

Spirit Telecom Limited (STI)

H1/19 Market Update

February 2019

Spirit
Different. Better.

Business Update H1/19

STRONG DEMAND FOR SPIRIT B2B HIGH SPEED INTERNET SERVICES

- Small uplift in revenue to $8.2M, due to a delay in deployment of Melbourne high speed network (now complete) and ongoing decline in non-core/Legacy revenue (impact abating)
- Gross profit up to $5.9M (up 9.6% YOY)
- Underlying EBITDA at $0.362M, due to investment in marketing, salaries and network coverage expansion
- H2/19 will see EBITDA margins lift towards previous levels (circa 12% and trending)
- Significant business demand for on-net high speed business grade products in under-served NBN geographies
- Spirit now provides B2B products with speeds up to 1 Gb
- $3.8M in SME/Bus sales contracts (excluding Horsham). A Total Contract Value increase of 22% on H1/18
- Network expansion now in market, with 10 Gb ring across Melbourne able to service over 10,000* SME's

KEY FINANCIAL METRICS

Metric		H1'18	H1'19	COMMENTARY
Revenue	↑	$8.1M	$8.2M	• Strong demand for B2B on net services • Growth impacted by delay in network roll out (resolved) • Impact of non-core/legacy revenue decline of $400k (abating)
Gross Profit	↑	$5.4M	$5.9M	• Growing for on-net services • Demonstrates operating leverage
Underlying EBITDA	↓	$1.6M	$0.362M	• Down due to network & marketing investments misaligned on timing

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*Based on Illion business count for SME's >$1M Revenue +5 FTE for Melbourne Metro.

Business Highlights H1/19

- High margin network traffic up 8%
- Targeted SME/Business revenue up 10% on H1/18
- Gross margin expanded from 66% to 72% revenue

- Completed 10Gb Melbourne network upgrade
- Awarded $1.7M tender to build a superfast network in Horsham
- Shortlisted for 2 additional regional high speed network tenders

- Completed all projects that were the product of the Dec ‘17 capital raise



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H2/19 and Outlook



High Speed B2B Services

- Strong Demand across SME – Corporate business segments
- New 10Gb ring product range launched – Sky Speed products
- Capitalise by targeting 10,000 under serviced SME's in VIC & QLD
- Sky Speed product price competitive with Fibre with speeds from: 50mbps – 1Gb
- Increase average Total Contract Values for B2B Services



Bespoke High Speed Networks builds

- Victorian State Government awarded Spirit $1.7M network build in Horsham (circa 3,500 businesses)
- The network will allow Spirit to sell to SME's across the Wimmera region
- Short listed for two other network builds
- Signed MSA to execute on Public Private Partnership with Victorian Government fibre owner
- In final negotiations on a JV trial with national retail centre owner to provision high speed Internet B2B services



M&A

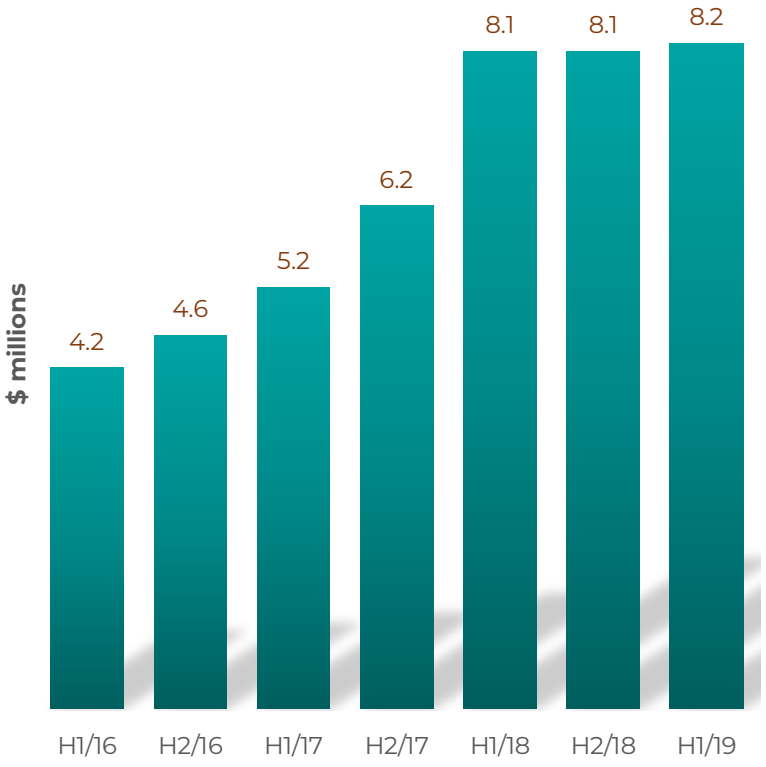
- Focus on acquisition targets with complementary wireless network assets
- Current short list pipeline of 2-3 targets moving through Due Diligence gates

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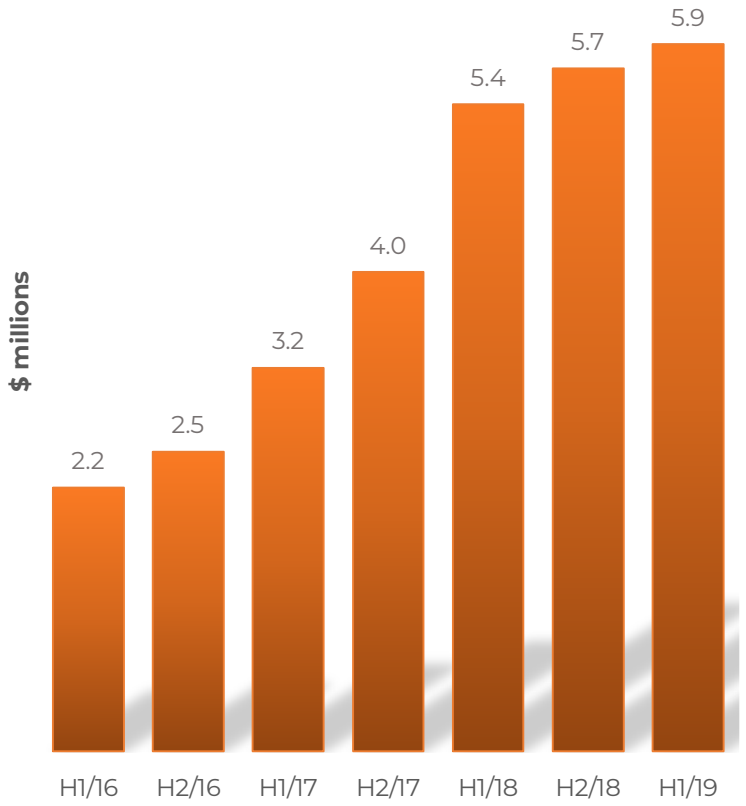
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H1/19 Financial Performance Summary

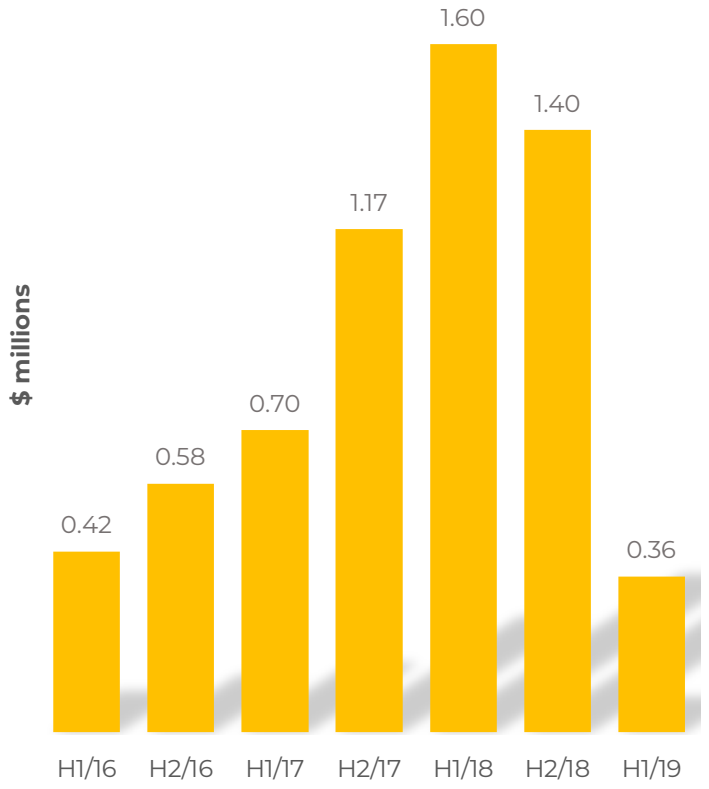
Revenue
1.3% increase from H1/18



Gross Profit
9.6% increase from H1/18



Underlying[1] EBITDA
77% decrease from H1/18

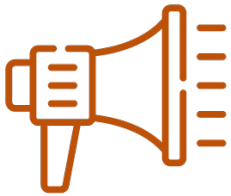


1. Underlying EBITDA excludes ongoing acquisition activity and share based payments

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Additional Opex investments H1/19

Marketing & Leads +$294K



- B2B Leads up 70% from H2/18
- Brand development pivoted to new high speed 500 Mbps – 1 Gb services
- Launch of new Cloud based voice services

Skills & People +$656K



- Wins across Government contracts
- SME & Corporate Telco sales skills now embedded
- Lead generation skills

Network Expansion +$492k



- Addressable market expansion up to 10,000 SME's
- Increased Network capacity
- Built in Redundancy

IT System Upgrades +$91K



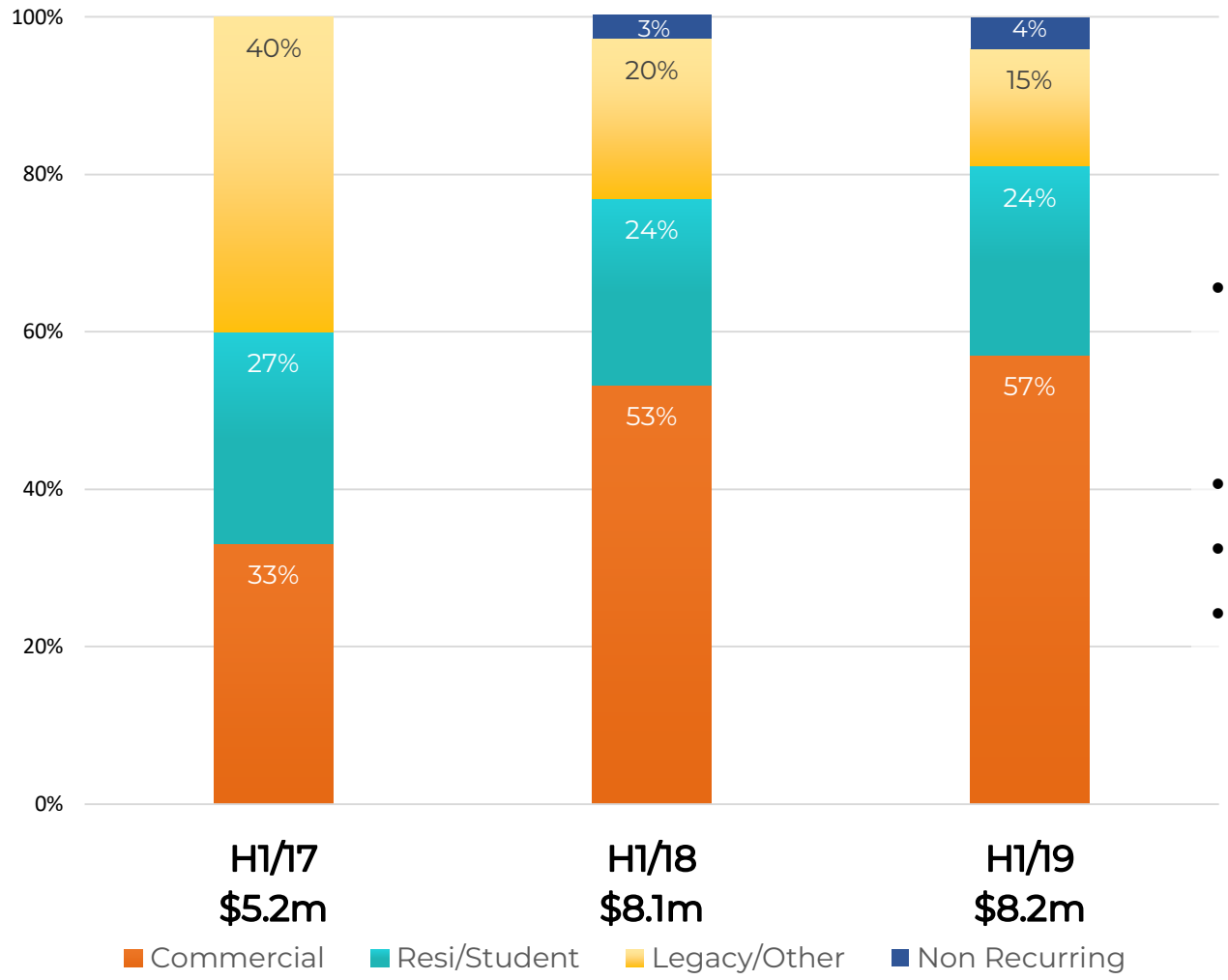
- Building scale into back office for On-Net services
- ERP rollout (NetSuite) delivering better, faster information
- Removal of disparate accounting platforms

H1/19 Opex was $5.7M. H2/19 Opex will normalise to circa $5.2m (before M&A activity)

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Revenue Breakdown



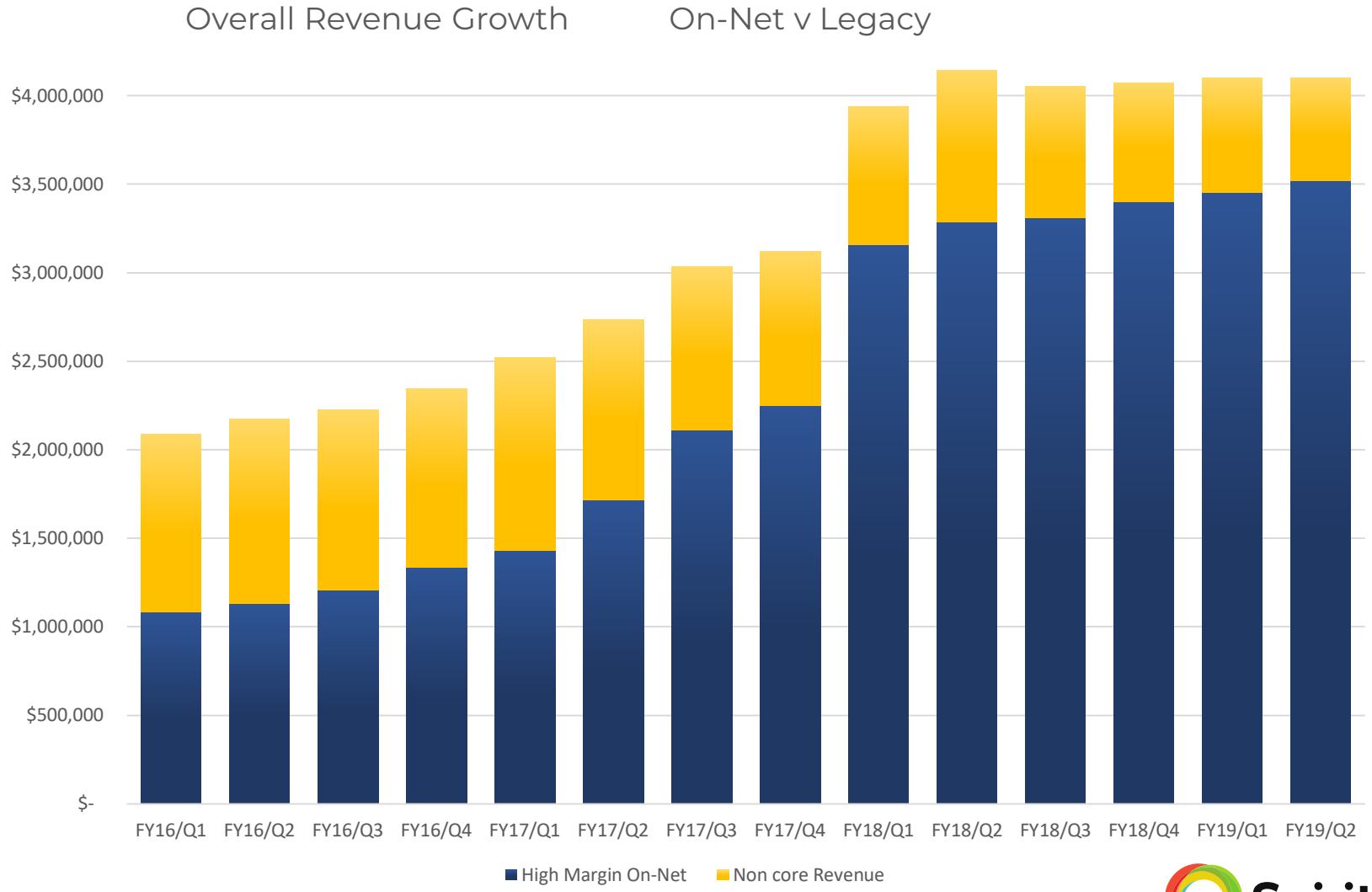
- Driving towards SME/Business Sector
  - Higher margin
  - Higher ARPU
- Delivering Superfast speeds on Spirit's network
- Resulting in Gross Margin increase from 67% to 73%
- Impact of Legacy revenue decline is abating

Legacy revenue includes copper based services (ADSL/PSTN etc.) and other non-core services

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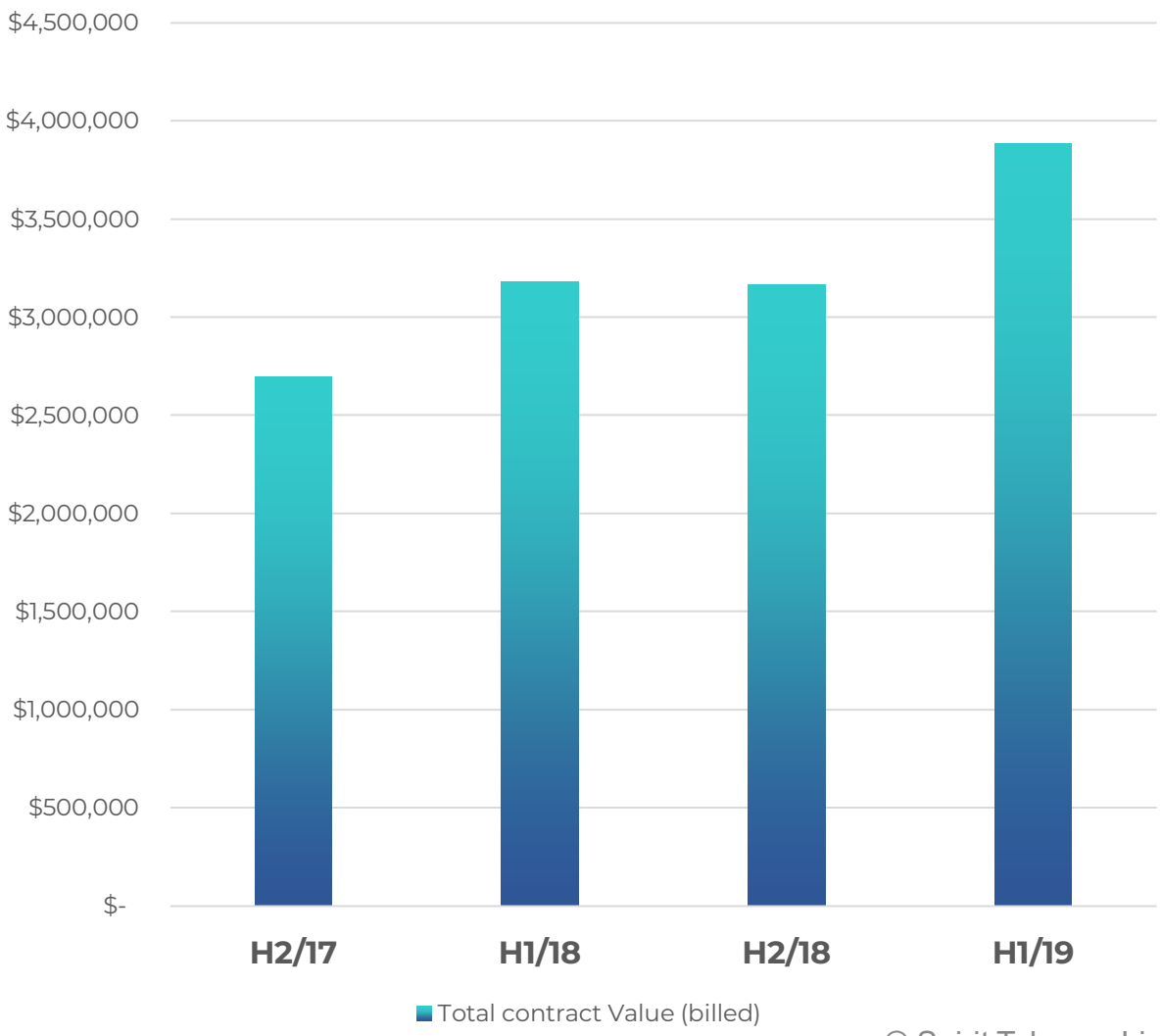
14 Consecutive Quarters of ‘On-Net’ Growth

- High margin network revenue grew by 8% on H1/18
  - SME/Business up 10%
  - Resi/Student flat
- Over the same period Non-core/Legacy revenue decreased by 25%
- Driving higher gross margin up 9%



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Total Contract Value (TCV)



- Positive movement in TCV
  - 22% growth in TCV on H1/18
  - SME/Business growth encouraging
  - More network will deliver more opportunity
  - Excludes Horsham

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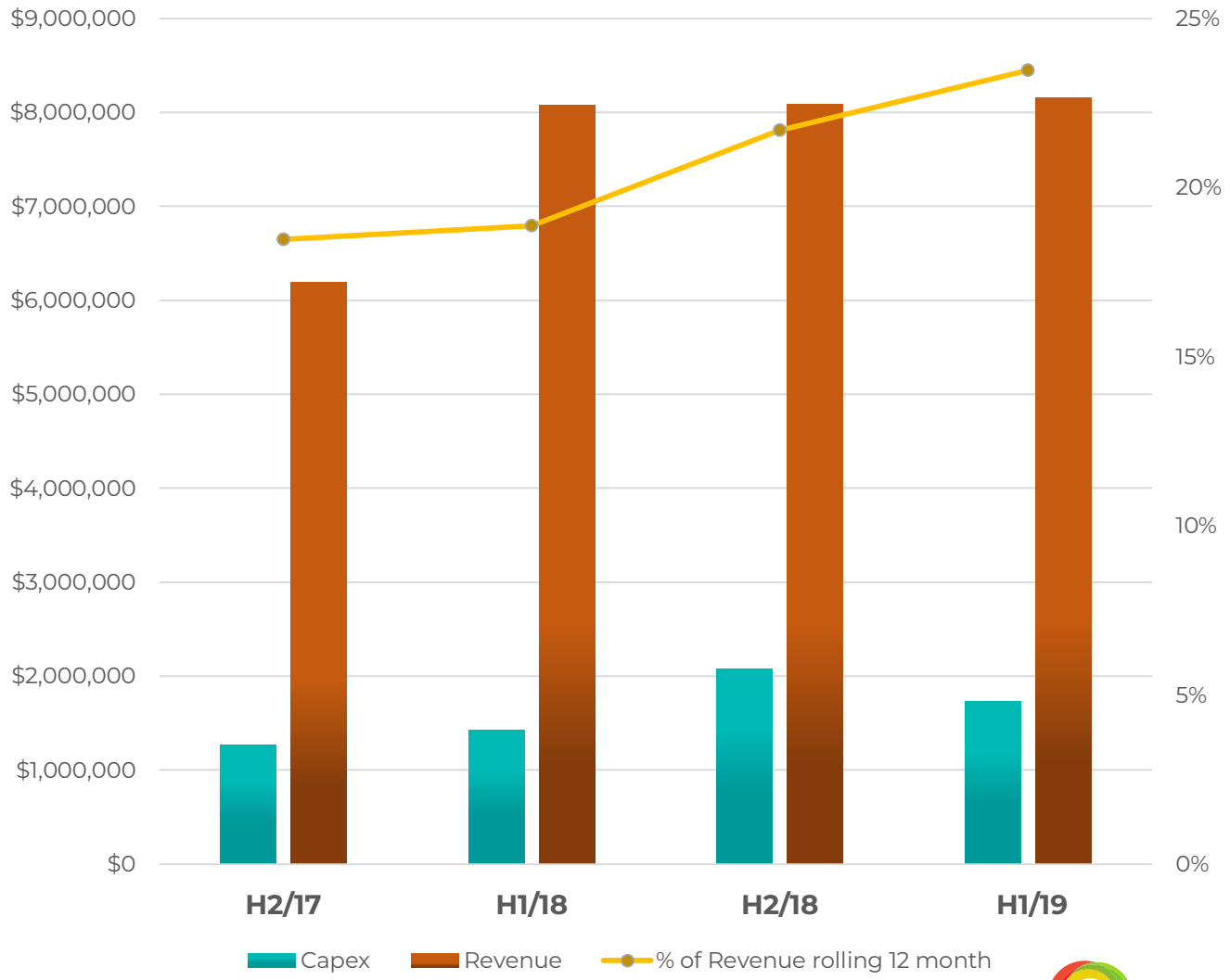
Capex relative to Revenue



Capex investment peaked in H2/18, in line with the network expansion.

Horsham not included ($1.7M) as this is grant funded

Expected that Capex/Revenue % will lower as customer numbers on Spirit's network increases.



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Profit & Loss

High margin SME/Business customers added at the expense of low margin legacy customers and products

*Opex increase due to growth initiatives:

- Marketing/Lead generation +$294k
- People +$656k
- Network expansion +$492k
- IT systems upgrades +$91k

H2/19 Opex will reduce to $5.2M

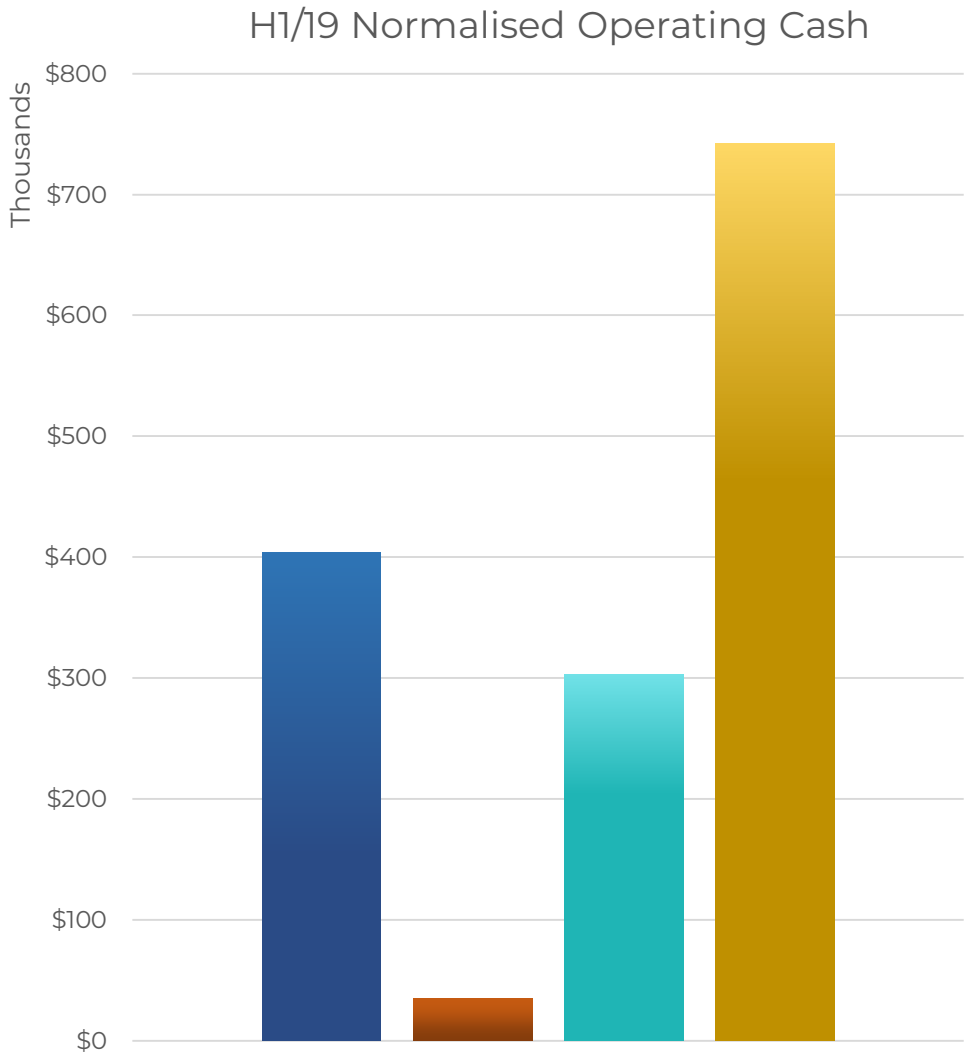
EBITDA will revert to previous levels in H2/19
(circa 12% and trending)



	H1/18	H1/19	
SME/Business	4,296,617	4,710,104	↑
Student/Resi	1,922,441	1,934,262	↑
Other/Legacy	1,634,940	1,233,794	↓
Non-recurring	245,706	325,651	↑
Revenue	**8,099,704**	**8,203,811**	↑
Gross Profit	**5,458,985**	**5,979,496**	↑
Gross Profit %	67%	73%	↑
Opex*	4,231,743	5,720,316	↑
EBITDA	**1,227,242**	**259,180**	↓
EBITDA %	15%	3%	↓
Interest	141,778	139,253	↓
Depreciation & Amortisation	600,421	818,726	↑
Tax	246,966	(136,789)	↓
NPAT	**238,077**	**(562,010)**	↓

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Operating Cash Breakdown

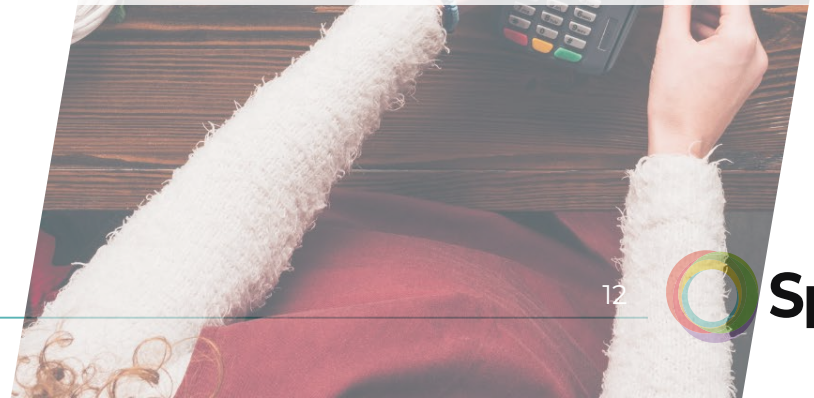




Normalised net operating cash flow of $742K for H1/19

M&A activity is ongoing

Cash in bank $3M at end of period



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Top 20 Shareholders as at 22nd February 2019



No of Shareholders: 971

ISSUED CAPITAL

Fully paid ordinary shares:	245,041,155
STIO Listed Options:	28,732,256*
STAC Unlisted Options:	2,500,000
STAB Performance Rights:	3,042,418

*exercisable at 19.688 cents expiring on 31 July 2019

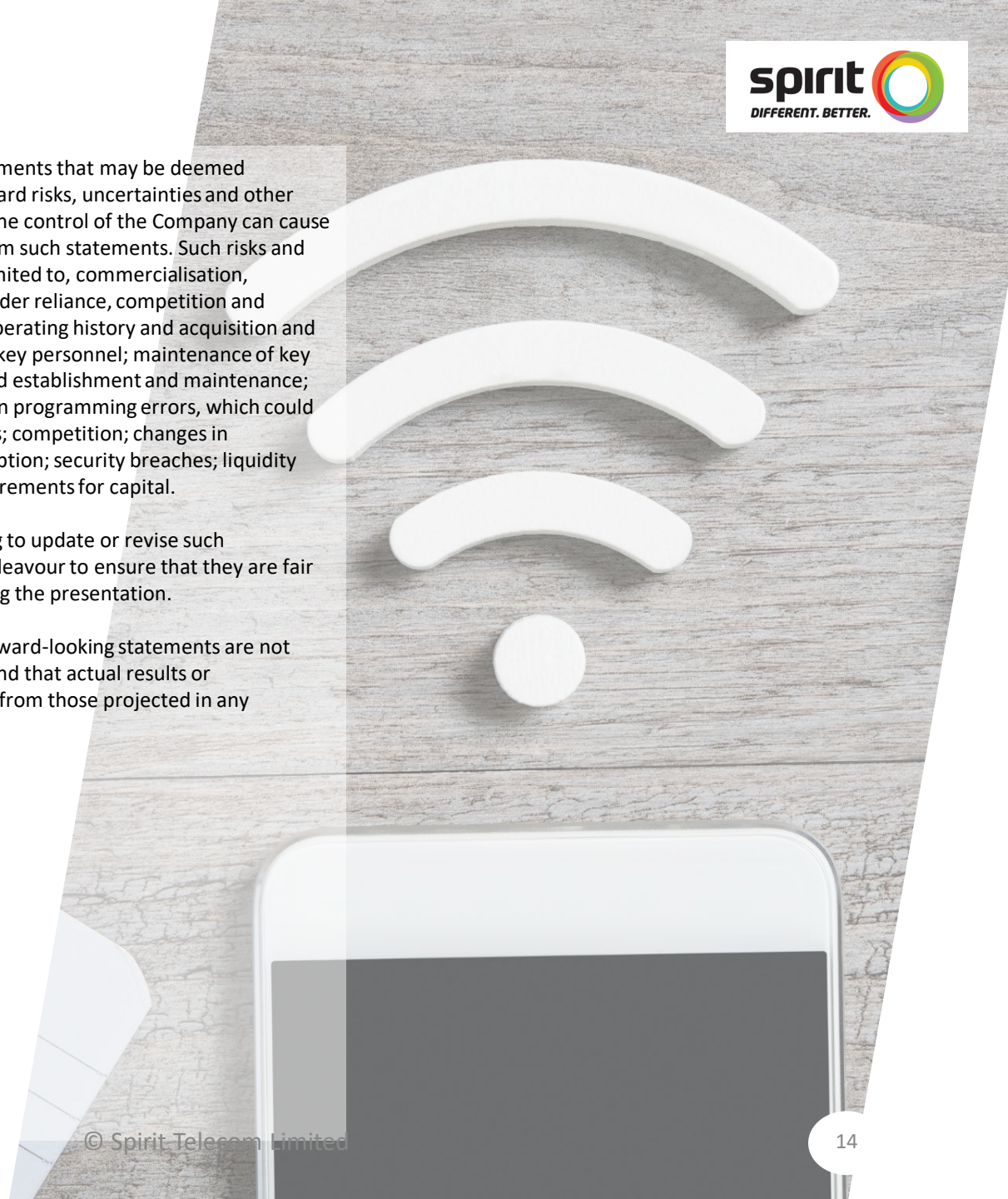
Rank	Holder Name	Securities	%
1	MR PETER J DIAMOND (& RELATED PARTIES)*	43,050,000	17.57%
2	MR GEOFFREY NEATE (&RELATED PARTIES) *	33,746,253	13.77%
3	JOSHART INV (TIGEL FAM A/C)*	33,667,749	13.74%
4	J P MORGAN NOM AUST LTD*	9,921,514	4.05%
5	WIGNELL INV PL	7,269,174	2.97%
6	MAGNUM OPUS HLDGS PL (MAGNUM OPUS S/F A/C)	7,000,000	2.86%
7	KEOGH DAINEN*	4,966,771	2.03%
8	MDJD PL (MARK DIAMOND S/F A/C)	4,050,000	1.65%
9	NATIONAL NOM LTD	3,825,160	1.56%
10	LENZI SUSAN (LENZI FAM A/C)*	3,532,549	1.44%
11	MAKAREWICZ DAMIEN ALEXY*	2,984,115	1.22%
12	TEMPEST ASSET MGNT	2,765,134	1.13%
13	THREE ZEBRAS PL (JUDD FAM A/C)	2,500,000	1.02%
14	KENNEDY JOSEPH PAUL (J P KENNEDY S/F A/C)	2,100,000	0.86%
15	MORGAN STANLEY AUST SEC N1 (NO 1 ACCOUNT)	2,050,000	0.84%
16	CALDOW RICHARD ARMSTRONG (LOOSE GOOSE FAM A/C	1,800,000	0.73%
17	WAINWRIGHT SUPER PL (D & C WAINWRIGHT S)	1,750,000	0.71%
18	BNP PARIBAS NOMS PL (DRP)	1,708,355	0.70%
19	COLE PATRICK ARIC*	1,655,593	0.68%
20	LENZI ENRICO + SUSAN C (LENZI S/F A/C)	1,500,000	0.61%
	TOP 20 TOTAL	**171,842,367**	**70.13%**
	* Denotes merged holders.		

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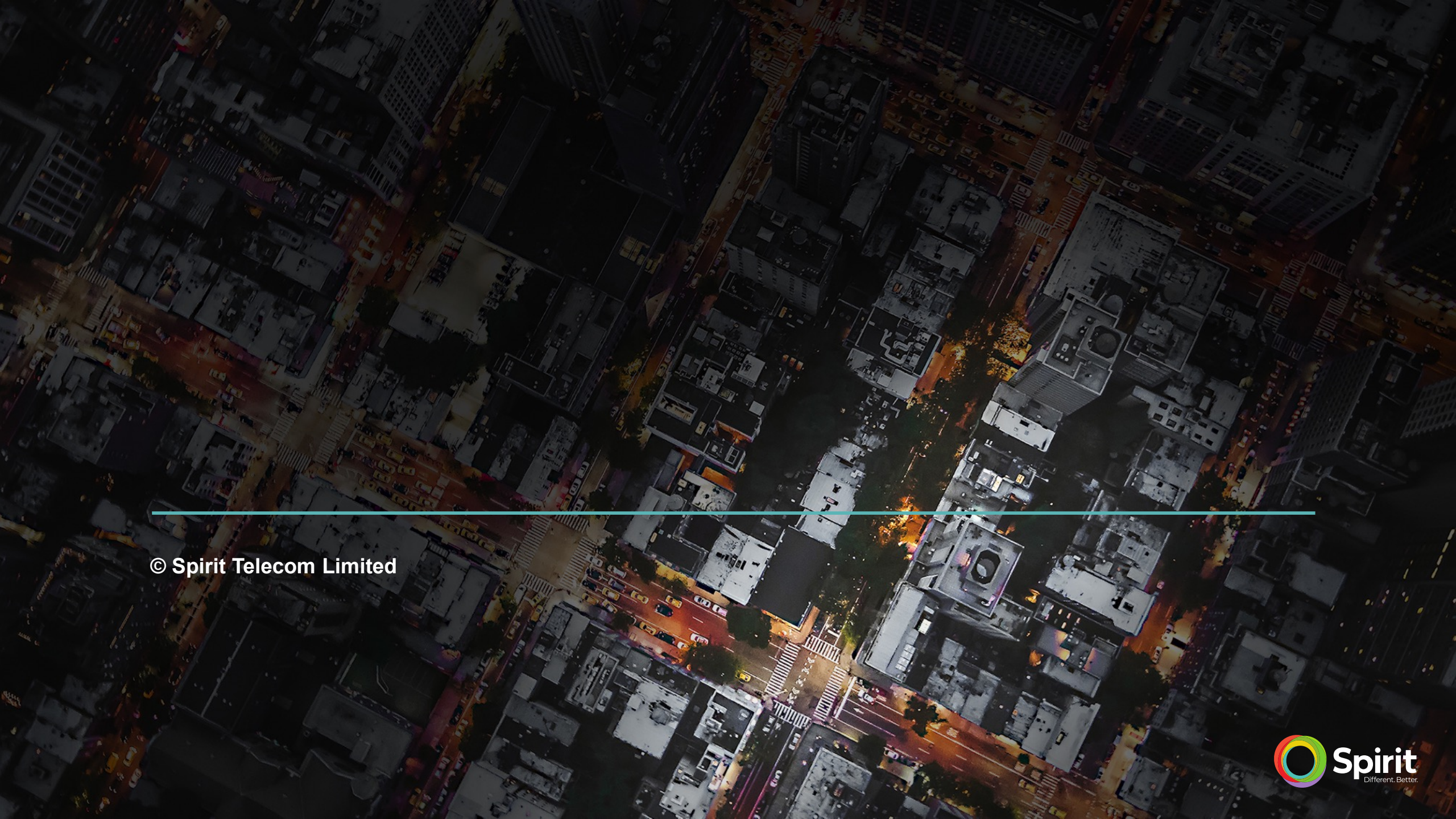
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