inabox GROUP

Investor Presentation

Half Year FY18 Results Presentation

February 2018

- Leading Managed Telco, IT and Cloud provider to SMEs, corporates and consumer brands across Australia.
- We invest in our people, products and automation to make it easy for our customers to do business.

Disclaimer

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Contents

Our Business

DIRECT

Supplying and supporting bespoke IT and connectivity solutions for large SMEs, corporate and Government clients

INDIRECT

Providing white labelled telecommunications solutions to over 453 retail service providers (RSP)

ENABLEMENT

Enabling large retail brands to provide telecommunications services to their customers

Our Locations

- National sales and engineering capability with strong regional presence
- Offshore Manila service centre

NSW: Sydney, Albury, Dubbo, Bathurst, Orange, Wagga Wagga
QLD: Brisbane, Townsville
VIC: Melbourne
Tas: Hobart
SA: Adelaide
WA: Perth

Hostworks Impact on 1HFY18 Performance

On 9 November 2017, Inabox provided a trading update and revised FY18 outlook advising that:

- The Hostworks business will perform below expectations
- The significant change in outlook resulted from a small number of enterprise clients rationalising their services
- Expected to contribute more than $15 million of revenue, EBITDA contribution in H1 was negligible, H2 improving driven by cost savings
- Management expects Hostworks will contribute meaningfully to earnings in FY19

As previously announced, this has resulted in a negative impact to Inabox's 1H FY18 financial performance.

In response to this, Inabox has taken the following actions:

- Implemented cost reduction initiatives, resulting in over $2 million of annualised savings to offset reduced revenue
- Impaired the entire $1.1m balance of intangibles relating to customer contracts and relationships acquired from Hostworks
- Stabilised Hostworks revenues and developing new cloud-based products, currently in testing

Update: Cost Reduction Initiatives

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Implementation of cost reduction Initiatives largely complete,
resulting in **over $2m of annualised cost savings**

COMPLETED	COMPLETED	COMPLETED	IN PROGRESS
Two operational centres merged into one, removing duplication, improving efficiency and responsiveness	Nationwide centralisation of resource management to deliver more efficient deployment and utilisation of engineering staff	10% reduction in headcount to better align personnel costs to expected revenues	Centralisation and offshoring of monitoring and maintenance function, creating capacity for engineering staff and increasing chargeable time

Long-term efficiencies created, without limiting Inabox Group's ability
to service customers and deliver organic revenue growth

1H FY18: Financial Results Snapshot

Revenue

$52.9m

Up 23.6% on 1H FY17

Underlying EBITDA[1]

$2.4m

Down 5% on 1H FY17

Statutory EBITDA of $0.7m

Statutory Net Loss After Tax

$1.6m

Down from $0.5m profit in 1H FY17

Net Loss includes $1.3m impairment charge predominantly relating to Hostworks customer contracts and redundancy costs of $0.4m

[1] *Underlying EBITDA includes contribution from the HCS business, but excludes one-off redundancy and impairments costs of $1.7m*

1H FY18: Operational Highlights

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WHOLESALE | Telcoinabox | inabox GROUP | HOSTWORKS

TELSTRA WHOLESALE WHITE-LABEL ENABLEMENT DEAL SIGNED

- 3 year contract
- Operational and technical services provided to Telstra Wholesale customers
- Development fees and recurring SaaS revenue
- Telstra Wholesale customer signups and increasing services volume to drive revenue growth

NEW CLIENTS BRING $4M+ ANNUALISED REVENUE

- 3 established retail service providers sign contracts in 2Q FY18 to migrate to Inabox
- Net growth of 13 retail service providers
- Telstra Wholesale's 4G mobile services and single point access to multiple carriers are key selling points

Cloud Sales Assist wins **ACOMMS Innovation SME Award 2017**

SME 'HOSTED VOICE' PRODUCT LAUNCHED

- Following strong demand for Hosted Voice, Inabox launched its SME version in July 2017
- High-margin product tailored to meet demand from larger customers with a premium offering
- Product offers call centre functionality and drag and drop user interfacing to easily manage calls
- Product sold via all Inabox channels

'CLOUDINABOX' TO LAUNCH 2H FY18

- Leverages cloud-capabilities of Hostworks
- Allows SME customers to seamlessly move to the cloud
- SME cloud product will be cross-sold to Telcoinabox customers (Direct and Indirect customers)
- In-house developed product expected to deliver higher margins

Financial Results

Channel Performance

DIRECT

- Contributed $26.2m of revenue, up 41% on 1H FY17 including contribution from Hostworks
- Margin contribution $4.7m, up 35% on 1H FY17
- Focused on increasing sales of higher margin managed IT, cloud and communications services and away from lower margin product sales
- Result impacted by sale of the HCS business, reducing revenue by $1.6m
- Includes $0.5 million of revenue migrated from indirect channel

INDIRECT

- Contributed $22.0m of revenue, in line with 1H FY17
- Margin contribution $4.3m up 7% on FY17 increasing % margin to 19.6% compared to 18.3% in 1HFY17
- Margin improvement resulting from shift in mix towards more profitable products, negotiated reductions in supplier costs ongoing savings from application of the fixed access determination
- New clients with large existing customer bases deliver underlying growth in the period
- New client increases offset by $0.4m revenue migrated to the direct channel

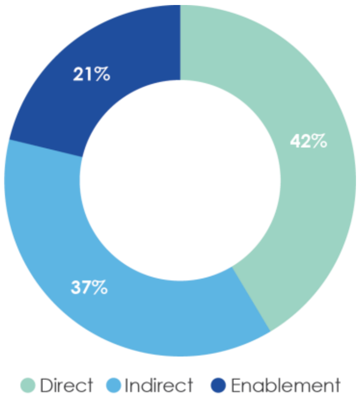
ENABLEMENT

- Contributed $4.7m of revenue, an increase of 119% on 1H FY17
- Margin contribution of $2.5m up 88% on 1H FY17
- 3-year Telstra Wholesale contract to provide enablement services to Telstra Wholesale clients resulted in increase to development fee income
- Existing services grew to 195,000 up from 145,000 at 30 June, an average of 8,300 net additions per month. The increased rate of growth has been driven by a key client adding mobile services to its existing broadband services offering
- Strong pipeline of opportunities continue to progress with large national brands

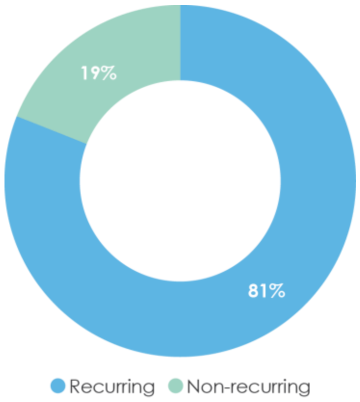
Improving business mix

Revenue mix continues to shift towards higher margin, recurring services revenue
Recurring revenues now account for 81% of total revenues

Margin Contribution by Channel

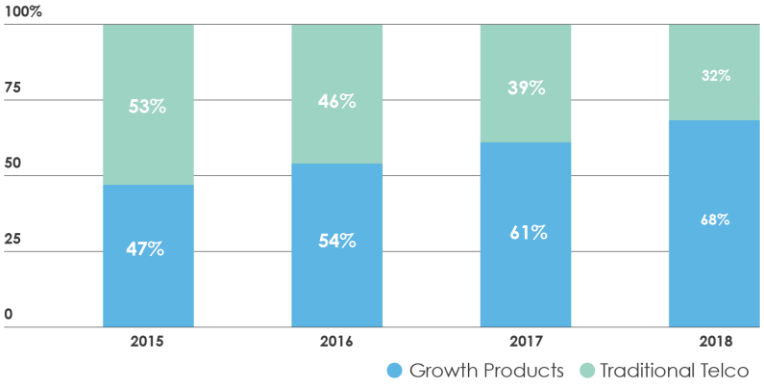


Revenue



Shifting Revenue Mix

Traditional Telco v higher margin growth products



Financial Summary

HALF YEAR ENDED 31 DECEMBER	$'000 1H 2018	$'000 1H 2017	% CHANGE
Revenue	**52,943**	**42,819**	**23.6%**
EBITDA	737	2,458	(70.0%)
Net Profit After Tax (NPAT)	(1,617)	485	(433.8%)
Underlying EBITDA[1]	2,430	2,562	(5.2%)

- **Revenue of $52.9m up 23.6% on 1H FY17, with growth driven by:**
  - recent acquisitions and growth from new enablement and new indirect customers
  - partly offset by a $1.6m reduction in HCS Business revenues
  - Recurring revenue of 81%, up from 70% in 1H FY17
- **NPAT impacted by:**
  - $1.3m asset impairment relating to Hostworks customer contracts and the Anittel brand
  - Redundancy costs of $0.4m
  - Increased depreciation and amortisation expense relating to recent acquisitions $0.8m
- **Underlying EBITDA of $2.4m, down 5.2% on 1H FY17, driven by:**
  - Loss of earnings from sold HCS business

[1] *Underlying EBITDA includes contribution from the HCS business, but excludes redundancy and impairment costs of $1.7m. In 2016, $0.1m of non recurring expenses related to the HCS divestment were incurred which have also been excluded*

Balance Sheet

	$'000 **DEC 17**	$'000 **JUN 17**
Cash at bank	747	4,998
Other current assets	15,159	13,261
Intangibles	22,491	22,909
Other non current assets	4,564	4,485
Total Assets	**42,961**	**45,653**
Current borrowings	3,695	6,577
Other current liabilities	17,127	16,638
Non current borrowings	7,867	6,514
Other non current liabilities	1,025	1,223
Total Liabilities	**29,714**	**30,952**
NET ASSETS	13,247	14,701

- **Cash** the 30 June 2017 balance includes the receipt of $3.25m ($4.5m total sale price) for the sale of the HCS business, the proceeds of which were used to reduce current borrowings during the 1H FY18 period
- **Other current assets** reflects increased debtor position resulting from large projects delivered close to period end
- **Current Borrowings** decreased as the proceeds received from the sale of the HCS Business were used to pay down lease liabilities, and to partially repay the vendor loan relating to the Hostworks acquisition
- **Other current liabilities** reflects increased creditor positions relating to equipment purchased to deliver on large client projects close to year end
- **Non Current Borrowings** have increased as a result of debt financing for the purchase of a small services company

Cash Flow

	$'000 1H 2018	$'000 1H 2017
Receipts from customers	56,789	48,992
Payments to suppliers and employees	-55,232	-45,908
Other operating activities	-599	-402
Net cash from/(used in) operating activities	**958**	**2,682**
Payment for purchase of subsidiaries	-499	
Payments to vendors for prior year subsidiary purchase	-1,387	
Payments for purchase of PP&E	-837	-210
Payments for purchase of intangibles	-1,482	-2,004
Other investing activities	-93	-298
Net cash used in investing activities	**-4,298**	**-2,512**
Net repayments of borrowings	-1,483	-655
Dividends paid		-341
Net cash from (used in) financing activities	**-1,483**	**-996**
Cash and cash equivalents	**175**	**2,023**

- **Cash from operating activities** decreased largely due to the collection of high account receivable balances carried at June 2016
- **Purchase of subsidiaries** relates to the payment for a small services company, which contributed revenue and NPAT during the period
- **Vendor repayments** reflects the reduction in debt to the Hostworks parent for the acquisition of Hostworks
- **Purchase of PP&E** increase reflects expenditure in line with upgrade cycle of equipment
- **Purchase of intangibles** reflects the investment in hosted voice assets, 4G mobile products, enterprise architecture to enable the seamless integration of new products and services and development of enablement capabilities
- **Borrowings** net repayment of $1.5m includes repayment of lease facilities offset by draw down of debt to finance subsidiary purchase
- **Bank facilities** extended to 2020, $1.2m undrawn overdraft at Dec 17

Acquisition Update

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Integrations completed and synergies realised

HOSTWORKS

Acquired in February 2017

- FY18 revenue contribution expected to be at least $15 million
- Cloud-infrastructure and capabilities leveraged in the development of new high-margin cloud products
- Cloudinabox revenues expected to supplement for decreased FY18 revenues once launched to SME market and cross-sold to clients

- No further impairment of customer contracts
- Customers signed since acquisition bring potential for growth
- Hostworks fully-integrated, synergies realised, and cost reduction initiatives implemented

Outlook

On-track to deliver FY18 full year revenues in excess of $100m

2H FY18 EBITDA expected to be broadly in line with 1H FY18

Strong focus on growing high-margin revenues from hosted voice, managed cloud and Enablement services

Cloud-capabilities and products developed are expected to drive organic growth in 2H FY18, full year impact will be realised in FY19

Management focus on driving sales and organic growth, with acquisitions integrated within the business and cost synergies realised

Growing pipeline of opportunities including national brands requesting tender responses for Inabox's Enablement services