



Trading Update

2017 Annual General Meeting

10 November 2017



Update on Hostworks' business



Trading Update released on 9th November notified of a significant reduction in expected revenue and profitability for the Hostworks business for FY18

Key Issues:

- 1H FY18 will be negatively impacted by a significant drop in expected project work
- The full-year FY18 results will be negatively impacted by the loss of a small number of high value enterprise customers
- As a result Hostworks' full year FY18 EBITDA contribution is expected to be negligible (previously expected to be \$3.5m)

Commentary:

- Lost customers are migrating their environments to the public cloud using their skilled internal IT teams
- Since it was acquired Hostworks has re-signed many of its long-term clients and won a number of well known large corporation accounts
- New customers typically begin with a small cloud environment and scale up once they are confident in Hostworks' services
- The new customer wins do not yet offset the impact of the lost customers
- Hostworks' cost base is largely fixed so a high proportion of lost or new revenue flows to earnings
- Inabox is confident that Hostworks will accelerate its sales of cloud services across the Indirect and Direct channels and contribute meaningfully to earnings from FY19 onwards

Trading Update (excluding Hostworks)



INDIRECT CHANNEL

- Indirect business continues to perform well
- 3 new service providers signed in Q1 FY18, adding \$4 million annualised revenue
- Record number of prospects in sales pipeline
- Expected to deliver double-digit growth in FY18



Recently launched Cloud Sales Assist initiative awarded 2017 ACOMMS Industry award for innovation

ENABLEMENT CHANNEL

- More than 165,000 services in operation (SIOs), up 14,000 in Q1 FY18
- Advanced discussions underway with several well-known Australian brands interested in reselling telecommunications services

DIRECT CHANNEL (excluding Hostworks)

- Shift continues towards higher-margin service-based revenues
- Channel expected to deliver strong growth in FY18
- Launch of Cloudinabox, SME focused private cloud

Plans to improve overall profitability



HIGH-MARGIN REVENUE GROWTH

- Strong focus on high-margin revenue growth
- Growing sales of Managed voice, hosted cloud, managed IT and Enablement products and services

STRENGTHENING THE HOSTWORKS BUSINESS

- Diversifying Hostworks business through the launch of SME focused product, 'Cloudinabox', which will be cross-sold across all business channels
- Intensify marketing and sales to grow customer base

COST REDUCTION PROGRAM

- Action to be taken to align costs to revenue, without impairing operational and sales activity
- Cost reduction program expected to result in over \$2m of annualised savings
- Acceleration of planned amalgamation of our National Operation Centres

New product launches planned in 2H FY18



Clouдинabox

- Full-featured Infrastructure as a Service, Website as a Service and Hosting
- Leverages Inabox's sales capabilities in the SME and mid-market sector via direct and indirect channels
- Integrates with core Managed IT and professional services offering to deliver turnkey cloud infrastructure



Relaunch of Managed IT

- Comprehensive offering to include Security, Back Up, Cloud & Telco
- White labelled offering to be sold via indirect partners



Hosted Voice Extended Capabilities

- Phase 2 launch in November delivering increased functionality
- Expands target market up to 200+ users

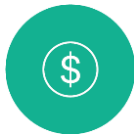
FY17 Snapshot

Delivering underlying EBITDA growth & shift towards higher-margin revenues



Revenue \$90.1m

up 2.4% on FY16
76% recurring



Underlying EBITDA¹ \$6.1m

up 12% on FY16
Reported EBITDA of \$4.6m



Underlying NPAT¹ \$1.1m

up 27% on FY16



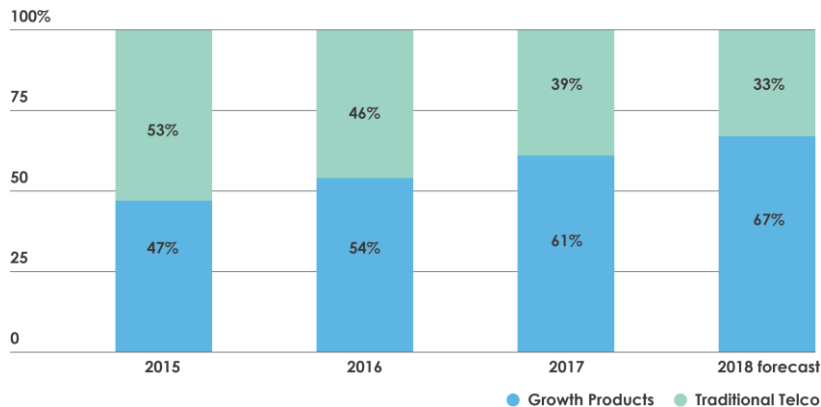
\$4.5m cash received

and \$2.5m debt retired
following sale of HCS Business assets

Strong recurring revenues of **76%** Revenue mix continues to shift towards higher-margin, services revenue

Shifting Revenue Mix

Traditional Telco v higher margin growth products



¹. Underlying EBITDA and underlying NPAT includes contribution from the HCS business, but excludes one-off transaction and restructuring costs of \$1.5m, relating to the acquisition of Hostworks and Logic Communications, the sale of HCS and the fixed access determination benefit related to FY16.

Outlook



While encouraged by the strong performance and prospects of Inabox's other business units, the disappointing performance from Hostworks has significantly impacted our expectations for FY18:

1H FY18	REVENUE expected to be in excess of \$50 million	EBITDA expected to be in excess of \$2 million*	NET LOSS after Tax expected
Full Year FY18	NON-CASH IMPAIRMENT CHARGE likely to be recorded, following current review of the carrying value of intangible assets	REVENUE expected to be at least \$100 million	2H FY18 EBITDA expected to be stronger than 1H FY18

* includes one-off costs of c. \$300k associated with right-sizing the business



We are focused on structuring our business to **improve profitability** and to ensure we commence 2H FY18 in a much **stronger position.**

