18 October 2018

ARQ GROUP (ASX: ARQ)

Conference Presentations

Attached is a copy of the presentation which the CEO and Managing Director of ARQ Group Ltd, Mr Martin Mercer, will present at the Bell Potter Emerging Leaders Conference on 24 October 2018 and at the Goldman Sachs 2nd Annual Emerging Tech Day on 25 October 2018.

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About Arq Group
Arq Group, previously Melbourne IT Group, is Australia's leading digital solutions partner.

Arq Group is the dynamic space for smart thinkers. Creating unforgettable experiences, solving complex challenges, and providing seamless, end-to-end solutions – from design thinking to customer solutions, leading mobile, cloud and analytical insights, digital marketing to web design - Arq Group powers the growth of businesses, big and small.

Founded in 1996, Arq Group has evolved from the leading Australian domains and hosting business to a leading digital services partner. Today, the company builds and manages innovative channels to market for many of the country's largest enterprises, whilst simultaneously supporting half a million small businesses throughout their online journey.

Arq Group currently has approximately 850 employees, and offices in Melbourne, Sydney, Brisbane and Auckland.

ARQ group

Investor Conference Presentations

October 2018

Overview

- Arq Group is Australia's leading digital partner, powering the growth of businesses big and small
  - we use digital technology to help our customers connect more meaningfully and more effectively with their customers
  - our expertise spans mobile, data and analytics, cloud, security, design, and digital marketing
- A focus on digital has enabled Arq Group to deliver 17% revenue CAGR, 32% underlying EBITDA CAGR, and 37% dividend CAGR over the past 4 years
- In 2018 we have laid the foundations for future growth including, rebranding for a new era, moving into new contemporary offices in Sydney and Melbourne, refinanced with a more fit for purpose debt facility, continuing to grow headcount, and appointing a new Chair
- We have been trading in line with expectations since our H1 results
  - reaffirming guidance for 2018
- We are making pleasing progress on the recovery plan for WME

H1 FY18 Results:
Overview

H1 FY18 Result: snapshot

Consistent execution against a clearly defined strategy continues to drive growth

Financial Results[1]

Total Revenue
$112.4m
(↑23.5%)

Underlying EBITDA[2]
$18.6m
(↑12.0%)

Underlying EPS[2]
7.7cps
(↑16.7%)

Dividend

3.5 cps (fully franked)

Balance Sheet

1.5x net debt/EBITDA, operating well within covenants

Enterprise Services

Strong performance driven by structural growth for mobile applications and data & analytics;

- revenue up 39.3% and underlying EBITDA up 112.7% (vs H1 FY17)
- new customer wins continue with strong renewals story

Small Medium Business

SMB performance has been mixed;

- revenue up 8.7% and underlying EBITDA down 31.0% (vs H1 FY17)
- a combination of external factors and lower than expected solutions sales impacting result

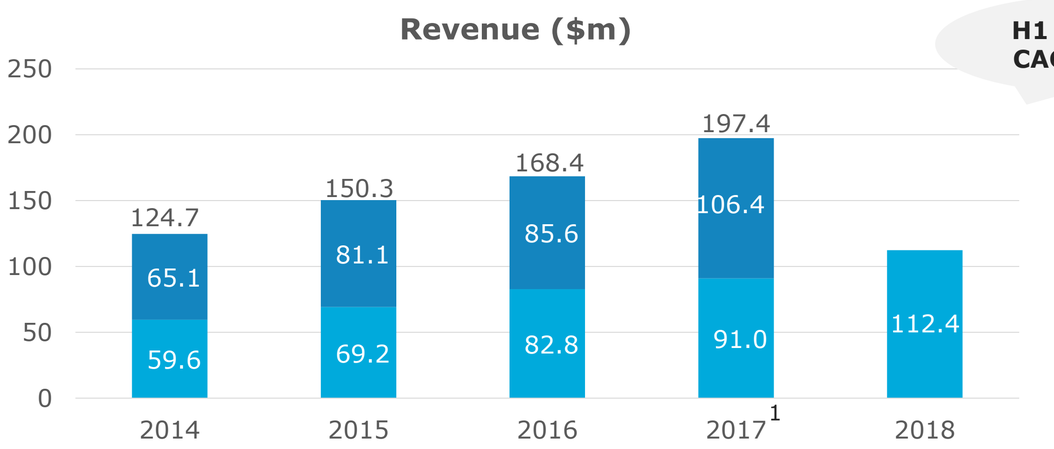
1. Comparisons versus H1 FY17 financials are based on FY17 financials restated for the adoption of new standards effective as of 1 January 2018, specifically AASB 15: Revenue from Contracts with Customers. The adoption of AASB 9: Financial Instruments, did not have a material impact on FY2017 financials
2. Underlying EBITDA and EPS excludes one-off and non-recurring expenses and takes into account the pro forma contribution of WME Group prior to May 2017

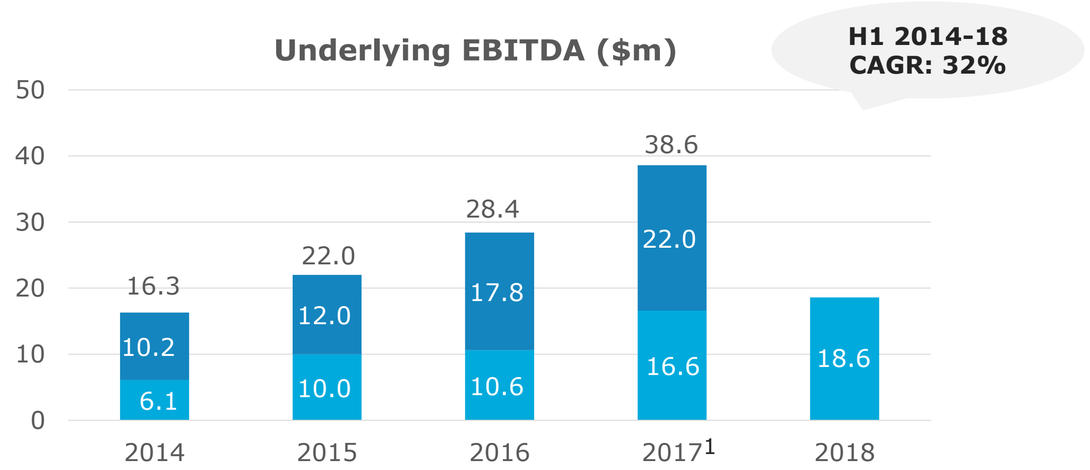
H1 FY18: operational highlights

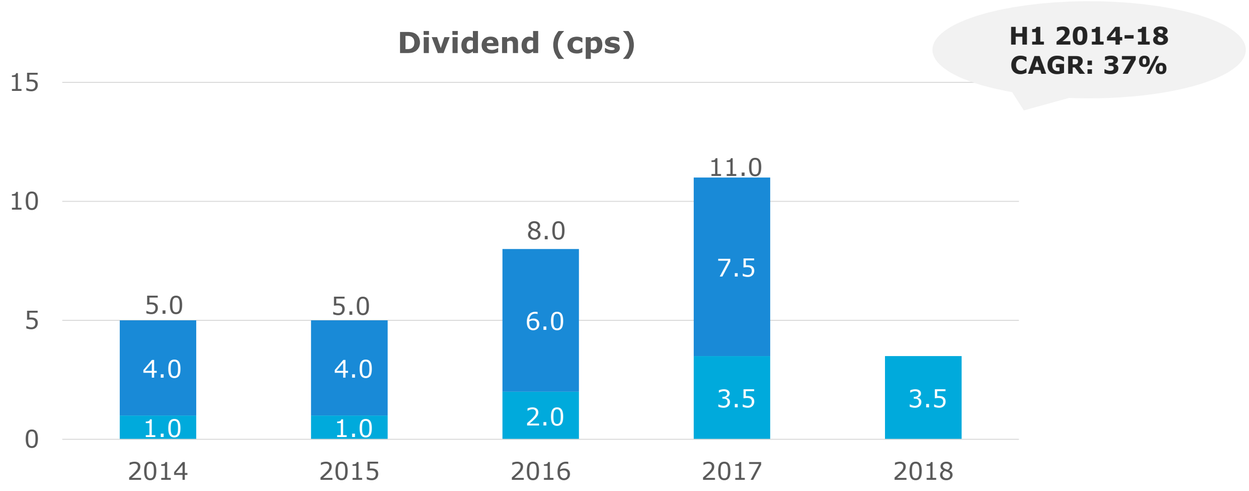
Good progress is being made on major initiatives across the company

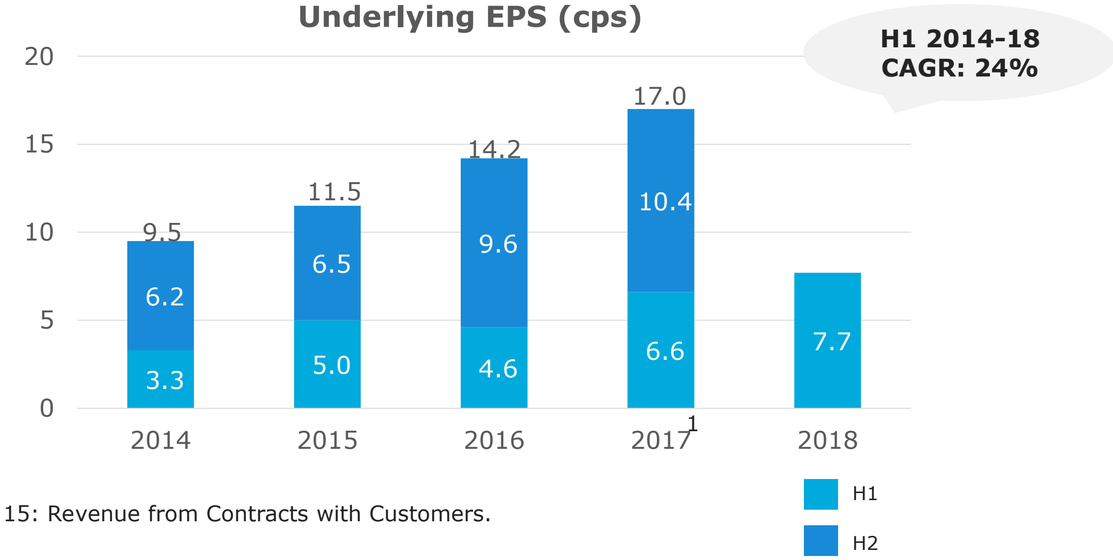
- Development and launch of **new brand** and company identity
- Moved into **new offices** in Melbourne and Sydney
- Secured a **new debt facility** for the Group
- **New Chair appointed**, Mr Andrew Reitzer commenced on 1 August 2018
- Relaunch of **Netregistry brand**, evolving the legacy brand proposition from domains and hosting into a complete online solutions partner for small business
- Key **customer wins** in ES including Anglo American, Aurecon, Bunnings, Eclipx, Linfox and Pfizer
- **Team size** increased by 10.6% on same period last year, or 79 people, including 82 billable heads
- **Gender diversity** continuing to improve and half of all leadership positions now occupied by women
- **Strong culture** with measured staff engagement increasing by 4 percentage points on the same period last year

Track record: consistent growth









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Outlook: FY18 & FY19

ARQ Group is well placed to rebound in FY19 and continue to deliver earnings growth for shareholders

Measure	FY18	FY19 Growth %[1]		
	Group	SMB	ES	Group
Pre AASB 15				
Underlying EBITDA ($m)	37.9 – 39.9			
Underlying EPS (cents per share)	14.7 - 15.9			
Post AASB 15[2]				
Underlying EBITDA ($m)	37.0 – 39.0	0-5%	10-20%	7-15%
Underlying EPS (cents per share)	14.2 - 15.4			

Trading Update

- Since the H1 results announcement the Group has been trading in line with expectations
- WME recovery plan is unfolding
  - sales vacancies filled
  - consistent focus on lead quality
  - pleased with progress

1. Compared to the midpoint of the revised FY18 guidance range
2. The adoption of AASB 15: Revenue from Contracts with Customers is not expected to have a material impact on revenue or profitability for the Group in FY18. Refer to Appendix B of this presentation for further detail on expected impact .

ES: strategy and execution

ES: facts and figures

1 **Early market leader** - developer and “ever-greener” of digital products and services for corporate and government customers with large consumer customer bases.

2 **Strong Growth** - underlying EBITDA growing at ~20%pa.

3 **Expertise** - more than 430 design, digital, analytics and engineering professionals across Sydney, Melbourne and Brisbane.

amazon web services | Partner Network
PREMIER CONSULTING PARTNER
CHANNEL RESELLER PARTNER
AWS GOVERNMENT PARTNER
MANAGED SERVICE PARTNER
MARKETING & COMMERCE COMPETENCY

Microsoft Azure

Google

IBM Silver Business Partner
Specialist
Advanced Analytics
Integration and Governance
Watson Commerce

4 **Culture of Innovation and Customer Excellence.**

CRN IMPACT AWARDS

aws
2018 Asia Pacific
Innovation Partner

5 **Enterprise Grade** - blue Chip customer base, partnerships with 50% of the ASX top 20. Significant recurring revenues and repeatable project revenue. Governance and balance sheet suitable for Enterprise & Government engagement.

Certified System Quality ISO 9001 SAI GLOBAL

LLOYD'S REGISTER LRQA ISO/IEC 27001

PCI DSS COMPLIANT

irap Australian Government Department of Defence

ES: where do we play?

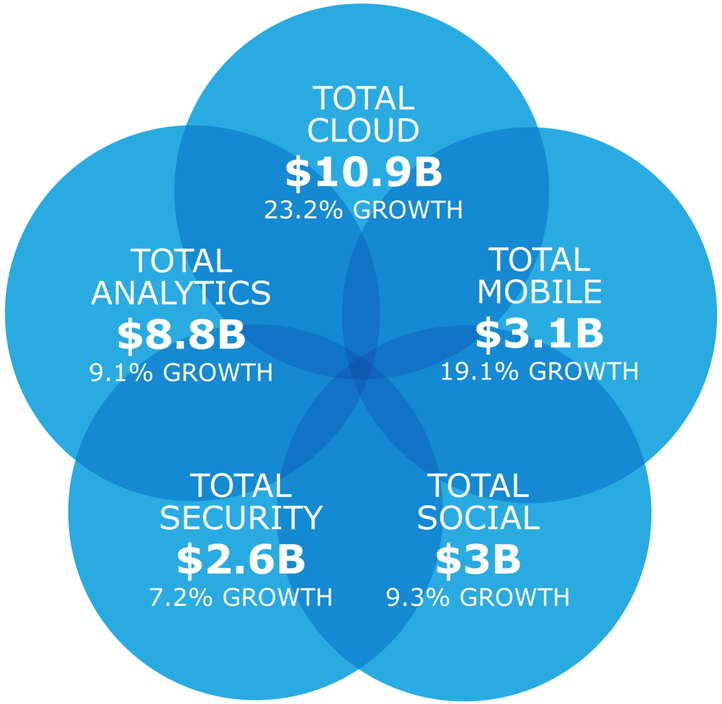
Digital Agencies expanding into tech solutions

Big 4 Traditional "Consulting Firms"

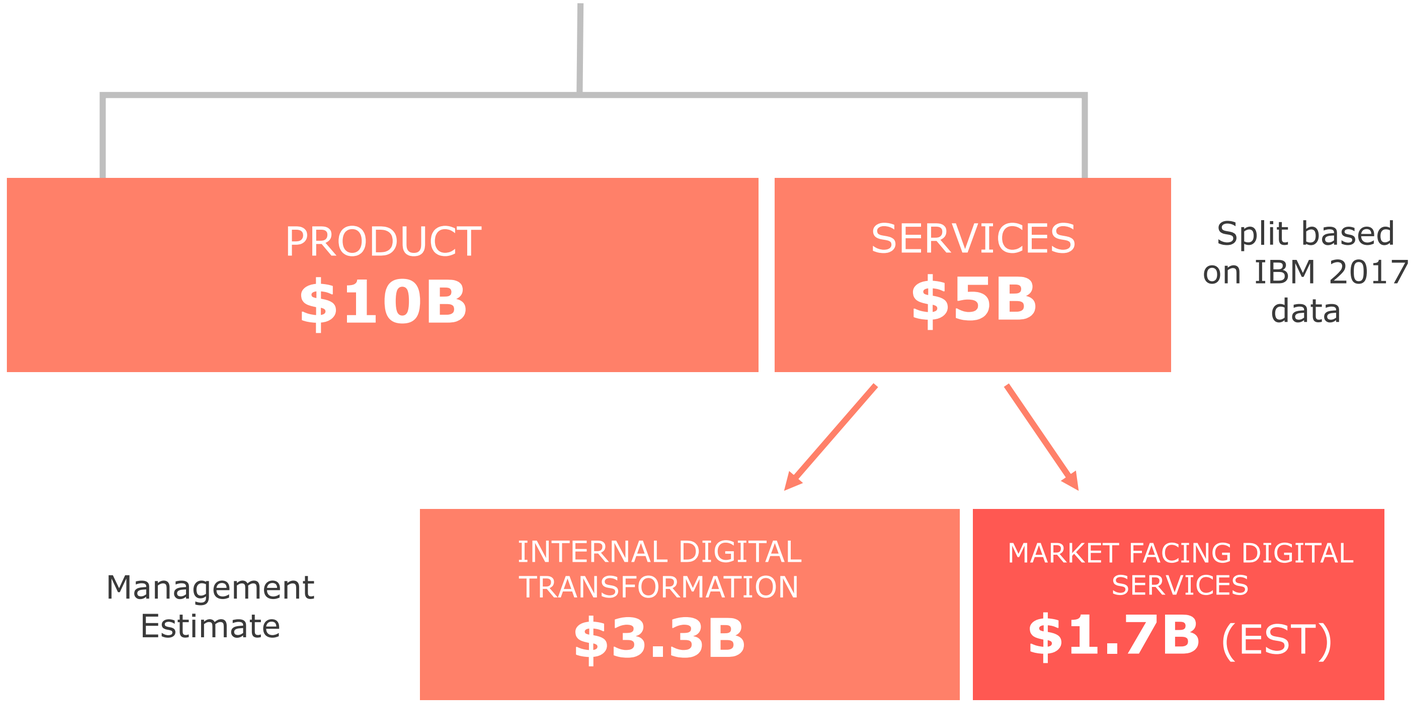
Traditional IT services firms, predominantly internally focused

ES Solutions Market: $1.7B market growing at ~10%pa

Total CAMSS Market $17B



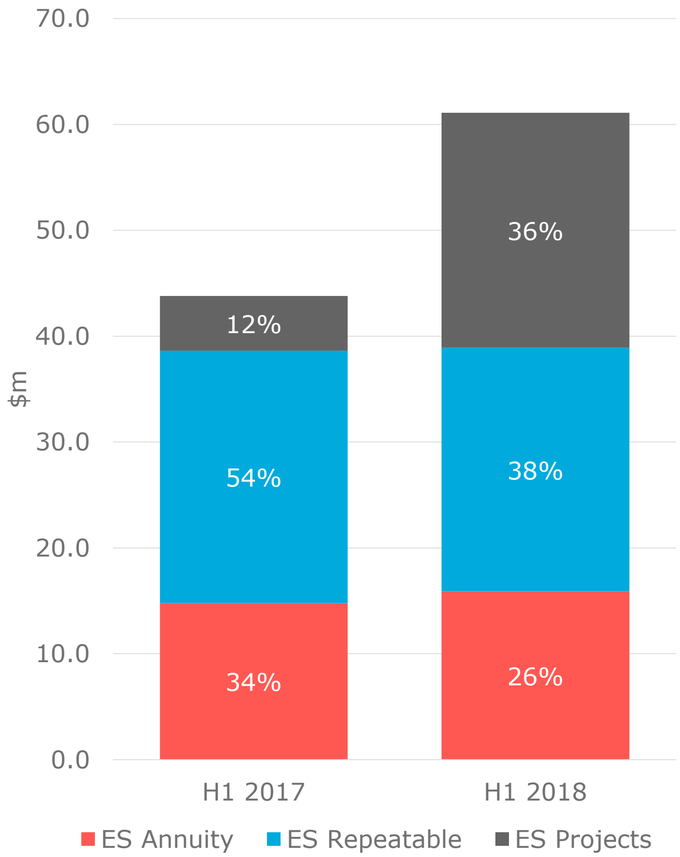
Australian CAMSS Market $15B



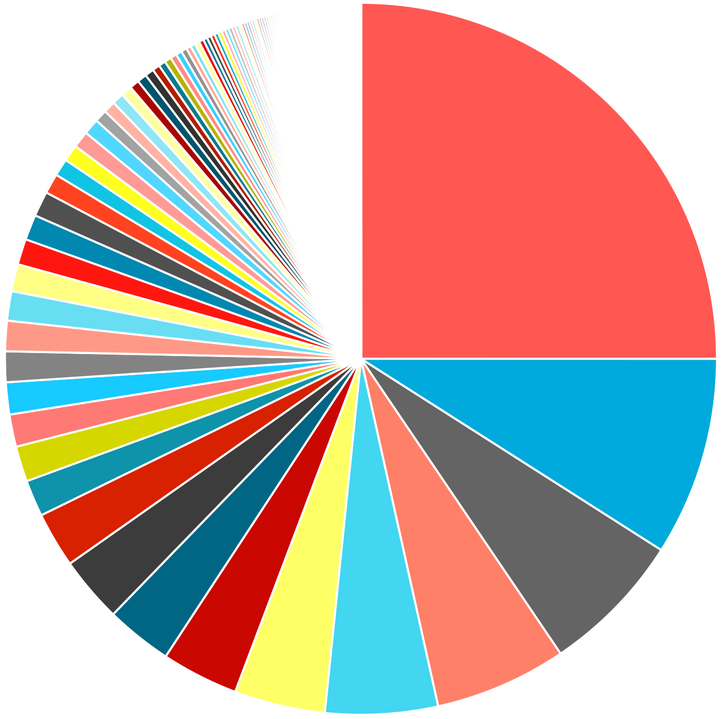
Note: Data in the Venn diagram is for ANZ. Australia is 88% of the total.

ES execution: revenue quality

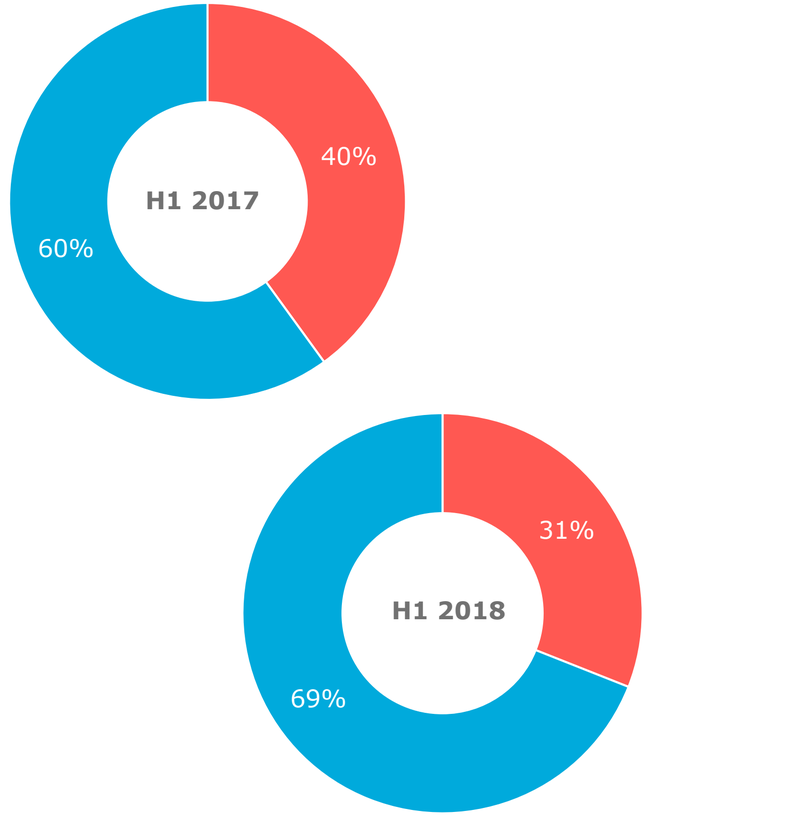
Revenue mix



Customer concentration



Multi-practice revenue



Definitions: 1. annuity revenue is contracted recurring income, 2. repeatable revenues are instances where we have been consistently billing the same customer for 2 or more years, 3. project revenue is where we have been billing the customer for less than two years, 4. a multi-practice customer is an ES customer who takes services from 2 or more of the practices (i.e. mobile, data and analytics, and cloud)

ES Customers: marquee brands

SMB: strategy and execution

SMB: facts and figures

1. **Approximately 280 employees** with offices in Melbourne, Sydney, Brisbane and Auckland.

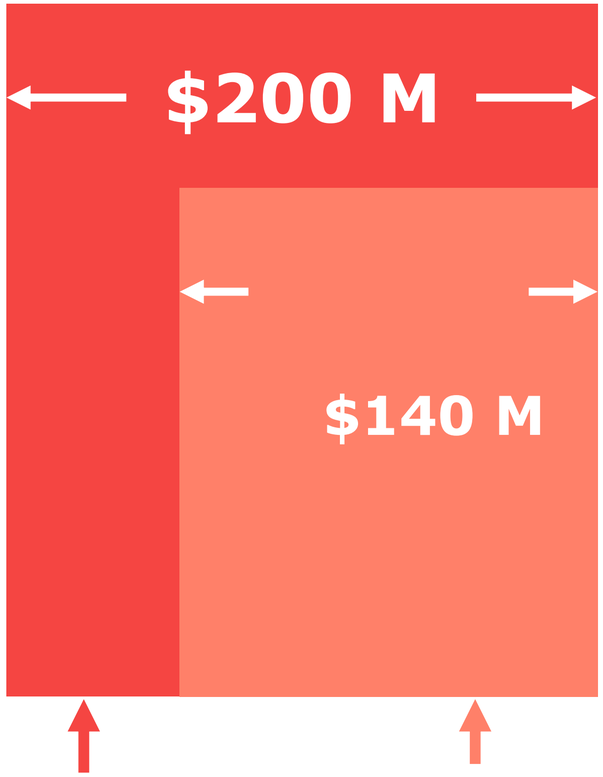
2. **Largest Australian** domain name and web hosting provider, with more than 40% market share.

3. **Rapidly growing digital solutions business** – the key to revenue growth and value creation. A market leader following the acquisition of WME.

4. We have helped fuel the success of **more than 600,000 Australian SMB customers.**

5. **A portfolio of recognizable SME brands.**

Domains and Hosting: $200M market growing <1%pa



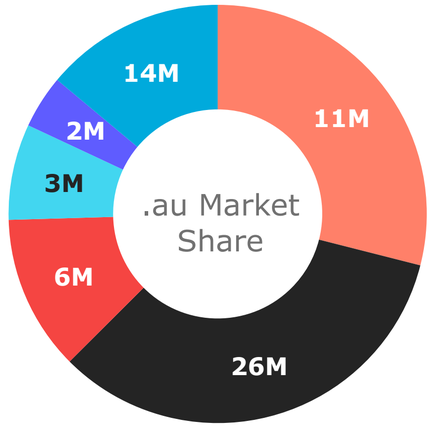
SMB spend $60M pa on domains

SMB spend $140M pa on hosting

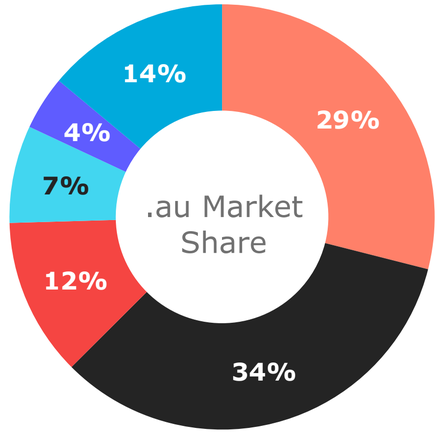
.AU Market Share

- ARQ
- #5
- #2
- #4
- Other
- #3

Value ($)



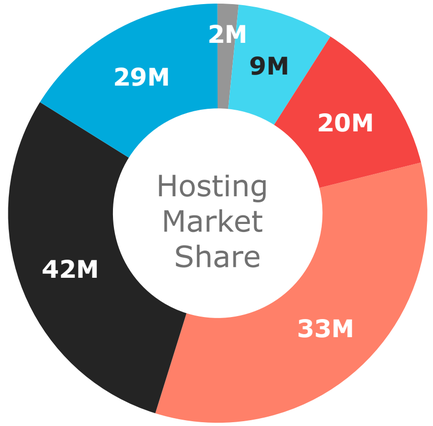
Volume (units)



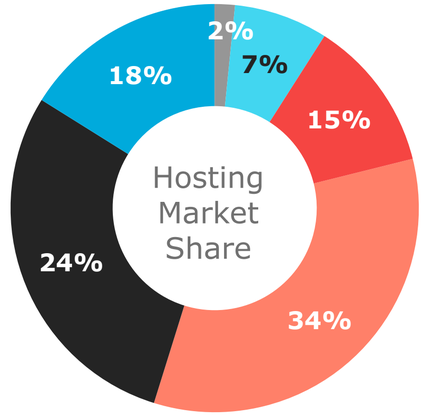
Hosting

- ARQ
- #5
- #2
- #4
- Other
- #3

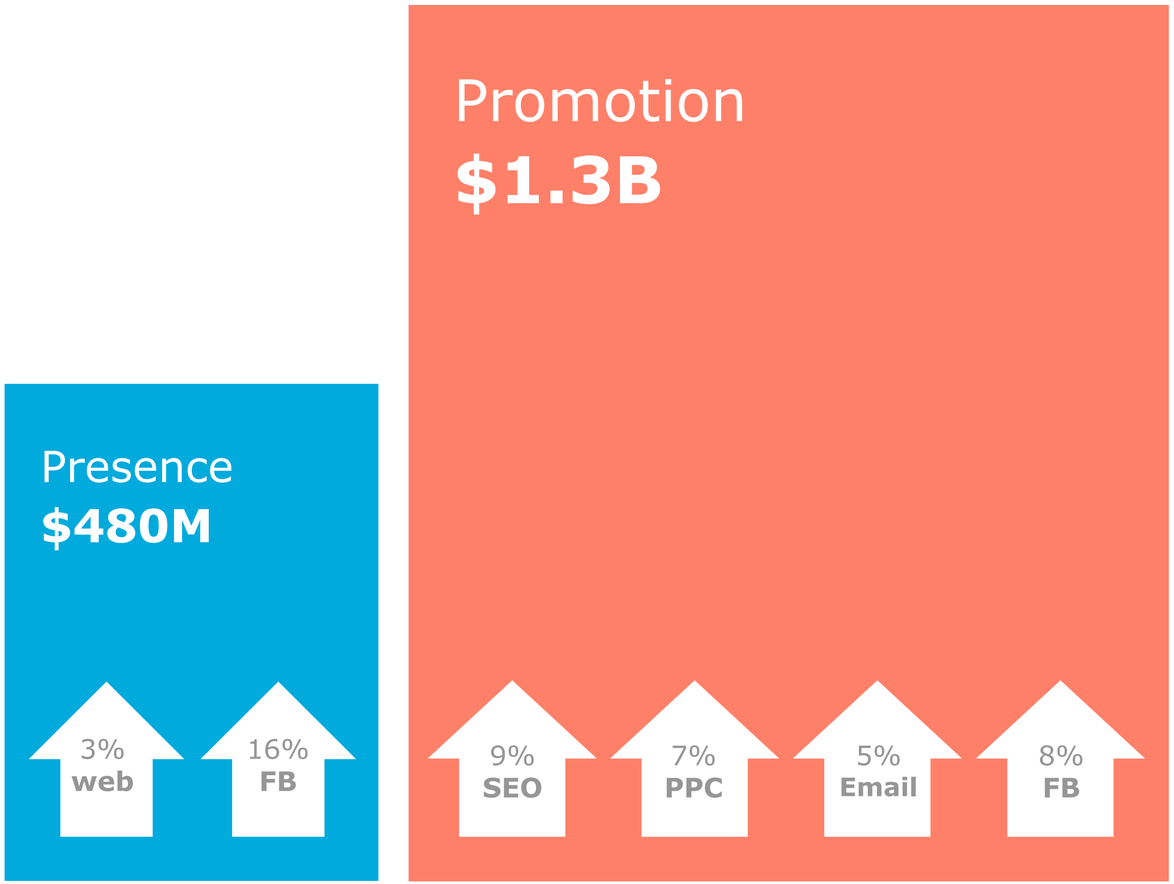
Value ($)

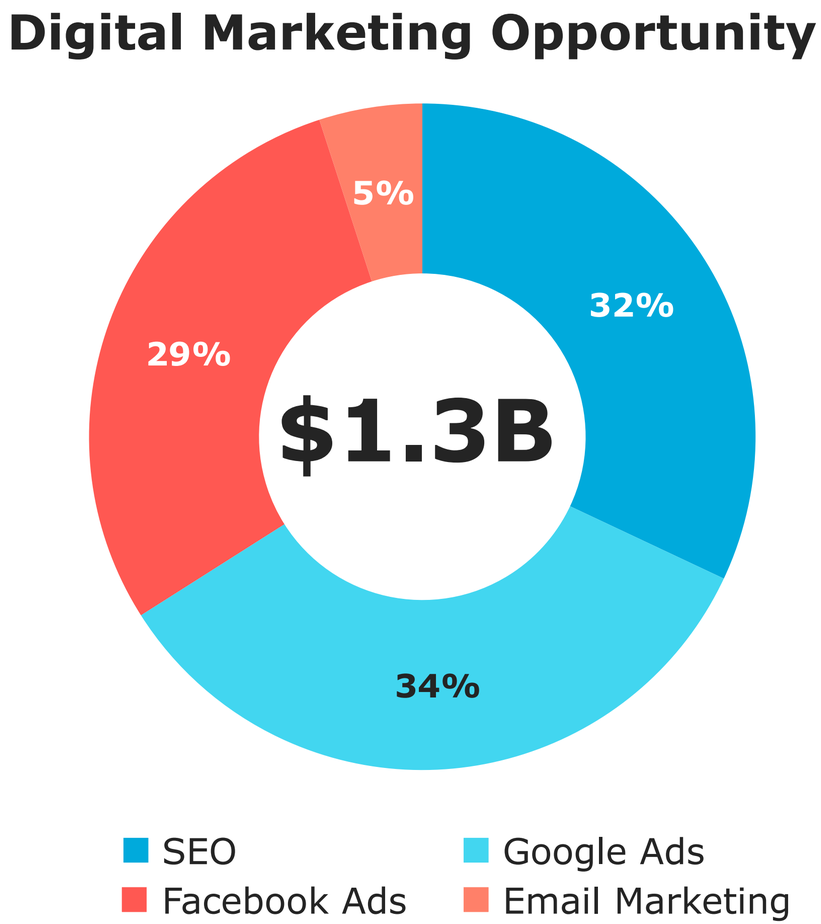


Volume (units)



Digital Solutions: $1.78b* market growing at ~10%pa



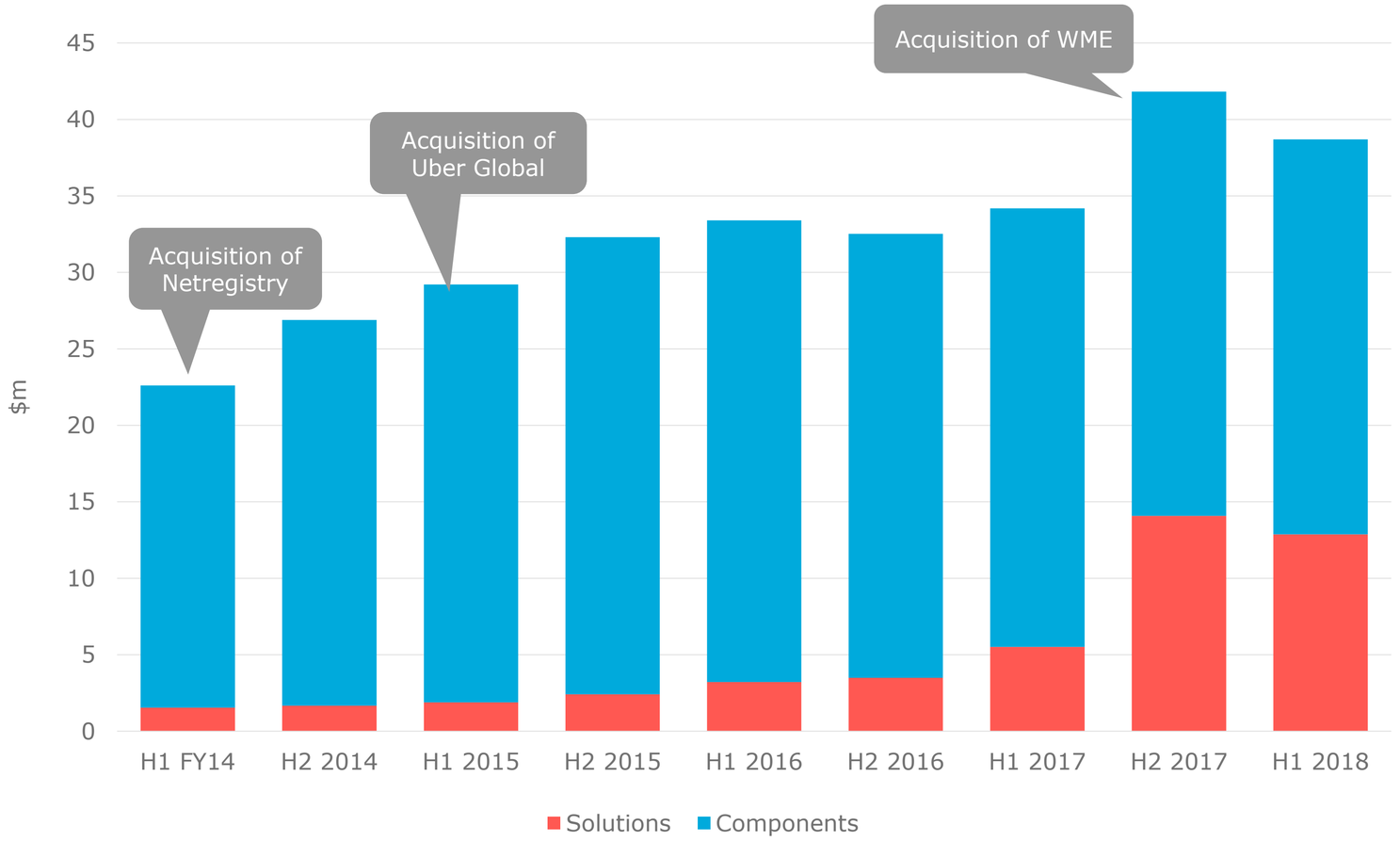


* NB based on a study commissioned by Arq Group in 2016. In this latest estimate of the addressable market the 2016 market sizing has been updated for growth in the past two years and in contrast to 2016, advertising spend (ie PPC and social) has been removed as customers pay directly for advertising spend and excluding advertising spend gives a more accurate view of Arq Group's addressable market.

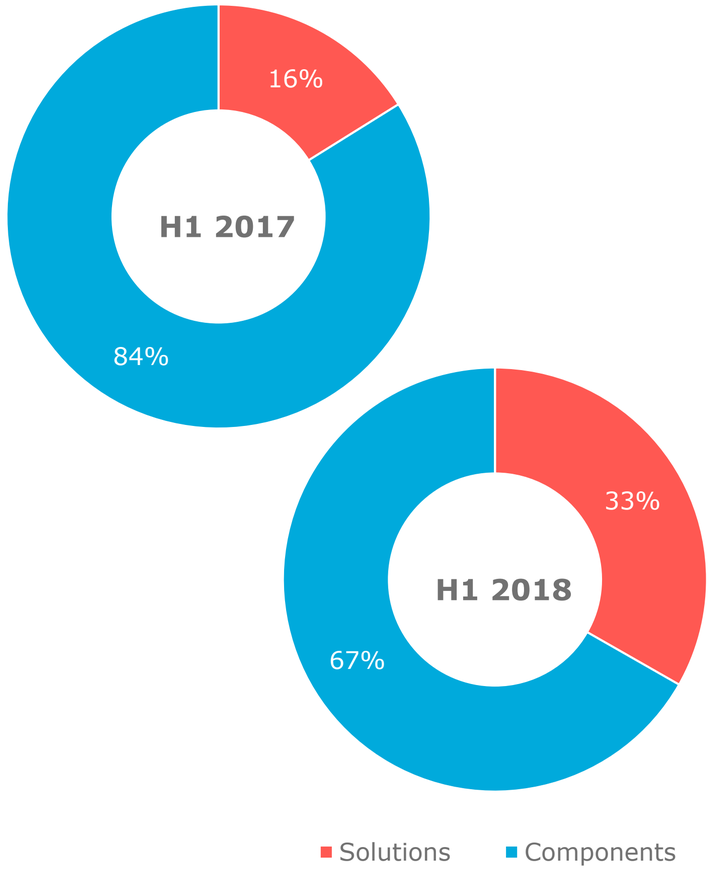
SMB execution: revenue growth

Higher contribution from Solutions revenue as a result of WME Group acquisition

Direct Revenue – Components vs Solutions



Direct Revenue Split by Segment



1. SMB financial prior to H1 FY17 have not been restated for impact from AASB 15: Revenue from Contracts with Customers

Summary

ARQ Group expects to return to growth in underlying EBITDA in FY19

- In 2017 and H1 FY18 the foundations were laid for continued growth
- Re-affirming guidance for 2018
- Following a pause in 2018 the Group expects to return to growth in 2019
  - the Group expects to grow underlying EBITDA by between 7% - 15% in FY19
- The Group expects that underlying EBITDA growth will accelerate in FY20

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Financial data

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