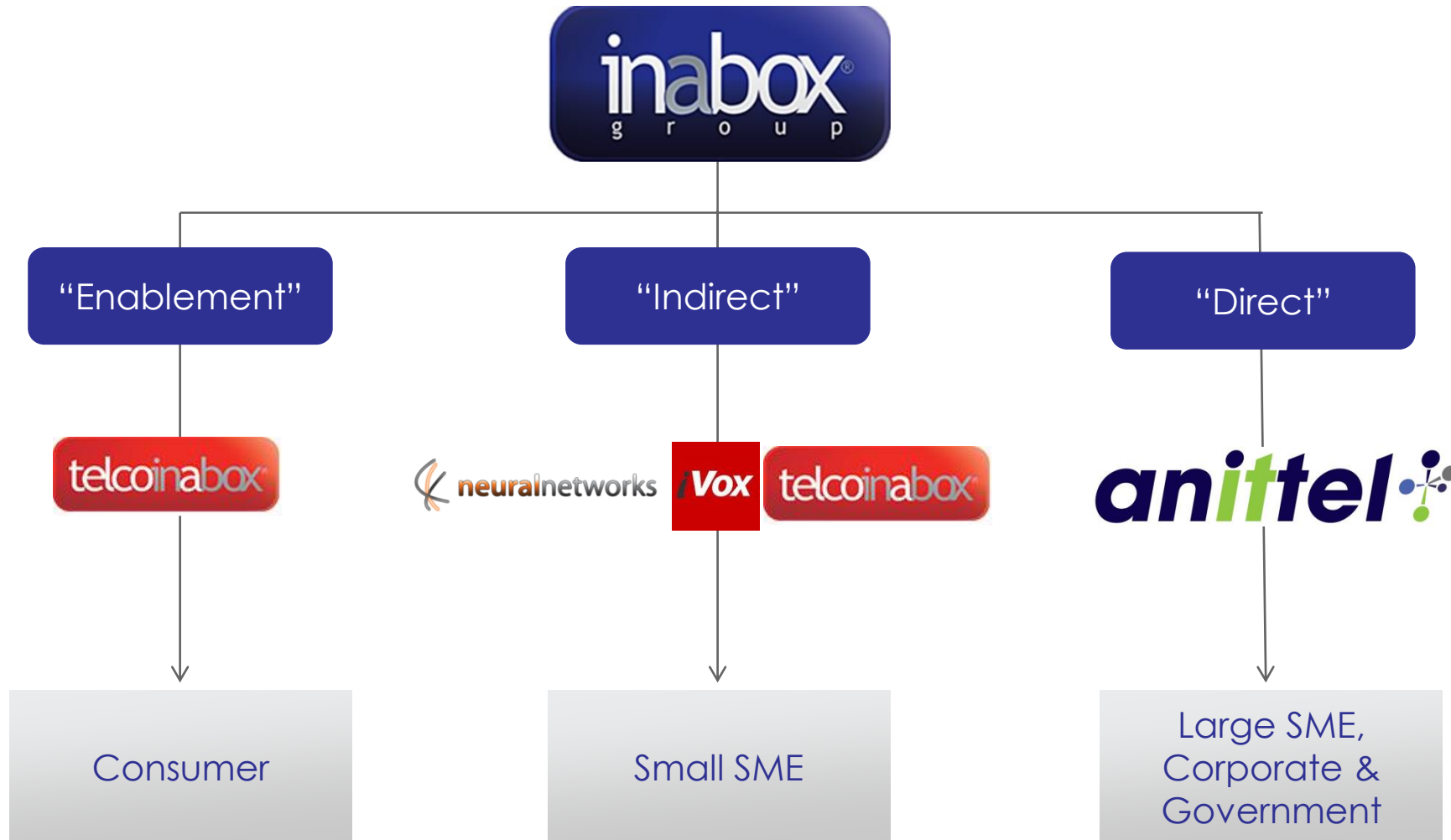
Investment, synergies and cost reductions

- The acquired businesses will continue to operate under the Anittel brand with substantially the same staff and management post-completion

- Inabox will invest in the HCS platform and growing the Anittel businesses

- There are significant cross-selling and up-selling opportunities for the Inabox and Anittel businesses

- In 2HFY14 and 1HFY15, Anittel has refocused on its core IT, HCS and cloud businesses and significantly reduced back office and corporate costs

- Inabox and Anittel have identified significant additional savings in back office and corporate overheads which will be implemented prior to completion

- Further cost savings are expected as the businesses are integrated in the 12 months post-acquisition. For example, approx. $250,000 per annum will be saved by moving Anittel's Sydney staff to Inabox's Head Office in Q4 FY15

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Pro Forma P&L

The Pro Forma P&L below shows the FY14 performance of Inabox and the Anittel IT and HCS & Cloud businesses being acquired

FY14 Pro Forma P&L ($m)	Inabox Group		Anittel Businesses Being Acquired		
			IT	HCS & Cloud	Total
Revenue	46.9		34.3	1.8	36.1
Cost of Sales	(32.2)		(19.1)	(0.2)	(19.3)
Gross Profit	14.7		15.2	1.6	16.8
Employee Expenses	(9.6)		(11.6)	(2.2)	(13.8)
Other Expenses	(2.7)		(3.0)	(0.4)	(3.4)
EBITDA	**2.4**		**0.6**	**(1.0)**	**(0.4)**
Depreciation & Amortisation	(0.8)		(0.7)	(0.7)	(1.4)
Finance Expenses	(0.0)		(0.0)	(0.2)	(0.2)
Profit (Loss) before Tax	1.6		(0.1)	(1.9)	(2.0)

Notes:

- Anittel Pro Forma P&L excludes approx. $1.3m of corporate overheads and finance costs relating to the listed parent entity and not attributable to the businesses being acquired

- The HCS & Cloud business supports the roll out of HCS services under the Tasmanian Government Contract. The average number of services billed in FY14 was approx. 4,000. At the end of September 2014 over 8,000 HCS services were billing each month.

- In 2HFY14 and 1HFY15 Anittel has focused on reducing its back office and corporate expenses. As a result the businesses acquired will have a lower cost base than in FY14. Additional savings relating to back office and occupancy expenses are expected as the businesses are integrated in the 12 months following acquisition

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Pro Forma Balance Sheet at 30 June 2014

Balance Sheet ($m)	Anittel	Completion Adjustments	Inabox Group		Pro Forma Group
Cash and cash equivalents	0.1	(0.5)	3.7		3.3
Trade and other receivables	3.3	-	4.1		7.4
Inventories and other	0.6	-	2.2		2.8
Total Current Assets	**4.0**	**(0.5)**	**10.0**		**13.5**
Property, plant and equipment	2.5	-	0.6		3.1
Intangibles	4.3	10.0	4.3		18.6
Other	0.2	0.1	0.7		1.0
Total Non-Current Assets	**7.0**	**10.1**	**5.6**		**22.7**
Total Assets	**11.0**	**9.6**	**15.6**		**36.2**
Trade and other payables	3.6	-	5.6		9.2
Borrowings	1.0	-	0.9		1.9
Employee benefits	0.9	-	0.7		1.6
Other current liabilities	1.7	0.7	2.7		5.1
Total Current Liabilities	**7.2**	**0.7**	**9.9**		**17.8**
Borrowings	3.5	-	-		3.5
Employee benefits and other	0.3	1.5	1.0		2.8
Total Non-Current Liabilities	**3.8**	**1.5**	**1.0**		**6.3**
Total Liabilities	**11.0**	**2.2**	**10.9**		**24.1**
Net Assets	**-**	**7.4**	**4.7**		**12.1**

- The Anittel Pro Forma Balance Sheet contains only the assets and liabilities being acquired and shows their value as at 30 June. These values will change at completion

- Total Liabilities includes $2m cash consideration relating to the acquisition of Anittel ($0.5m in Current Liabilities and $1.5m in Non-Current Liabilities)

- Borrowings includes approx. $4.5m in lease liabilities relating to the HCS platform. Of this approx. $1m appears in Current Liabilities. Revenue relating to the HCS is recognised when invoiced (monthly)

- Other Current Liabilities includes approx. $1.5m in unearned income relating to Anittel's IT service contracts and pre-paid hours. Pre paid hours expire if unused

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Transaction Details

Implied Price	▪ Total purchase price of c.$9.88 million equates to approx. 0.39 cents per Anittel share (based upon IAB's last closing price of $1.28 on 3/11)
	
	  - This is equivalent to Anittel's 30 day volume-weighted average price of 0.39 cents
	
	  - It represents a 30% premium to Anittel's last closing price of 0.30 cents on 3/11

Consideration	▪ $0.5m in cash upon completion, $1.5m of deferred conditional cash consideration ▪ 6,153,846 new Inabox shares (worth c.$7.88 million based on IAB's last closing price on 3/11 of $1.28). These will be immediately distributed to Anittel's shareholders by capital reduction
Share Register	▪ Post-acquisition Inabox will have 20,070,530 shares on issue (Anittel shareholders will own approx. 31%) ▪ The three founders of Inabox will own a total of 39.6%, Peter Kazacos (Anittel Exec. Chairman) will own approx.10.6% and M2 Telecommunications will own approx. 8.3% ▪ Remaining shareholders will own approximately 8.33m shares, equivalent to 41.5% of Inabox
Shareholder Approval	▪ Transaction is subject to the approval of the shareholders of Inabox to be sought at an EGM in late December, and to the approval of Anittel shareholders to be sought at its AGM also in late December
Conditions Precedent	▪ In addition to shareholder approvals, a number of other commercial conditions precedent including the transfer of material agreements must be satisfied or waived for the transaction to complete

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Key Dates

KEY EVENTS	DATE
Business Purchase Agreement announced	5/11/14
Posting of EGM Notice to Inabox Shareholders	Mid to late November 14
Record date for Anittel shareholders to receive a distribution of IAB shares	Mid December 14
Inabox EGM to approve transaction and issue of shares	Late December 14
Anittel AGM at which shareholder approval of the transaction and capital return will be sought	Late December 14
Planned completion, subject to satisfaction or waiver of conditions precedent	1/1/15

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UPDATE ON INABOX'S OTHER ACQUISITIONS AND ENABLEMENT

☑ iVox acquired July 2013, now fully integrated
  – iVox provides next generation Hosted Voice solutions
  – General Manager promoted to Chief Technology Officer of Inabox Group
  – Business performing to expectations

☑ Neural Networks acquired July 2014, now fully integrated
  – Provider of wholesale cloud and VoIP products
  – General Manager promoted to General Manager of Cloud for Inabox Group
  – Business performing to expectations

☑ Enablement business growing quickly with approximately 12,100 ADSL and NBN services now in operation
  – Over 1,800 "net adds" in October 14
  – Ongoing investment in systems and network to support growth
  – New opportunities emerging

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OTHER INFORMATION

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TMT Partners and Hall & Wilcox lawyers advised Inabox on the transaction

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