



# Annual General Meeting

Rene Sugo, Group CEO

Matthew Gepp, Group CFO

30<sup>th</sup> October 2018



## Agenda



FY18 Financial Performance



Consolidated Guidance



TIAB Acquisition



Business Overview



View the MNF Journey

Find out where it all began...  
<https://mnfgroup.limited/about>



## FY18 Financial Performance

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## FY18 Financial Highlights



Reported Result	FY17	FY18	Δ
Revenue	\$191.8m	\$220.7m	+15%
Gross Margin	\$58.6m	\$69.0m	+18%
EBITDA <sup>^</sup>	\$23.9m	\$24.6m	+3%
NPAT	\$12.1m	\$11.9m	-2%
Earnings per share (cents)	17.32	16.25	-6%
Total dividend per share - fully franked (cents)	8.25	8.35	+1%
Net Tangible Assets (NTA) per share (cents)	28.4	37.6	+32%

- <sup>^</sup> Result includes one-off investment into the Pennytel brand of \$2.3 million and excludes acquisition costs.
- EBITDA of \$24.6m is at 98.4% of guidance
- NPAT of \$11.9m is at 95% of guidance, NPAT includes \$0.3m of un-forecast acquisition costs relating to Singapore & TIAB acquisitions
- NPAT was also impacted by an increase in the Group's marginal tax rate to 29% (FY17: 27%), expected to be 28% in FY19.

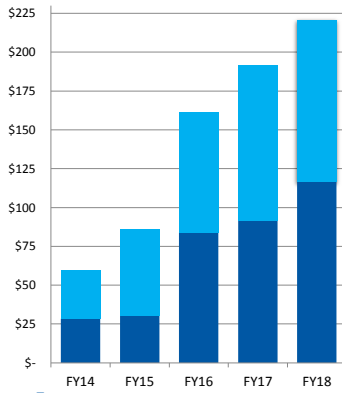
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## REVENUE

**\$220.7 million** ↑

Consolidated Group Revenue increased to \$220.7 million up 15% from the previous year. All segments contributed with organic revenue growth, in conjunction with a full year contribution from CCI acquisition (February 2017).

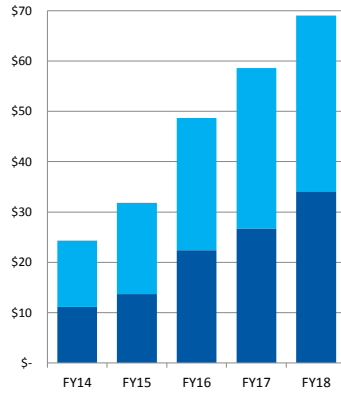


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## MARGIN

**\$69.0 million** ↑

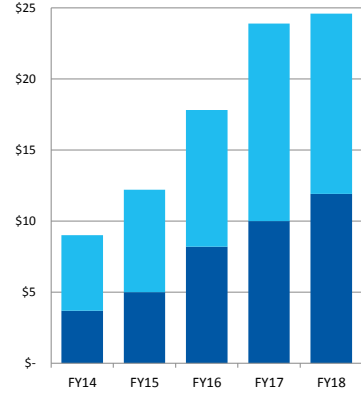
Gross Margin increased by 18% on the PCP to \$69.0m, with all segments contributing to that YoY growth. Given the diverse range of margin levels in the portfolio MNF prefers use Gross Margin as the top level indicator of performance.



## EBITDA

**\$24.6 million** ↑

EBITDA rose marginally by 3% for the full year to \$24.6m impacted by a one-off investment into the Pennytyl brand launch of \$2.3M.

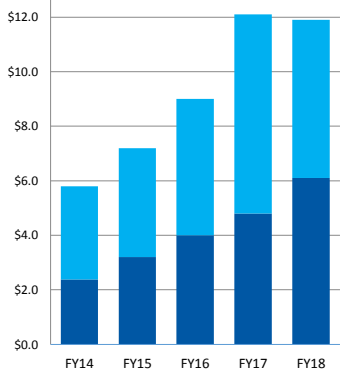


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## NPAT

**\$11.9 million** ↓

While PBT saw a marginal YoY increase, NPAT saw a small decrease impacted by the Groups marginal tax rate increasing from 27% (FY17) to 29% (FY18), and impact of investment in the Pennytyl brand launch.

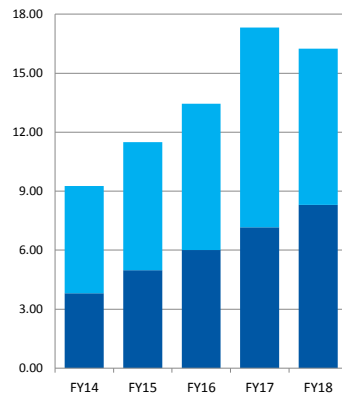


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## EPS

**16.25¢** ↓

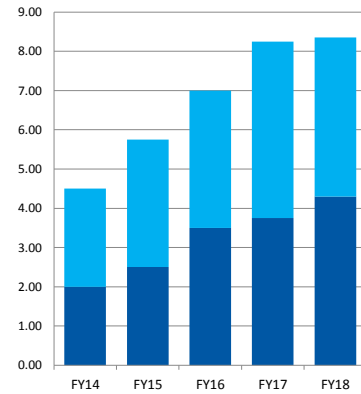
EPS decreased by 1.07c. While NPAT was relatively flat YoY, the full dilutionary impact of the February 2017 share placement & SPP weighed on the EPS calculation.



## DIVIDEND

**8.35¢** ↑

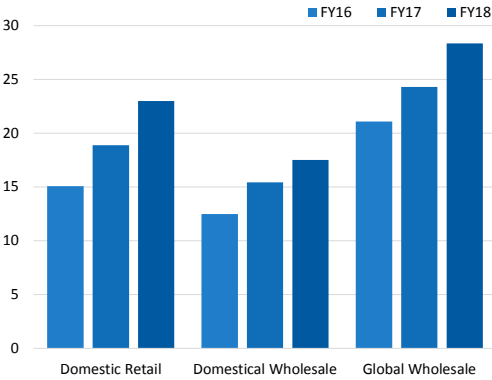
Fully franked total dividends of 8.35 cents per share were declared for FY18. A slight increase on prior year, and consistent with our policy of returning half of NPAT to investors.



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## PER SEGMENT GROSS MARGIN (\$M) ↑

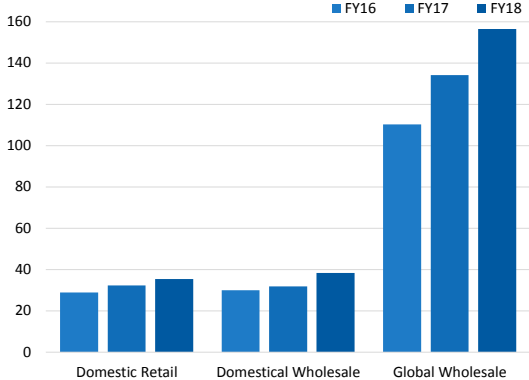
Overall Gross Margin is up 18% due to strong organic growth (12% underlying) and the contribution of a full year of CCI margins. Overall margin is slightly below management expectations due to volatility in Global Wholesale usage revenues in H2.



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## PER SEGMENT REVENUE (\$M) ↑

Overall Revenue is up 15%, Domestic Retail and Domestic Wholesale were both consistent with management expectations. Given the diverse range of margin levels in the MNF Group portfolio we prefer to use Gross Margin as our top level indicator of performance.



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## Investor Metrics



Metric	Value
Number of Shares	73.3m
Share Price	\$4.21
Market Capitalisation	\$309m
FY18 Total Dividend (fully franked)	8.35 cents

➤ Share price is as at 29 October 2018

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## Consolidated Guidance

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### FY19 Organic MNF Forecast

	FY18 actual	FY19 forecast	Δ
Gross Margin	\$69.0m	\$74.0m	+7%
<b>EBITDA<sup>^</sup></b>	<b>\$24.4m</b>	<b>\$26.5m</b>	<b>+9%</b>
Net Interest	\$0.6m	\$0.4m	
Acquisition costs	\$0.3m	\$0.7m	
Non-cash option costs	\$0.4m	\$0.6m	
Depreciation	\$4.3m	\$5.2m	
Amortisation	\$2.0m	\$2.2m	
Tax	\$4.9m	\$4.8m	
<b>NPAT</b>	<b>\$11.9m</b>	<b>\$12.6m</b>	<b>+6%</b>
Earnings per share (cents)	16.3	17.2	+6%

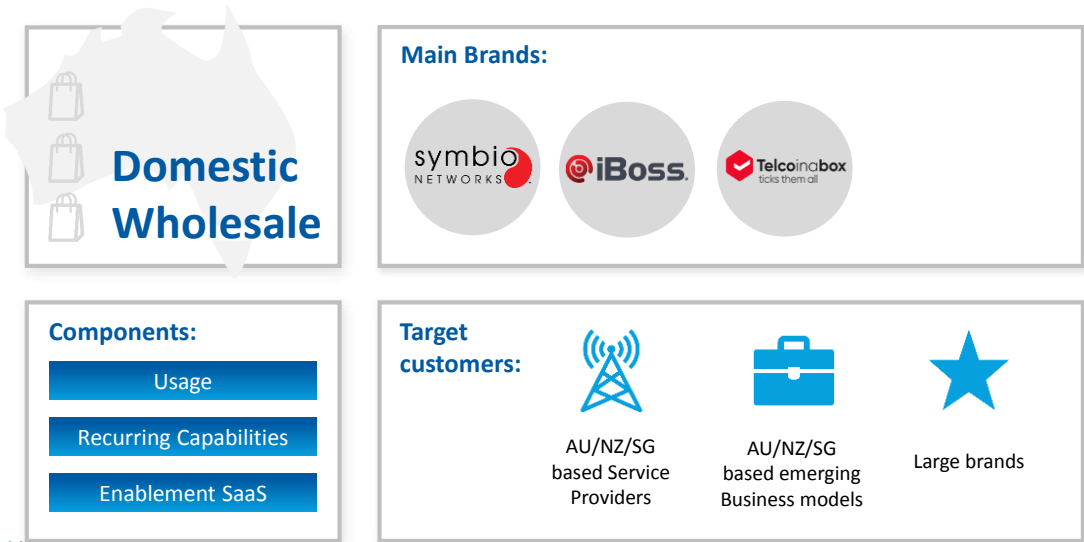
- <sup>^</sup>EBITDA re-set to exclude interest revenue and option costs (refer Directors report 2018 accounts for reconciliation).
- Global Commercial minutes gross margin decreased run rate adjustment of \$4.0m pa due to deal unwind and market cost changes in Q1/FY19.
- FY19 Forecast acquisition and options costs total \$1.3m (FY18 \$0.7m).

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- Net Interest does not include acquisition funding costs.
- Forecast includes increase in further substantial investment in our R&D resources to support strong growth and resourcing to integrate TIAB software eco-system & underpin sustainable long term growth initiatives.
- Upside from any new major customer wins, new product launches, and new country launches is not included.

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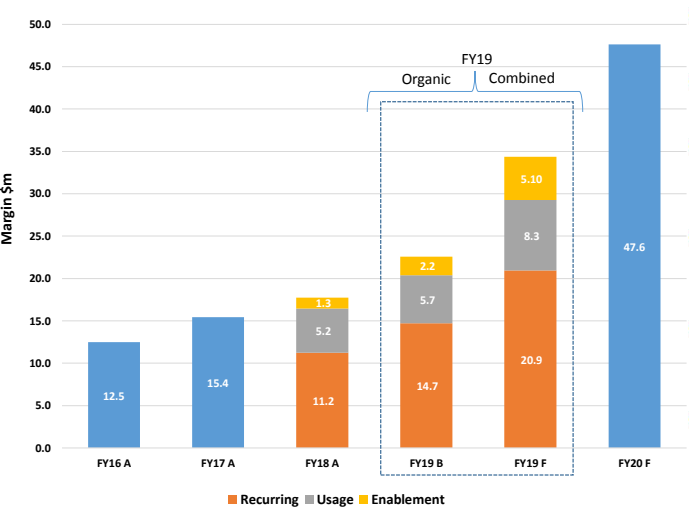
# Domestic Wholesale



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# Domestic Wholesale - Gross Margin Forecast



- Domestic Wholesale segment organically growing at 28% YoY.
- Recurring margin streams organically growing at 32% YoY.
- With TIAB contribution for 7 months, total segment gross margin growth expected of 95% YoY.
- Key drivers for growth in this segment is Number portability which grew 22% in FY18 and continues to perform strongly.
- Additional growth driver due to iBoss hosted services, which will combine with Telco-In-A-Box branded hosting.
- Enablement service margin organically growing 68% YoY. With addition of TIAB grows to \$5.1m total gross margin. Large enough to become a dedicated sub-segment.

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# Domestic Retail



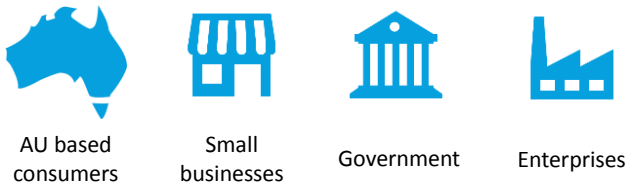
## Main Brands:



## Components:

- Consumer
- Government
- Small Business
- Conferencing

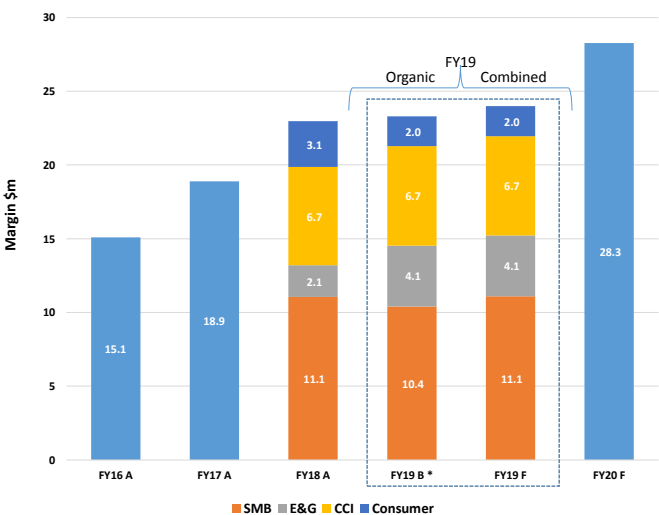
## Target customers:



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# Domestic Retail - Gross Margin Forecast



- > **SMB** - \$1m of margin re-allocated to E&G from FY18 due to product migrations – namely Microsoft Office 365/Teams, and Broadsoft.
- > **SMB** – overall organic growth margin slower in FY19 due to NBN margin erosion in access lines. This decline is offset by a 15% YoY underlying growth in voice margin off the new base, which is expected to continue into FY20.
- > **CCI** – overall gross margin is static pending release of new products – collaboration and video.
- > **E&G** – overall gross margin is growing at 30% YoY due to Microsoft and Broadsoft solutions. Also pending launch of Mobility solution.
- > **Consumer** – decline due to cease sale of legacy ADSL and NBN product, combined structural decline in fixed line communications. Pennytel mobile tracking well at 300+ gross adds per week and total 5K sales.

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# Global Wholesale



## Components:

- Usage
- Recurring Capabilities

## Main Brands:



## Target customers:



200 top  
Global Carriers



Global UCaaS  
providers



Global CPaaS  
providers

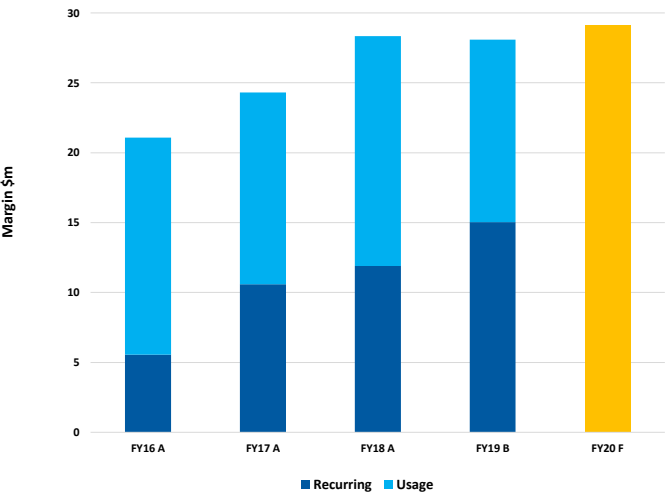


Emerging business  
models

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# Global Wholesale - Gross Margin Forecast



- Global (TNZI) usage based margins took a \$4m per annum step down in FY19 relative to FY18 due to 2 large customer deals unwinding.
- Remaining Global usage based customer pool remains healthy, consisting of 250 customers, with the top 10 customers contributing 44% of the gross margin. No single customer bigger than 7% of usage gross margin.
- Underlying Global usage gross margin expected to grow organically at >5% YoY.
- Recurring gross margins organically growing at 21% YoY based on current run rate. Considerable upside exists based on take up of UCaaS and CPaaS products during FY19 and beyond.
- Recurring gross margin made up 42% of Global Wholesale segment in Q1/FY19, and is expected to continue to grow relative to usage based gross margins.

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## TIAB Full Year Forecasts

	<b>FY18 Pro-Forma</b>	<b>FY19 Forecast</b>	<b>FY20 Forecast</b>
Revenue	\$55.0m	\$58.7m	\$60.3m-\$63.3m
Gross Margin	\$20.0m	\$21.3m	\$23.4m-\$25.4m
EBITDA	\$4.2m	\$4.5m	\$5.0m-\$6.0m

- FY18 figures are based on MNF due diligence and are pro-forma normalised estimates based on eliminating the "IAB Direct Business", and are un-audited.
- FY19 figures are full year pro-forma estimate based on MNF due diligence, assuming earn-out conditions are all met.
- FY20 figures are initial estimates. Actual numbers will vary based on realising full year network synergies, exact timing and value of material synergies yet to be finalised.

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## Consolidated Forecast FY19

<b>Forecast</b>	<b>MNF Organic FY19</b>	<b>TIAB 7 months FY19</b>	<b>Consolidated FY19</b>
Margin	\$74.0m	\$12.4m	\$86.4m
<b>EBITDA</b>	<b>\$26.5m</b>	<b>\$2.6m</b>	<b>\$29.1m</b>
Net Interest			\$1.3m
Acquisition costs			\$0.7m
Non-cash option costs			\$0.6m
Depreciation			\$5.5m
Amortisation			\$3.3m
Tax			\$4.9m
<b>NPAT</b>			<b>\$12.8m</b>
EPS (cents)			<b>17.5</b>

- Updated MNF Consolidated forecast based on 7 months contribution from TIAB.
- Amortisation is based on best estimates and is subject to change once acquisition accounting is completed.
- No material TIAB/MNF combined synergy savings are expected in FY19. Network and operational synergies expected to benefit FY20.
- Forecasts includes interest calculations for fully debt funded acquisition.

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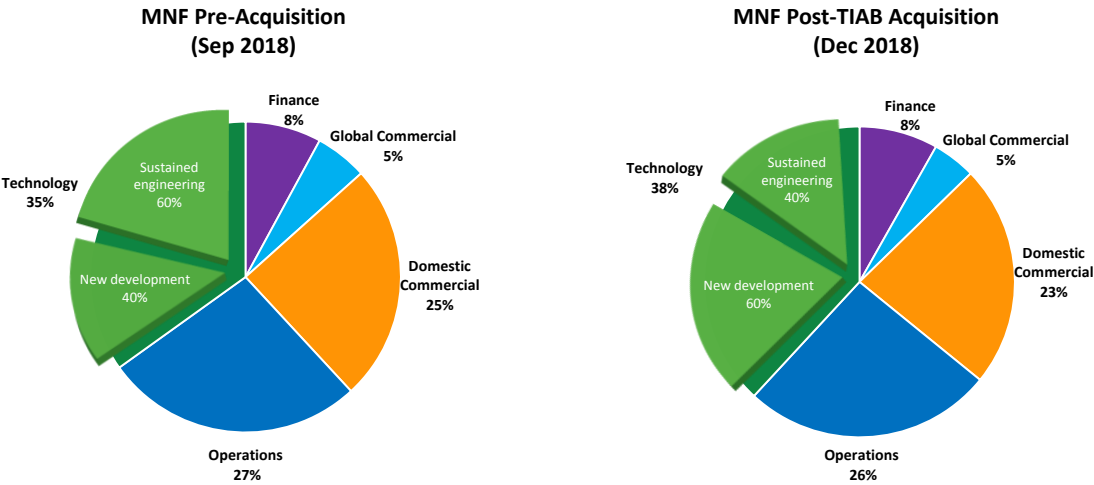
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# Combined Forecasts

Forecast	MNF FY18 Actual	Combined FY19 forecast	Combined FY20 forecast
Margin	\$69.0m	\$86.4m	\$100.0m-\$105.0m
EBITDA^	\$24.4m	\$29.1m	\$33.0m-\$36.0m
NPAT	\$11.9m	\$12.8m	\$15.0m-\$16.5m
NPAT-A	\$13.9m	\$16.1m	\$19.5m-\$21.0m
Earnings Per Share (cents)	16.3	17.5	20.4-22.4

- Combined FY19 forecast includes 7 months contribution from TIAB and includes funding costs and estimated amortisation expense.
- ^EBITDA excludes net interest, acquisition costs and non-cash option costs.
- NPAT-A adds back all amortisation.

# FY19 Budget Headcount Allocation



- Total in-house headcount of 490 FTE post acquisition
- Focus on new capability development key for combined business into FY20

## FY19 Capital Expenditure Forecast



- Total **combined** forecast CAPEX & development of \$15.0m
- Software Development increase of \$0.4m for continued improvements on the TIAB enablement platform
- Additional Customer Driven Investment of \$0.9m is based on expected customer development identified during due diligence
- Estimate cost of integrating TIAB's network into the MNF group eco-system of \$1.7m

- Total **combined** forecast CAPEX & development of \$15.0m
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- Additional Customer Driven Investment of \$0.9m is based on expected customer development identified during due diligence
- Estimate cost of integrating TIAB's network into the MNF group eco-system of \$1.7m

- |                                |  |
|--------------------------------|--|
| Software Development<br>\$4.9m | Customer Driven Investment<br>\$1.9m       |
| TIAB Integration<br>\$1.7m     | Office Accommodation & Equipment<br>\$0.5m |
| Global Strategy<br>\$1.4m      | Sustaining Engineering<br>\$4.6m           |

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## MNF Engineering Focus Areas



## Network Build Focus

- Sg eco-system deployment
- Au upgrade – doubling capacity
- Global (TNZI) expansion
- TIAB Network Consolidation



## Growth Areas

- Mobility
- Enablement
- New Zealand
- Singapore and beyond



## Customer Needs

- Rapid Scalability
- Mobility Related Functionality
- Reliability & Quality
- UCaaS, CPaaS Essentials
- API Support



## New Generation Tools

- Robotic Automation
- Hyper Scale Deployments
- Software Defined Network
- Self Healing Network
- Continuous Integration & Delivery



## Executive focus

- Managing Growth
- Execution
- Integration
- Realising Asian Strategy



## TIAB Integration

- Network Separation & Consolidation
- Software Eco-system deployment
- Corporate IT systems

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## TIAB Acquisition Update

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### TIAB Acquisition Recap



- › Consideration of \$30.5m payable in cash on completion



- › Additional \$3.0m earn-out subject to performance

- › Tranche 1 - \$0.5m payable in March 2019
- › Tranche 2 - \$1.65m payable in June 2019
- › Tranche 3 - \$0.85m payable in June 2019



- › Target working capital of \$2.0m, including est. \$1.5m in cash



- › Acquired business to be debt free



- › FY18 EBITDA estimate of \$4.2m on a normalised basis

- › Consideration is 7.3x to 8.0x prior to growth, synergy and savings



- › Funded through existing debt facility – extending to \$51m total



- › Current timeline

- › Deal Signing: 5<sup>th</sup> October 2018
- › Vendor EGM date: 19<sup>th</sup> November 2018
- › Completion date: 30<sup>th</sup> November 2018

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# TIAB Acquired Business Summary



- Acquiring the Wholesale and Enablement assets from IAB (collectively TIAB)



- Enablement provides a full operational outsource eco-system for voice, data and mobile for several major brands in Australia



- Includes Telco-In-A-Box, Neural, Symmetry and iVox brands



- Includes all staff, software and network assets required to run and expand the business



- Wholesale provides a wide range of voice, data and mobile aggregation services to over 500 service providers in Australia



- Strong technical and customer synergies with MNF

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# TIAB Strategic Rationale



## Wholesale Partnerships

- Addition of 500 wholesale customers to MNF portfolio
- Supports our Domestic Wholesale segment
- Makes MNF group the largest specialized wholesale carrier in the Australian market



## Market Share

- TIAB was a large Symbio customer, this acquisition secures existing domestic wholesale market share
- Combined volumes for enablement of Mobile MVNO to exceed 900,000 SIO across group
- Combined volumes for data (NBN) enablement SIOs across the group to exceed 200,000
- Combined volumes of **direct** Mobile/ISDN/PSTN/DSL and NBN to exceed 90,000 SIOs across group
- Considerable combined purchasing power and network scale benefits



## Software Capabilities

- Extensive in-house developed Enablement platform (Octane)
- MNF Group becomes the domestic market leader in SaaS enablement capabilities
- Integrated to several major retail brands with over 1.1m end-points managed



## Synergies

- Network rationalization benefit (FY19 exit run rate benefit)
- Corporate efficiencies (offices, board, executive, and administration)
- Software roadmap benefits (best of two market leading platforms)
- Value of synergies is yet to be quantified and is not included in FY19 and FY20 forecast

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# TIAB Acquisition Funding

	Current	Post TIAB completion
MNF facility limit	\$27.0m	\$51.0m
Drawn	\$20.0m	\$51.0m
Cash	\$15.1m^	\$17.1m*
<b>Net Debt</b>	<b>\$4.9m</b>	<b>\$33.9m</b>
Gearing ratio (Debt/EBITDA)	0.8 times	1.7 times

^ as at 10 October 2018

\* forecast cash balance post completion

### Debt Overview

- MNF has approval to increase its facility limit from \$27.0m to \$51.0m, allowing the acquisition funding to be fully guaranteed

### SPP Overview

- An SPP was announced on 19 October 2018
- The SPP opened on 25 October and remains open until 8 November
- The SPP is available to shareholders with a registered address in Australia or New Zealand
- The SPP is priced at \$4.40 representing a 3.3% discount to the 5 day VWAP at the time of the announcement.
- Funds raised from the SPP will be used to reduce debt and for working capital purposes

### EPS Effect - Debt v's SPP

- The EPS impact of additional shares issued from the SPP will have an immaterial impact on the FY19 forecast EPS when compared to debt interest effect



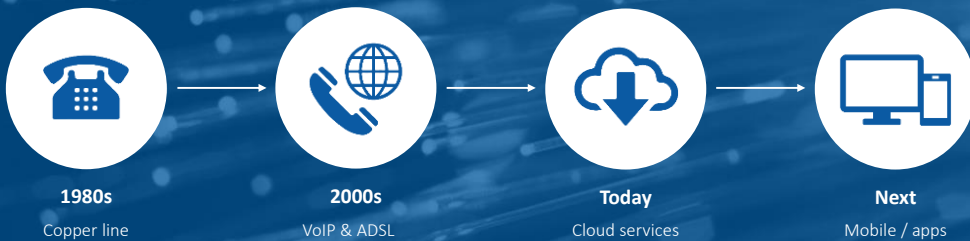
## Business Overview

**We're redefining the communications experience through software led solutions...**

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## Communications is changing



**...and MNF is leading the way**

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**Our platform enables  
embedded capabilities...**

Mobile  
Virtual numbers  
SIP Trunks  
SMS & IM  
Global termination  
Telco back-end



**...that we sell to telcos  
and disruptors...**

MVNOs  
Emerging telcos  
Global carriers  
App developers  
Software companies  
Enterprise



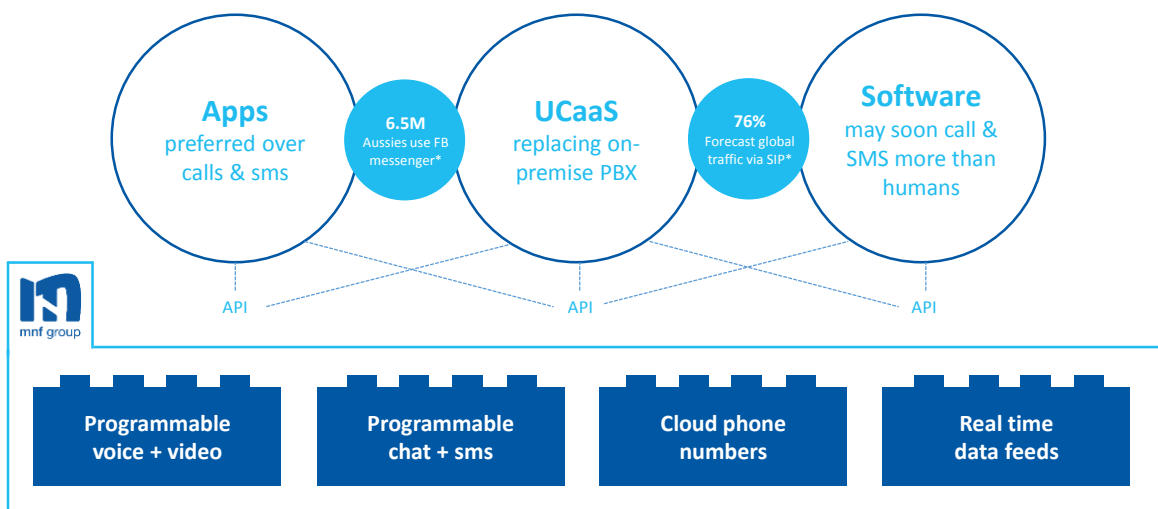
**...and use to power our  
own innovation**

Industry technology  
Voice services  
Conferencing  
Apps & portals  
Vertical brands

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## 3 Key Trends – Underpinned by MNF









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Sources: OVUM 2018, Eastern Management Group 2016, Roy Morgan 2016, ACMA 2017

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# Key Market Drivers

- 
 > ISDN/PSTN Cease-sale in Australia, driving SMB/Enterprise to consider their communication requirements and to migrate into the cloud.
- 
 > NBN providing a generational migration opportunity.
- 
 > Huge global focus on UCaaS evolution and CPaaS revolution.
- 
 > Withdrawal of other industry participants from Voice & Wholesale segments.
- 
 > Strong reputation for MNF quality, product capability and agility.
- 
 > Global opportunity – not just Australia. Receiving strong interest from existing customers for NZ, Singapore and other APAC markets - urgently.

**The time is now to capitalise on a “once-in-a-generation” shift!**  
**MNF is strongly placed – inaction is not an option.**

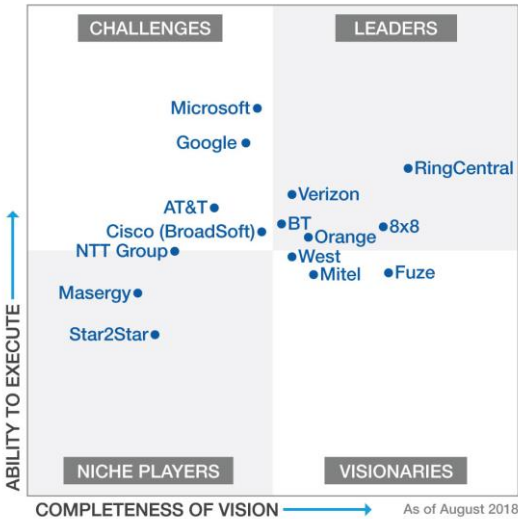
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# The world is changing

*“By 2021, 90% of IT leaders will not purchase new premises-based UC infrastructure — up from 50% today”*  
 – Gartner, 10 October 2018

- > Most companies in the Gartner UCaaS Magic quadrant are MNF customers today, or are working with MNF to plan deployments in our region within the next 18 months.
- > MNF is developing additional capabilities and capacity to match this once in a generation opportunity.
- > The potential growth for MNF is only limited by the number of countries we can deploy in the next 5 years.



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References:  
<https://www.gartner.com/doc/reprints?id=1-5LMTAT&ct=181015&sts=nb>  
<https://www.gartner.com/doc/reprints?id=1-5MNMMFW&ct=181019&sts=nb>  
<https://getvoip.com/blog/2018/03/30/state-of-uc-2018/>  
 Graph information source: Gartner, Inc

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# Our 4-dimensional growth strategy



### Geography

Expand infrastructure and presence throughout the Asia-Pacific region



### Software

Expand our communications platform with new capabilities and products



### Market share

Acquire new customers with targeted brands and tailored products



### Wholesale partnerships

Build long term customer relationships with steady margin growth

+ 1



### Acquisitions

Careful strategic addition of businesses that compliment or expand our capabilities

# Thank you



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