

16 February 2017

Melbourne IT Ltd (ASX: MLB)

Melbourne IT accelerates 100% acquisition of Outware

Melbourne IT Ltd (MLB) is pleased to announce that it is acquiring the remaining 24.9% of Outware Systems Pty Ltd (Outware), some 6 months earlier than originally envisaged.

Background

In June 2015, Melbourne IT acquired 50.2% of Outware for \$21.7M. MLB also acquired options to move to 100% (two options each for 24.9% of the issued capital of Outware) over the following two years. The consideration payable for these second and third tranches was to be calculated by reference to Outware's EBITDA as at 30 June 2016 and 30 June 2017 respectively.

MLB acquired tranche 2 in August 2016 for \$9.24M¹.

Rationale

The earn-out has served MLB well, driving focus and growth. For the year ending 31 December 2016, Outware's EBITDA grew by 40% on the prior year and the H2 on H1 growth was an even more impressive 57%. MLB expects a continuation of strong growth from Outware in 2017.

Since acquiring Outware, MLB has also acquired Infoready, a leading provider of data and analytics solutions for large companies and government departments. MLB's Enterprise Services division (ES) now has over 300 people with three substantial practices: Mobile (Outware), Data and Analytics (Infoready), and Cloud. It has an enviable portfolio of marquee brands and is uniquely positioned to ride the tailwinds of growth in digital services.

The ES division is growing at more than 20% per annum, and is outstripping many of the established businesses in the technology services space. But it can grow even faster through the effective integration of the practices and the ability to provide cross practice solutions. This will strengthen MLB's competitive advantage, create further differentiation, and underpin the cross-selling of services to existing customers.

¹ The accounting consideration was \$10.6M and included \$1.36M representing the minority shareholders share of cash in the business at the time tranche 2 was acquired. The amount paid for the shares was \$9.24M.

The earn-out has reached the end of its useful life and it is time to accelerate this integration. MLB has been preparing for some time for the conclusion of the earn-out with a particular focus on succession. There is deep executive talent in the Outware business and successors are in place for all of the key roles. As a result, MLB is bringing forward the purchase of the final tranche and accelerating the integration of the practices.

Eytan Lenko, one of the three founders of Outware, will become the Practice Lead for Mobile (Outware), and will be responsible for cementing our position as Australia's leading mobile design and development business.

The two other founders of Outware are moving into new roles in ES where they can make a broader impact and drive critical elements of the integration and the continuing evolution of ES. Specifically, Danny Gorog will take on a new role working with MLB customers to ensure they understand the combined capabilities in the ES business and are inspired to implement new technologies. Gideon Kowadlo will assume responsibility for leveraging our innovation capabilities across Data, Analytics, Cloud and Mobile.

This ensures a managed succession process in Outware and the continued involvement of three talented executives beyond the end of the original earn-out period.

The Details

MLB is paying \$26.9M to acquire the remaining shares in Outware that it does not already own. This is approximately \$2.3M less than the expected cost for tranche 3 (assuming that Outware achieved its 30 June 2017 forecast).

Of the \$26.9M purchase consideration, \$23.2 is payable immediately with the balance (\$3.7M) placed in escrow until 1 January 2018. The balance in escrow will include \$1M of MLB shares, which will be purchased on market. All costs associated with this transaction will be funded from MLB's existing debt facility.

MLB is delighted with the performance of Outware mobile over the past 18 months. The total consideration paid by MLB for Outware is \$57.84M², which represents a 4.7x multiple to its forecast 2017 EBITDA.

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² The accounting consideration is \$60.61M and includes the minority shareholders share of cash at the time tranches 2 and 3 were acquired and other commercially negotiated items that are outside of the amount paid by MLB for the shares in Outware.

About Melbourne IT

Melbourne IT Group is a publicly listed company with offices in Melbourne, Sydney, Brisbane, Auckland and Canberra. Melbourne IT's purpose is to "Fuel our customers' success through the smart use of technology". By 2020 we aim to have fuelled the success of over one million businesses. Our customers will love us, our people will be our most passionate advocates, and our investors will be rewarded.

Melbourne IT has approximately 650 staff and operates two businesses marketed under 6 brands.

The Small and Medium Business Division (SMB) is Australia's largest domains and hosting business with revenues of approximately \$110m and 300 staff. The SMB business operates under the Melbourne IT, WebCentral, Netregistry and TPP brands.

The Enterprise Services Business (ES) is Australia's leading cloud enabled software and services business with revenues of approximately \$40m and 350 staff. ES is based in Sydney, Melbourne and Brisbane and has a blue chip customer base. It operates under three brands, Melbourne IT, InfoReady and Outware Systems.

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