FY19 RESULTS
INVESTOR PRESENTATION

27 February 2020

Agenda

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Strategic Update

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Strategic Review: Status Update

- In September 2019 the Group announced a strategic review to explore all avenues to maximise shareholder value, following interest from several parties in the Enterprise and SMB divisions.
- In February 2020 the Group announced the signing of a binding agreement to sell the Enterprise Services Division to a consortium comprised of Quadrant Private Equity and several members of the Enterprise team for a purchase consideration of $35.0m .
- The Group is progressing discussions with interested parties for the SMB division and has received several non-binding letters of indicative proposals. The Group is progressing parties through due diligence with a view to firming up these proposals.
- The Board is encouraged by the strong interest in the SMB division. Given the complexity in the sale of the SMB business the Board anticipates that the completion of a sale of the SMB division will occur on or after Q2 2020.
- The Group continues to work with its lenders to ensure the orderly reduction of debt.
- In line with a simplified corporate structure, the Board has elected to reduce the number of Directors to four. As a result, Simon Martin and Naseema Sparks are retiring from the Board following the completion of the sale of the Enterprise business, expected to be 2 March 2020. In addition, the remaining directors have agreed to reduced their fees by 50%, effective from that date.

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Enterprise Transaction: Wrap-up and Cash

- In February 2020, the Group signed a binding agreement to sell the Enterprise Services Division for a purchase consideration of $35.0m on a cash free, debt free basis.
- The transaction is due to complete on 2 March 2020. An estimate of the final proceeds net of the remaining Infoready earnout, adjustments for working capital, debt-like items and transaction costs are outlined in the table below:

Item	Amount
Transaction consideration	$35.0m
Infoready earn-out settlement	($6.0m)
Restructuring costs	($0.5m)
Transaction costs	($2.9m)
Working capital and debt-like items adjustment	($4.0m)
Net proceeds	**$21.6m**

- The Group will use net proceeds received from the transaction to retire debt.
- The Group has assessed the fair value of the net assets of the Enterprise business and recognised an impairment adjustment of $81.3m to reflect the consideration outlined above. Refer to page 15 for further detail.
- Tax implications of the sale are still being finalised however any tax expense to the Group is not expected to be material.

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Net Debt: Proceeds from Enterprise sale to reduce debt

The Group has restructured its debt facilities

- The Group and its financiers have revised the terms of the existing finance facilities with ANZ and National Australia Bank. The facility provides committed funding of $68.7m (inclusive of bank guarantees of $5.5m), and an additional $7.5m in the form of uncommitted working capital funding tranches to be drawn down as required. The facility is secured against the Group's assets and replaces the Company's existing debt facilities of $142.0m.
- As a result of this restructure, all debt has been classified as a current liability.
- The following table presents the estimated pro forma net debt position upon completion of the sale of the Enterprise division:

	Amount
Bank Debt as at 31 December 2019	$61.9m
Cash as at 31 December 2019	($8.9m)
Net Debt as at 31 December 2019	**$53.0m**
Subsequent draw down (Feb20)	$2.5m
Expected net proceeds from Enterprise sale	($21.6m)
Pro forma net debt following completion	**$33.9m**

- Gross debt at completion is estimated to be $42.0m (plus bank guarantees against property leases of $5.5m).

FY19 Result: Achievement vs Guidance

Group result achieved was within communicated guidance underpinned by cost management

AASB 117 $m	Core			Non- Core	Continuing Operations	Discontinuing Operations	Arq Group	AASB16	
Year ended 31-Dec-19	**SMB Direct**	**Corporate**	**Arq Group**	**SMB Indirect**	**Total**	**Enterprise**	**Total**	**AASB 16 Adj.**	**Arq Group (Total)**
Underlying EBITDA	**$9.9**	**($5.8)**	**$4.1**	**$8.1**	**$12.2**	**$0.2**	**$12.4**	**$5.0**	**$17.4**
Guidance (High)	**$10.7**	**($6.9)**	**$3.8**	**$8.0**	**$11.8**	**($1.0)**	**$10.8**	**$5.0**	**$15.8**
Variance	($0.8)	$1.1	$0.3	$0.1	$0.4	$1.2	$1.6	$0.0	$1.6
Guidance (Low)	**$9.7**	**($6.9)**	**$2.8**	**$8.0**	**$10.8**	**($2.0)**	**$8.8**	**$5.0**	**$13.8**
Variance	$0.2	$1.1	$1.3	$0.1	$1.4	$2.2	$3.6	$0.0	$3.6

- Underlying EBITDA from continuing operations (prior to the application of AASB 16: *Leases*) was $0.4m ahead of the top of the communicated guidance range, driven by lower corporate costs.
- Underlying EBITDA from discontinued operations finished the year stronger than anticipated due to higher billable utilisation in December and discretionary cost control.

1. The Group result comprises the contribution from both "core" and "non-core" operations. Non-core operations are those parts of the business that are marked for divestment, have been divested, or are winding down. The core operations will be the driver of future performance.
2. Operating expenses excludes non-recurring expenses such as integration costs, transaction costs, movements in contingent consideration etc.
3. Underlying EBITDA excludes non-recurring expenses.
4. Financial information presented above is prepared under AASB 117: *Leases*.

SMB Update

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SMB Update

- Sale of TPP Wholesale business was completed in July 2019, with only the 'telco' portion of the Indirect business remaining with the Group an in run-off.
- The disputed receivable with a major telco customer is approximately $10.0m at 31 December 2019. A trial date has been set for July 2020, and the Group remains confident in our legal position.
- Reduction in overheads continuing post divestment, with a further $0.9m in direct costs and $2.8m in corporate costs per annum to come out in following months.
- The following table presents the financial results of the core SMB business adjusted on a pro forma basis for identified cost management opportunities:

	SMB Core FY19	Pro-Forma Cost Out	SMB Core Pro-Forma FY19	SMB Core FY20 Estimate	
Revenue	$66.4m		$66.4m		Growth of ~1-2% expected due to continued momentum in solutions.
COGS	($21.7m)		($21.7m)		
Gross Margin	**$44.7m**		**$44.7m**		Slight improvements in margin anticipated.
Operating Expenses	($34.8m)	$0.9m	($33.9m)		Improvements due to cost management opportunities.
EBITDA	**$9.9m**	**$0.9m**	**$10.8m**	**$11.0m - $12.0m**	
Corporate Overheads	($5.8m)	$2.8m	($3.0m)	($3.0m)	
Ongoing EBITDA	**$4.1m**	**$3.7m**	**$7.8m**	**$8.0m - $9.0m**	

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SMB Division: What has been achieved?

The recovery in SMB is progressing and we enter 2020 with a stronger business.

Issue	Status
Sale of TPP Wholesale business	Sale of TPP Wholesale business was completed in July 2019, with only the ‘telco’ portion of the Indirect business remaining.
Components churn causing YoY decline.	Stabilisation of churn in the Components business and seeing improved overall retention rates. This is the foundation that Solutions is being built from for future growth.
Optimising Components/Solutions cross-sell opportunities	New operational sales model implemented to optimise conversion of Components customers to Solutions in the NRG brand.
Decline of WME business	We’ve worked to rebuild the WME business leading to both improved quality of acquired revenue, and overall better customer retention.
New sales conversion and costs to acquire.	Optimisation of marketing spend, primarily in paid search, spending less and receiving a smaller number of much higher quality leads. Resulting in improved new customer acquisition costs and conversion rates.
Operational efficiency	Execution of a strong yet sustainable cost management strategy allowing the removal of ~$5m in total operational costs out of the business, without disrupting digital growth.

Appendices

Appendix 1:

FY19 Financial Performance (Continuing Operations)

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FY19 Result: Core and Non-Core Operations

Challenging performance in Enterprise with a recovery in the momentum of the Core SMB business.

AASB117 $m	Core					Non- Core	Continued Operations	Discontinued Operations	Arq Group	AASB16	
Year ended 31-Dec-19	**SMB Direct**	**Δ%**	**Corporate**	**Arq Group**	**Δ%**	**SMB Indirect**	**Total**	**Enterprise**	**Total**	**AASB116 Adj.**	**Arq Group (Total)**
Revenue	$66.4	(11%)	$0.0	$66.4	(11%)	$17.2	$83.6	$86.2	$169.7	$0.0	$169.7
COGS	($21.7)	(12%)	$0.0	($21.7)	(12%)	($6.0)	($27.7)	($51.9)	($79.6)	$0.0	($79.6)
Gross Margin	$44.7	(10%)	$0.0	$44.7	(10%)	$11.2	$55.8	$34.2	$90.1	$0.0	$90.1
Other Income	$0.0	(7%)	$0.1	$0.1	523%	$0.0	$0.2	$0.0	$0.2	$0.0	$0.2
Operating Expenses	($34.8)	(14%)	($5.9)	($40.7)	(14%)	($3.1)	($43.8)	($34.0)	($77.8)	$4.9	($72.9)
Underlying EBITDA	**$9.9**	**7%**	**($5.8)**	**$4.2**	**73%**	**$8.1**	**$12.2**	**$0.2**	**$12.5**	**$4.9**	**$17.3**
Non-recurring adjustments	($1.1)	(44%)	($41.7)	($42.8)	152%	($0.4)	($43.2)	($82.6)	($125.8)	$0.0	($125.8)
Reported EBITDA	**$8.8**	**21%**	**($47.5)**	**($38.6)**	**168%**	**$7.6**	**($31.0)**	**($82.2)**	**($113.2)**	**$4.9**	**($108.3)**

1. The Group result comprises the contribution from both "core" and "non-core" operations. Non-core operations are those parts of the business that are marked for divestment, have been divested, or are winding down. The core operations will be the driver of future performance.
2. Operating expenses excludes non-recurring expenses such as integration costs, transaction costs, movements in contingent consideration etc.
3. Underlying EBITDA excludes non-recurring expenses.
4. Financial information presented above is prepared under AASB 117: *Leases*.
5. Period on period movement has been calculated using financial information prepared under AASB 117: *Leases*.

SMB Direct: Segment Results (Core)

Year ended 31-Dec-19	FY19 AASB 16	FY19 AASB 117	FY18 AASB 117	Δ%[1]	Notes (Movements relate to numbers presented under AASB 117)
Revenue (excl. interest)	$66.4m	$66.4m	$74.5m	(11%)	Decline in revenue driven by poor WME new sales reducing subscription revenue YoY and continued decline in Direct Components.
COGS	($21.6m)	($21.7m)	($24.7m)	(12%)	
Gross margin (excl. interest)	**$44.7m**	**$44.7m**	**$49.8m**	**(10%)**	Decrease due partially to reduced revenue, as well as successful cost saving initiatives around FTE's, domain name costs and infrastructure expenses
Other income	$0.0m	$0.0m	$0.0m	(7%)	
Operating expenses	($34.8m)	($34.8m)	($40.5m)	(14%)	Favourable decline in operating costs due to sustainable cost management initiatives, including headcount efficiencies.
Underlying EBITDA	**$9.9m**	**$9.9m**	**$9.3m**	**7%**	Favourable YoY EBITDA driven by cost saving initiatives.
Underlying EBITDA Margin	**15%**	**15%**	**12%**	**2%**	
Non-recurring adjustments	($1.1m)	($1.1m)	($2.0m)	(44%)	One-off costs integrating acquired businesses.
Reported EBITDA	**$8.8m**	**$8.8m**	**$7.3m**	**20%**	

1. The segment results have been presented using financial information prepared under AASB117: *Leases*. Refer to the table in Appendix 2 that presents a summary of the financial impacts of the application of AASB 16 at a Group level.

SMB Indirect: Segment Results (Non-core)

Year ended 31-Dec-19	FY19 AASB 16	FY19 AASB 117	FY18 AASB 117	Δ%[1]	Notes (Movements relate to numbers presented under AASB 117)
Revenue (excl. interest)	$17.2m	$17.2m	$25.6m	(33%)	Decrease driven by sale of SMB reseller business from Aug19 and continued decline in remaining indirect services.
COGS	($6.0m)	($6.0m)	($10.3m)	(42%)	
Gross margin (excl. interest)	**$11.2m**	**$11.2m**	**$15.3m**	**(27%)**	Increased margin % due to remaining high margin indirect customers.
Other income	$0.0m	$0.0m	$0.0m	(43%)	
Operating expenses	($3.2m)	($3.2m)	($2.3m)	35%	Increase in operating expenses driven by integration costs and Telstra dispute
Underlying EBITDA	**$8.0m**	**$8.0m**	**$13.0m**	**(38%)**	Unfavourable impact of removal of SMB reseller business.
Underlying EBITDA Margin	**47%**	**47%**	**51%**	**(4%)**	
Non-recurring adjustments	($0.4m)	($0.4m)	$0.0m	-	One-off costs related to sale of SMB reseller business.
Reported EBITDA	**$7.6m**	**$7.6m**	**$13.0m**	**(41%)**	

1. The segment results have been presented using financial information prepared under AASB117: *Leases*. Refer to the table in Appendix Two that presents a summary of the financial impacts of the application of AASB 16 at a Group level.

Arq Group: Impairment of non-monetary assets

- As part of the annual review for impairment the Group has recognised an impairment loss at 31 December 2019 to write down the book value of non-monetary assets of the Enterprise business to its fair value (less costs to sell).
- The Group considers the fair value of the Enterprise business to equal the consideration to be paid, less associated transaction costs and estimated working capital adjustment, being $35.0m less $3.3m for transaction costs plus $5.5m as our best estimate of the working capital adjustment. This has resulted in an impairment loss of $81.3m being recognised in the FY19 result.
- As a result of the divestment of the Enterprise business unit, a number of allocated costs have now been absorbed by the SMB business unit, until which time the Group can eliminate these costs. This has resulted in a reduction in the estimated ‘fair value ’ calculation of the SMB business unit, and the Group has recognised a $38.8m impairment charge to reflect this.

Appendix 2:

Adoption of AASB 16: *Leases*

Adoption of AASB 16: *Leases*

- The Australian Accounting Standards Board (AASB) has issued a new leases standard, AASB 16: *Leases* ('AASB 16'), which became effective from 1 January 2019. This standard supersedes the previous leases standard AASB 117: *Leases*.
- The Group has identified premises contracts (as both a lessor and a lessee) and equipment lease contracts (as a lessee) that were impacted by the application of the new standard.
- The impact of the adoption of AASB 16 results in a reallocation of operating expenses to depreciation and an increase of net assets upon transition. The primary driver of the P&L impact is that premises contracts (as a lessor) changes classification from an operating lease under AASB 117 to a finance lease under AASB 16. This change results in lessor premises income previously recognised in the P&L now being recorded on the balance sheet, with P&L impacts limited to interest income under AASB 16. There is no impact to net cash flows.
- The Group has finalised the financial impact resulting from the application of the new standard from 1 January 2019. The Group has elected to adopt the modified transition approach, which does not require restatement of prior period comparatives.
- To enable comparability between the prior period comparatives and the current year's results, the Group has disclosed the impact of adopting AASB 16 for the full year results on the following page.

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FY19 Result: Adoption of AASB 16

The new leasing standard (AASB 16) shifts lease costs from opex to depreciation and interest, nominally increasing EBITDA (no cash impact)

Year ended 31-Dec-19	FY19	Restatement to AASB 117	FY19 AASB 117	FY18 AASB 117	Δ%[1]	Notes
Revenue (excl. interest)	$83.6m	$0.0m	$83.6m	$100.1m	(16%)	
COGS	($27.7m)	($0.0m)	($27.7m)	($35.0m)	21%	
Gross margin (excl. interest)	**$55.9m**	**($0.0m)**	**$55.9m**	**$65.1m**	**(14%)**	
Other income	$1.3m	$0.0m	$1.3m	$0.1m	1,830%	
Operating expenses	($85.6m)	($2.6m)	($88.2m)	($66.7m)	32%	$2.6m of lease costs moved from opex to depreciation and interest.
Reported EBITDA	**($28.4m)**	**($2.6m)**	**($31.0m)**	**($1.5m)**	**1,901%**	
D&A	($10.5m)	$2.4m	($8.1m)	($13.4m)	(39%)	Depreciation impact of change in standard.
Net interest expense	($4.5m)	$0.3m	($4.2m)	($2.7m)	53%	Net interest impact of change in standard.
Income tax credit/ (expense)	($0.2m)	($0.2m)	($0.4m)	$2.2m	(119%)	Net income tax impact of change in standard.
Profit / (loss) from discontinued operation (net of tax)	($85.3m)	$0.1m	($85.2m)	$13.1m	(750%)	
Reported NPAT	**($128.9m)**	**($0.0m)**	**($128.9m)**	**($2.3m)**	**5,441%**	

Note: Figures throughout this document may not be exact due to rounding and includes non-IFRS financial information that is relevant for users understanding the performance of the business.

1. Period on period movement has been calculated using financial information prepared under AASB117: *Leases*.

Appendix 3:

FY19 Reported Results

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FY19 Results: Reported

Year ended 31-Dec-19	FY19 AASB 16	FY19 AASB 117	FY18 AASB 117	Δ%[1]	Notes (Movements relate to numbers presented under AASB 117)
Revenue (excl. interest)	$83.6m	$83.6m	$100.1m	(16%)	Decline largely driven by removal of SMB reseller business, including reduced WME subscription base and decline in Direct Components.
COGS	($27.7m)	($27.7m)	($35.0m)	21%	
Gross margin (excl. interest)	**$55.9m**	**$55.9m**	**$65.1m**	**(14%)**	Increase in margin % due to removal of low margin TPP Wholesale business.
Other income	$1.3m	$1.3m	$0.1m	1,830%	
Operating expenses	($85.6m)	($88.2m)	($66.7m)	32%	Increase in operational expenses is largely due to impairment of goodwill in remaining businesses. Partially offset by savings through cost cuts across the business.
Reported EBITDA	**($28.4m)**	**($31.0m)**	**($1.5m)**	**1901%**	Decreased EBITDA driven by impairment to goodwill and removal of SMB reseller business.
D&A	($10.5m)	($8.1m)	($13.4m)	(39%)	Decline in D&A due to accelerated amortisation of WebCentral brand in FY18.
Net interest expense	($4.5m)	($4.2m)	($2.7m)	53%	Increase due to interest on lease liabilities and debt facility fees.
Income tax credit/ (expense)	($0.2m)	($0.4m)	$2.2m	(119%)	
NPAT from Continuing Operations	**($43.7m)**	**($43.7m)**	**($15.4m)**	**183%**	
Profit / (loss) from discontinued operation (net of tax)	($85.3m)	($85.2m)	$13.1m	(750%)	Impairment of Enterprise Business
Reported NPAT	**($128.9m)**	**($128.9m)**	**($2.3m)**	**5,441%**	

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1. Period on period movement has been calculated using financial information prepared under AASB117: *Leases*.

FY19 Results: Balance Sheet

Year ended 31-Dec-19	FY19 AASB 117	FY18 AASB 117	Δ%[1]	Notes
Cash	$8.9m	$8.3m	8%	
Other current assets	$27.3m	$40.4m	(32%)	Decrease primarily attributed to reduced trade and other receivables from removal of SMB reseller business and Enterprise business.
Assets held for sale	$38.5m	$32.7m	18%	
Non-current assets	$116.6m	$251.0m	(54%)	Decrease due to impairment of SMB and Enterprise businesses.
Total assets	**$191.3m**	**$332.3m**	**(42%)**	
Current liabilities	$107.2m	$64.1m	67%	Increase primarily attributed to bank debt being allocated to current liabilities due to payment of the entire debt in the next 12 month is considered highly probable.
Liabilities directly associated with assets held for sale	$15.9m	$11.3m	41%	
Non-current liabilities	$35.0m	$94.4m	(63%)	Decrease primarily attributed to bank debt being allocated to current liabilities due to payment of the entire debt in the next 12 month is considered highly probable.
Total liabilities	**$158.2m**	**$169.8m**	**(7%)**	
Equity	**$33.1m**	**$162.5m**	**(80%)**	

Note: Figures throughout this document may not be exact due to rounding and includes non-IFRS financial information that is relevant for users understanding the performance of the business.

1. Period on period movement has been calculated using financial information prepared under AASB117: *Leases*.

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FY19 Results: Cash Movement

Year ended 31-Dec-19	FY19 AASB 117	FY18 AASB 117	Notes
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of service revenue and recoveries	$187.4m	$228.9m	Decrease in cash receipts driven by decline in business performance.
Payments to suppliers and employees	($168.5m)	($200.8m)	Cost saving initiatives have driven operational spending to decline.
Net Interest Paid	($3.2m)	($2.6m)	
Bank charges and credit card merchant fees	($1.1m)	($1.5m)	
Net income tax paid	($3.3m)	($5.6m)	
NET CASH FLOWS FROM OPERATING ACTIVITIES	**$11.3m**	**$18.3m**	
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment and intangible assets	($3.4m)	($13.9m)	Favourable decline primarily due to $8.6m in office fit outs in FY18.
Proceeds from subleases	$1.9m	$0.0m	
Payment of financial liability for InfoReady earn out	($4.1m)	($5.7m)	
Return of capital from Tiger Pistol	$0.5m	$0.0m	
Transaction costs	($2.4m)	($0.1m)	Transaction costs from sale of TPPW
Sale of the TPPW Reseller business	$21.3m	$0.0m	
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES	**$13.7m**	**($19.6m)**	
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	$7.4m	$0.0m	Additional loan drawdown during FY19.
Repayment of borrowings	($21.3m)	$0.0m	Proceeds from sale of TPP Wholesale business.
Payment of dividend on ordinary shares	($4.4m)	($10.4m)	
Payment of dividend to non-controlling interests	($0.1m)	($0.1m)	
Payment of lease liabilities	($6.0m)	($0.1m)	Payment of Sydney, Melbourne and Brisbane offices
NET CASH FLOWS USED IN FINANCING ACTIVITIES	**($24.3m)**	**($10.6m)**	
NET DECREASE IN CASH AND CASH EQUIVALENTS	**$0.7m**	**($12.0m)**	
Cash and cash equivalents at beginning of period	$8.3m	$20.3m	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$8.9m**	**$8.3m**	

Note: Figures throughout this document may not be exact due to rounding and includes non-IFRS financial information that is relevant for users understanding the performance of the business.

1. Period on period movement has been calculated using financial information prepared under AASB117: *Leases*.