

ASX Announcement

27 August 2014

Macquarie Telecom announces full year results within updated guidance

Macquarie Telecom (ASX: MAQ) (the Company) today announced its results for the full year ended 30 June 2014 within updated guidance.

Commenting on the result, Macquarie Telecom's Chairman, Peter James, said: "Macquarie Telecom's full year results reflect the impact of a number of different factors.

"Firstly, the significant investment program undertaken over the past three years to expand our data centre capacity and position the Company for future long term growth. This \$100 million program included building the state of the art data centre facilities Intellicentre 2 in Sydney and Intellicentre 4 in Canberra and the enhancement of our cloud computing capabilities.

"The short term consequence of this significant capital investment is that the Company's financial results have to absorb, without the corresponding revenue, the increase in operating expenses for staff and maintenance costs required to run the new data centre facilities. As revenue grows the impact of these new costs will be absorbed and bottom line growth will materialise.

"Secondly, following industry trends Macquarie Telecom's dedicated managed hosting customers are progressively moving from its higher cost dedicated managed server infrastructure offering to its lower cost Virtual Private Cloud offering, a virtualised shared server infrastructure environment. This technology migration provides its customers with leading edge technology, faster service and enhanced online management controls at a reduced cost.

"The speed of this migration has been greater than anticipated over the past six months putting downward pressure on Hosting earnings for the half. Over time it is expected that the profit impact of the migration to the lower cost Virtual Private Cloud offering will be offset by the reduced capital cost base and operating expenses required to support these products.

"Thirdly, Macquarie Telecom's Mobiles business has also experienced rapid customer migration away from its higher margin offerings to its lower margin platforms in order to take advantage of greater mobile network coverage and performance. The Company's multi carrier offering is now gaining traction with Mobile revenue expected to grow in fiscal 2014. The company expects the shift in Mobile margins to stabilise in the first half of the 2015 fiscal year with the momentum in revenue growth set to continue.

Fourthly, as previously announced to the market the company has experienced longer than expected lead times realising the contracted revenue of its customers under the Australian Government's Lead Agency Secure Internet Gateway program.

"Significant progress has been made in the second half of fiscal 2014 to provision and realise the revenue streams of these large Federal Government customers. It is anticipated that the delivery of Secure Internet Gateway services to the contracted Department of Agriculture, Department of the Prime Minister and Cabinet and the Department of Treasury agency groups in Intellicentre 4 will be completed in the first half of 2015.

"With the substantial completion of the company's investment program, the Board and management are focused on increased business performance, in an environment of rigorous cost management," Mr James concluded.

Key Points

- Earnings before interest, tax, depreciation and amortisation (EBITDA) of \$25.5 million for the full year ended 30 June 2014, a decrease of \$9.6 million on the previous corresponding period.
- Net loss after tax was \$0.8 million for the full year ended 30 June 2014, a decrease of \$12.1 million from the previous corresponding period. Net loss after tax was impacted by the planned consequence of the recent significant capital expenditure program resulting in:
 - increased operating expenses as data centre facilities go live;
 - increased depreciation and amortisation charges; and
 - reduced interest revenue.
- No final dividend declared, with total dividend for fiscal 2014 being 12.0 cents per share fully franked.
- \$50 million working capital facility in place to support strategic growth opportunities of which \$23.5 million was drawn as at 30 June 2014.
- Macquarie Telecom's Hosting business revenue increased by 1.0% compared to the previous corresponding period, contributing \$61.1 million, or 31% of total service revenue. The Hosting business recorded EBITDA of \$5.9 million a decrease of \$5.3 million on the previous corresponding period.
- Macquarie Telecom's Telco (Data, Voice and Mobile) delivered \$135.7 million in revenue and EBITDA of \$24.6 million, a decrease of \$4.7 million from the previous corresponding period.
- Capital expenditure for fiscal 2014 was \$33.5 million, of which approximately \$12.9 million was spent on the expansion of Hosting capacity in Sydney and Canberra and continued investment in our cloud computing offerings, and approximately \$20.6 million on business as usual capital expenditure.

Priorities in fiscal 2015

Chief Executive David Tudehope said fiscal 2015 will represent a year in which the company's significant investment program comes to an end and our focus shifts to leveraging those investments to reignite growth in earnings. The company's focus in fiscal 2015 will include:

- Completing the delivery of Secure Internet Gateway services to the contracted Federal Government agencies in Intellicentre 4. As at 27 August 2014, 17 of the 22 contracted agencies were billing. We expect to have all 22 agencies billing by the end of first half of fiscal 2015;
- Increasing momentum of co-location sales into Intellicentre 2. As at 31 July 2014 approximately 1,300kW (33% of final IT load capacity) was contracted. This result is ahead of plan and up from 700kW contracted as at 30 June 2013;
- Driving increased performance in the core managed hosting business leveraging the industry move from dedicated managed server infrastructure offering to lower cost Virtual Private Cloud;
- Reducing the company's cost base as it transitions from an investment to a growth focus;
- Leveraging the company's unique multi-carrier mobile offering to help drive growth;
- Embracing the opportunities the NBN offers our customers for higher speed business broadband at more affordable prices;
- Continued investment in developing our cloud computing offerings.

An update on Macquarie Telecom's first half performance in fiscal 2015 will be given at the company's Annual General Meeting in late November.

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About Macquarie Telecom

Macquarie Telecom is Australia's leading integrated Managed Hosting, Cloud and Telecommunications Company. Working with and supporting some of Australia's best-known organisations, Macquarie Telecom is a full service hosting provider offering managed dedicated servers, managed co-location, and managed private, hybrid and public clouds. Our fully owned, Australian based data centres are the most secure and accredited data centres in Australia with ISO27001, PCI Compliance, DSD Gateway and ASIO Intruder Resistant accreditation. Macquarie Telecom's offerings are underpinned by world-class customer care which is delivered by our fully owned and managed customer service centre, MacquarieHUB. Macquarie Telecom is best placed to help transition organisations to the new online NBN era.

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