

# Spirit Telecom Limited (STI)

## Market update

July 2019

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# Agenda

1. Quarterly Performance: Q4 2019
2. Strategy Update: addition of IT Managed Services
3. Acquisition integration: overview on newly acquired assets


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# Business Update June 2019

## Continued execution of strategy in Q4

Continued on-net growth:

- Total Contract Value (TCV) for the quarter up 73% on Q4/18 to $2.8M
- Targeted SME/Business revenue up 38% on Q4/18
- Overall revenue growth of 26% on Q4/18
- Building out new Managed services product range for Q1 FY20 launch

Continued M&A activity:

- Acquired LinkOne group of companies to expand Spirit's network, primarily in Brisbane and Sydney
- Acquired Building Connect to expand Spirit's network in West Sydney
- Acquired Arinda IT (July) as an entry into Managed IT services
- Acquired Phoenix (July) as an expansion of Managed IT services


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# Business Update June 2019

## Turnaround strategy shows vast contrast to H1/19

- H2/19 Underlying EBITDA margin (unaudited) exceeds expectations of 12%, as previously estimated on 28th Feb
- Awarded second Government tender of $1.1M (Morwell)
- Shaw & Partners underwriting ST1O listed options of $5.6M
- CBA backs Spirit with an $8M debt facility


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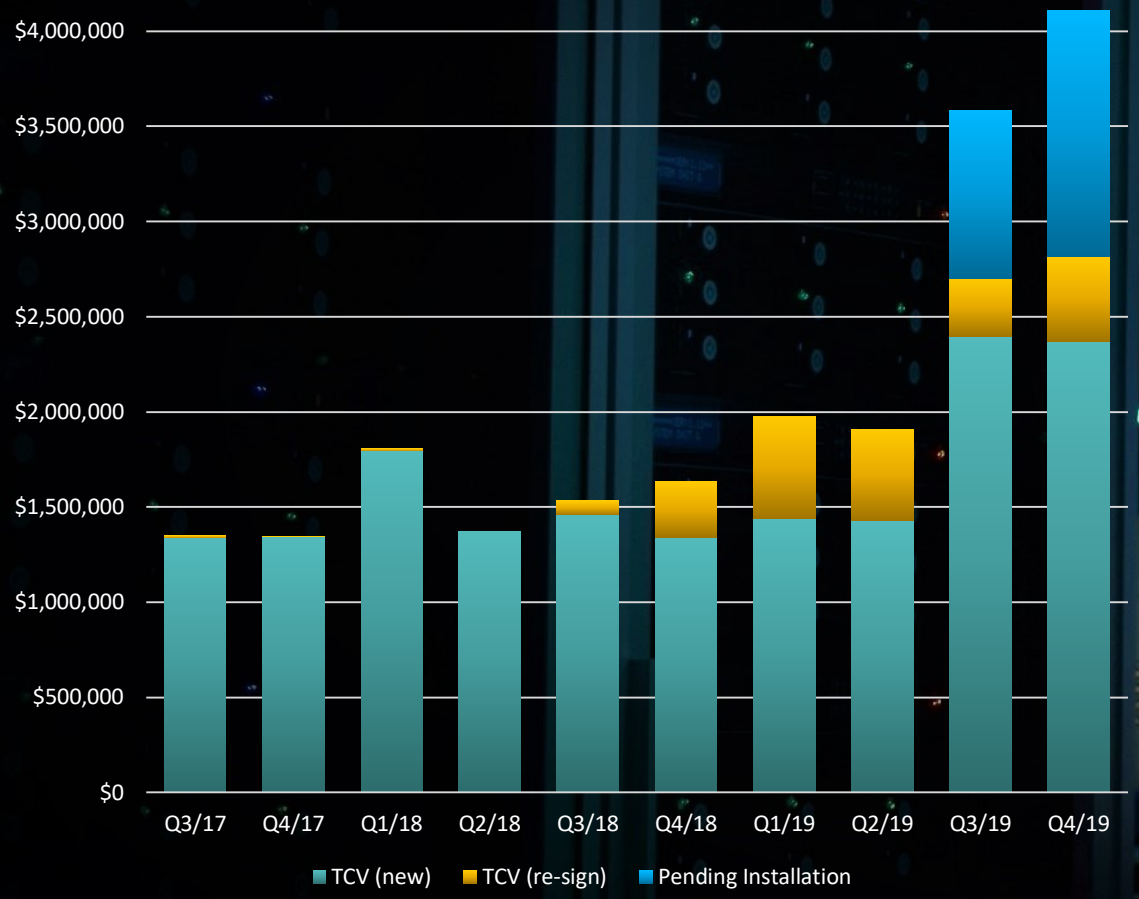
# Total Contract Value (TCV)




**Continued TCV* uplift**

- 73% growth in billed TCV on Q4/18
- $1.2M TCV pending installation** (up 46% on Q3/19)
- SME/Business growth continues
- LinkOne and Building Connect network integration completion Q1/20

*TCV refers to contract value of provisioned customers for the quarter. Average contract length approximately 3 years
** New measure only recently implemented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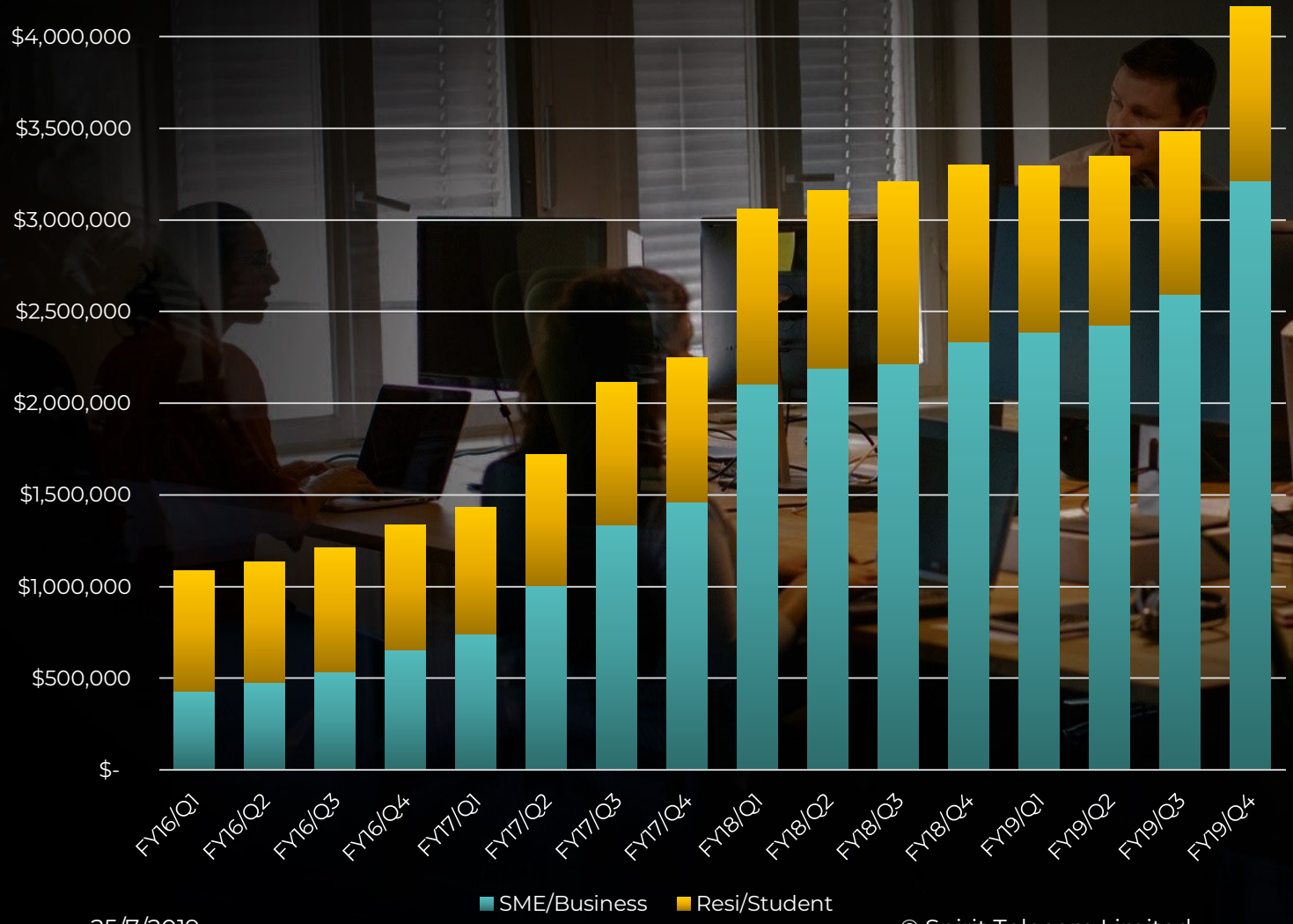
# 16 Consecutive Quarters of Core Revenue Growth




On-net revenue grew by 22% on Q4/18:

- SME/Business (+38% on Q4/18)
- Resi/Student (-1.5% on Q4/18)

- Overall Revenue hit $17.3M (unaudited) up 13% on H1/19 and 7% 0n FY18

- SME/Business continues to be key growth driver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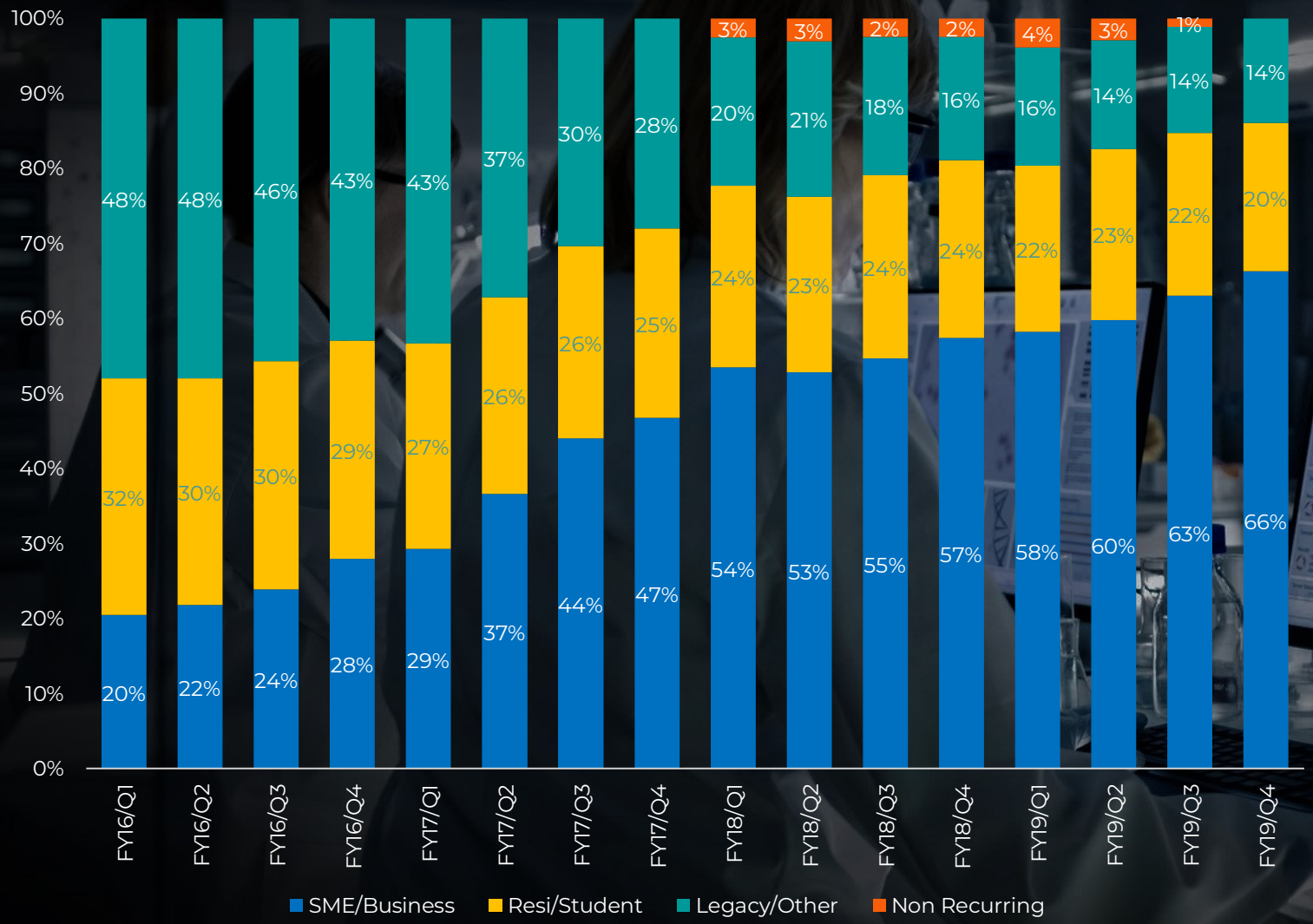
# Revenue Breakdown




SME/Business sector continues to grow

- Higher Margin
- Higher ARPU

Recent acquisitions will contribute to this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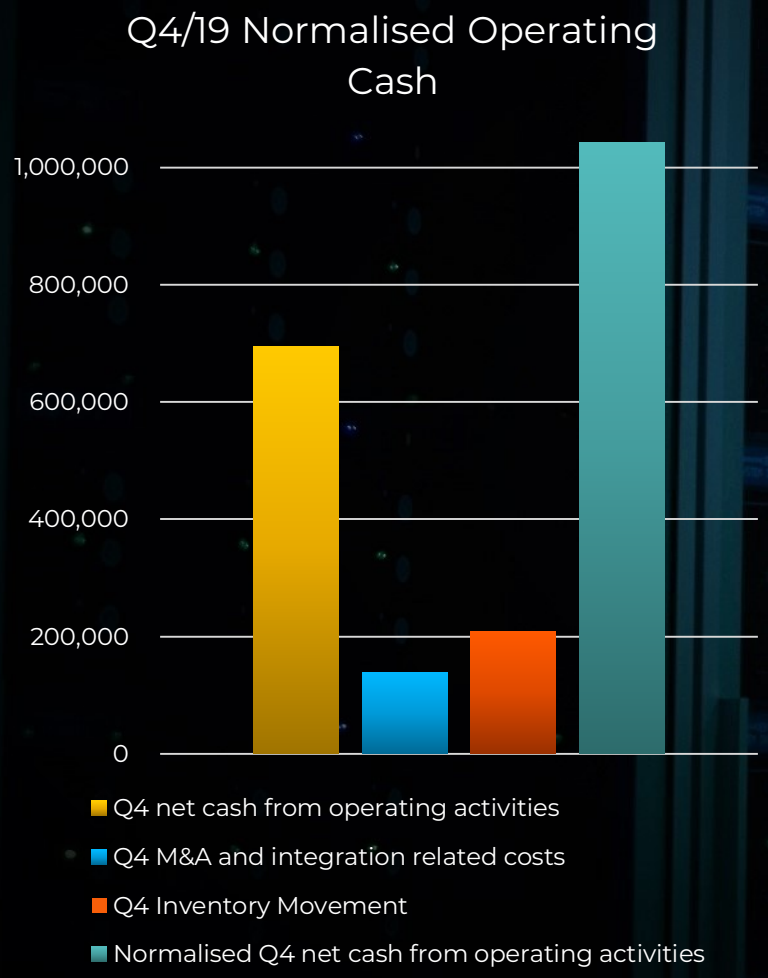
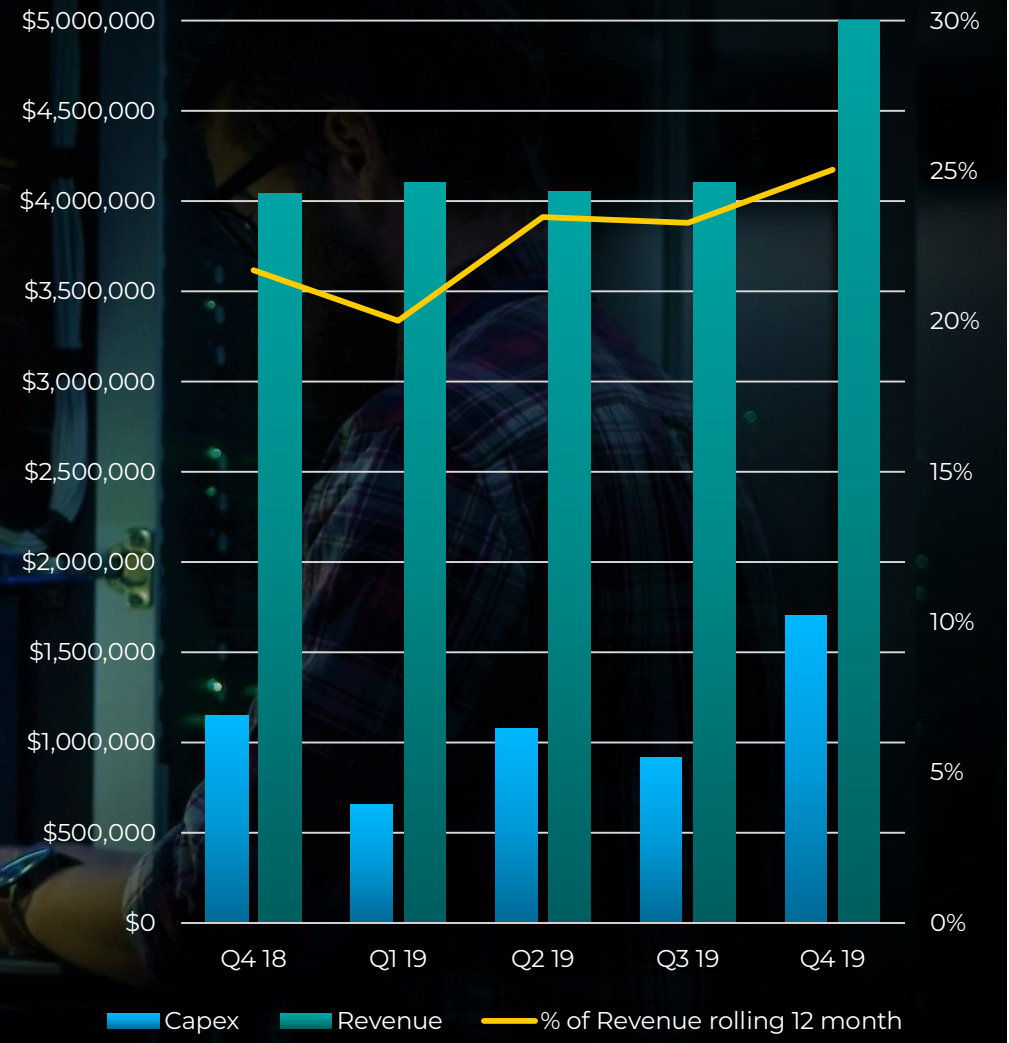
# Operating Cash & Capex




Operating cash was $700k for Q4/19 or $1.1M when allowing for working capital adjustment

Capex investment increased in Q4, due mainly to LinkOne (Brisbane) upgrade of $200k and circa $650k for Horsham build

The recent acquisitions of 'Capex light' managed IT service providers, Arinda IT and Phoenix, will lower the Capex: Revenue ratio





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# Enabling the New Economy

Delivering super-fast Internet and Managed IT Services
to support Australian SMEs' growth

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# Enabling the New Economy

Spirit enables the new economy as the brand that delivers super-fast internet and managed IT services to support Australian SME's growth.  Spirit's fixed wireless network allows for the delivery of a bundle of super-fast data, voice, security and cloud services.

*Looking after the small to medium enterprise, across Spirit's own super-fast network, to the cloud and back*

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The New Economy
Digitisation of the workplace
Mobility & 24/7 connectivity essential

"SkySpeed" (1GB for SMEs)
Bundle of data, voice, security & cloud apps
IT Manager-as-a-Service (subscription)
Near-turnkey solution

SMEs the Engine Room of Growth
SMEs require fast internet, reliable, IT services, cloud based applications, security products


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# Market & Commercial Rationale

SME's flight to the cloud driven by workplace digitisation has increased demand for an integrated Data, Voice and Managed IT services offering. Spirit's high speed network allows these services to be run across the top, resulting in increased ARPU's.

- Increase in yield from in-bound leads through larger deal size.
- Substantially growing Average Revenue Per User (ARPU)
- Low churn from increased service stickiness
- Stronger recurring income through bundled services
- Nationwide coverage to fast growing businesses
- Flight to Cloud Services from SME's


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# Acquisitions = Increased Product Capability



## LinkOne Group

April 2019

**Network**

- Adds Sydney & Brisbane
- 44 new POP sites for SkySpeed upgrade

**Traction**

- $3.2m revenue & $1.1m underlying EBITDA *(34% EBITDA margin)*

## Building Connect

May 2019

**Network**

- Extends Sydney network to 31 buildings & business parks

**Traction**

- Over 200 business customers

## Arinda IT

July 2019

**Product**

- Adds MSP capability (cloud, IT, security)
- National footprint

**Traction**

- $2.2m revenue & $600k EBITDA *(27% EBITDA margin)*

## Phoenix Austec

July 2019

**Product**

- Strengthens MSP offering
- (managed IT and cloud solutions)

**Traction**

- $1.9m revenue
- Over 100 SME's in Vic


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# Integration Methodology

Spirit takes a proactive approach to integration to release gains to the Company within 90 days of completion. Each principle has been formed to realise the greatest possible synergies:

| Over-arching principle: Minimise impact to the acquired company, maximise benefit to Spirit | | |
|---|---|---|
| **Principle** | Timeframe | Why |
| **No operational difference to the customer** | From Day One | • Business continuity |
| **Consolidation of the back office functions** | Within 30 - 60 days | • Streamlining operations<br>• Increased cost efficiencies |
| **Transitioning product purchasing to Spirit providers** | Within 60 - 90 days | • Increased purchasing power<br>• Cost and delivery improvements |
| **Enhancement of revenue & growth through cross-selling of Spirit Products** | Within 90 - 120 days | • Increased ARPU<br>• Increased stickiness and customer tenure |


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# Key Takeaways



‘Beach-head’ acquisition strategy for rapid growth



Ability to deliver best-in-class internet and managed services to SMEs



Positioned to fulfil demand as preferred IT&T provider as business connectivity needs continue to grow



Low churn business with strong recurring revenues provide base for future value uplift


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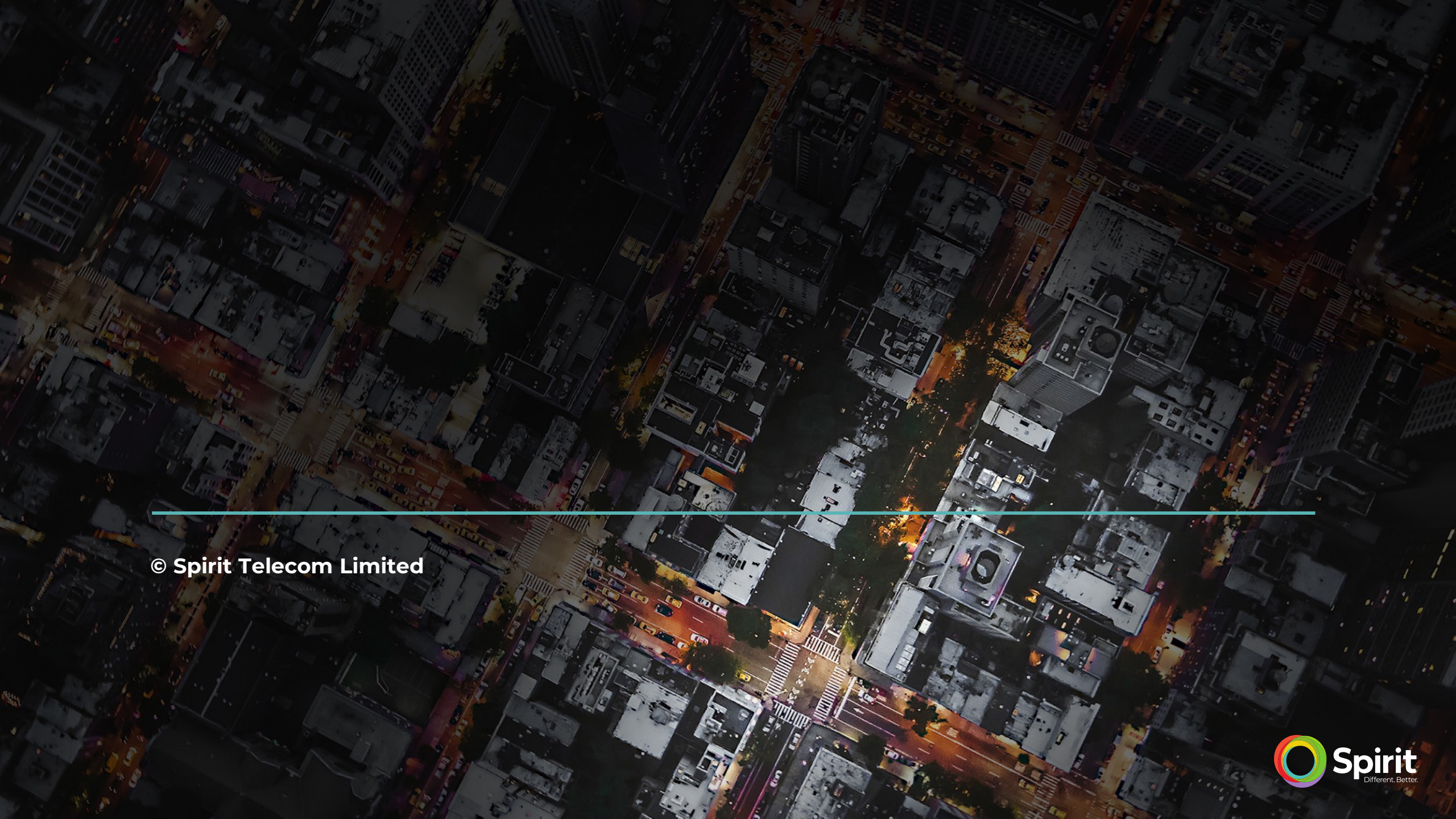

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