15 April 2020

ARQ GROUP LTD (ASX: ARQ)

Withdrawal of Guidance, Trading Update and Implementation of amplified cost reduction initiatives

ARQ Group Limited (**ARQ Group**) is advising the market that it is withdrawing its FY20 guidance as a result of the impact and anticipated significant further impact of COVID-19 upon the original forecast of a core EBITDA range of $11M-$12M, implementation of further cost reduction initiatives and material simplification of the organisational structure.

Withdrawal of FY20 Guidance and Trading Update

On 27 February 2020, ARQ Group announced its FY19 results and advised the market it expected to achieve EBITDA of $11m - $12m for FY20.

The core business through to the end of the first quarter was on track to meet the guidance range set out above. However, in the second half of March the impact of changed market conditions as a result of COVID-19 became apparent, and since then the Company has observed a reduction in small business spend away from digital marketing and online business promotion.

The Company has undertaken a review to understand the impact and it is clear that the Company needs to proactively address the decline by removing additional cost from the business, including the incremental cost reduction initiatives set out below.

Given the escalation of COVID-19 and associated uncertainty, the Company has determined that it is appropriate to withdraw its earlier guidance.

The Company continues to have the support of its lenders, ANZ and NAB.

Organisational Simplification and Cost reduction

On 27 February 2020, the Company announced forthcoming cost reduction of $0.9m in direct costs and a further $2.8m in corporate costs per annum.

The Company today announces it is completing the remaining activities to deliver these previously announced cost reductions and is additionally carrying out incremental cost reduction initiatives across people, marketing expenditure, property and systems. The annualised saving during FY20, in addition to the $3.7m mentioned above, is expected to be an incremental $1.6m.

Streamlining the business consists of two parts: reducing cost in response to the impact COVID-19 has had and will continue to have on revenue and right sizing the business as a result of the sale of Enterprise. Both these activities result in a smaller organisation, with a simplified operational structure including consolidation of some business units, removal of a number of senior and mid-level management roles and reduced overheads.

The proactive changes announced today are to support the business as a going concern.

Update to strategic review

As announced on 24 September 2019, the Board engaged Macquarie Capital to undertake a Strategic Review to explore all avenues for shareholder value creation and the Board announced its decision to test the market for the sale of the SMB and Enterprise businesses.

As announced on 27 February 2020, since the successful sale of the Enterprise business which completed on 2 March 2020, Arq Group has continued to progress the Strategic Review and the potential sale of the SMB division with a number of parties continuing to engage in discussions with the Company and conduct due diligence. The Company will provide a further update to the market in due course.

ENDS

Please contact Ms Anne Jordan, Company Secretary, if you have any queries.

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The release of this announcement to the ASX was authorised by Mr Andrew Reitzer, Chairman of Arq Group Limited.

About Arq Group

Arq Group Ltd is Australia's largest full-service digital marketing agency for small and medium businesses - fuelling the growth of local businesses from inception to acceleration.

Since its founding in 1996, Arq Group Ltd (previously Melbourne IT Group) has helped fuel the success of more than one million Australian small to medium businesses. With roots in domain name and hosting, Arq Group Ltd are the small and medium business digital marketing experts who catapult growth by helping businesses get online, improve and protect their online presence.

Arq Group Ltd consists of the brands Netregistry, WME and Melbourne IT. The Arq Group Ltd Enterprise division was divested March 2020.