

11 June 2019

BUSINESS RESTRUCTURE, FY19 & FY20 GUIDANCE AND EQUITY CAPITAL RAISING

CommsChoice Group Limited (ASX: CCG) (“CommsChoice” or the “Company”) today announces plans to restructure its sales and customer operations areas following a detailed review of the Company’s sales and customer facing activities.

Based on detailed analysis, the Board of Directors has decided to implement the following initiatives which are expected to occur over the coming months:

- Restructure of Australian operations removing non-core costs from operations and sales areas in Australia (it is anticipated that approximately 8 positions will be removed);
- Offshore call centre downsized and key functions moved back to Australia with the workload to be taken up largely by existing resources;
- Additional resources deployed into the Company’s ‘Key Partners and Indirect Sales’ group which has been experiencing strong positive momentum with channel partners, dealers and IT service providers (e.g. contact centre providers); and
- Investment in an enhanced e-Commerce capability allowing businesses, corporates and our partners to order directly from our website and providing the Company with a greater level of customer prospects and improved efficiency.

The result of the proposed initiatives is expected to result in total annualised cost savings of approximately \$2.0m.

In relation to the business restructure interim CEO and Managing Director, Peter McGrath said: “We were not seeing the level of customer service and responsiveness we needed in our business to satisfy the needs of our Australian business and corporate customers. The restructure will improve customer service and focus sales activities on more immediate opportunities largely with partners and IT service provider customers”.

In addition to the announced initiatives, CommsChoice has identified the following strategic growth areas where the Company will focus future activities:

- The provision of cloud-based phone and related communications solutions to Australian SME and corporate customers using the Company’s leading cloud based global business phone system, MS Teams calling products and SD-WAN for multi-site organisations;
- Partner solutions for our contact centre and IT service provider partners – contact centre SIP based call solutions, global business phone system resale, direct routing/business phone capability for MS Teams etc.;

- Greater focus and engagement in relation to the opportunities afforded by the NBN and 4G/5G networks for high speed last mile access for multi-site corporate networks; and
- Further expansion into overseas markets, particularly Asia, providing global cloud phone and SD-WAN offerings for multi-site corporate offices and leveraging our existing international POPs in 25 locations around the world.

FY19 & FY20 Guidance

CommsChoice expects to recognise approximately \$18.4m of costs related to the restructure, including approximately \$16.3m in write-down of non-cash related goodwill and other intangible assets, subject to the final audit. The restructure costs include approximately \$1.1m in staff and other related costs, as well as approximately \$0.7m for onerous contracts and additional legal costs in relation to a warranty claim being pursued by CommsChoice. The final carrying value of goodwill and intangibles will be evaluated as part of the year end audit process. The restructuring costs are in addition to the approximately \$0.6m of restructure costs acknowledged at the half year FY19 result.

Factoring in these restructuring costs, the Company anticipates:

- FY19 revenue in the range of \$19.5m to \$20.5m and underlying EBITDA (excluding restructuring costs) of approximately \$0.1m, with the majority of the restructuring costs expected to be recognised in FY19; and
- FY20 revenue in the range of \$20m to \$21m and underlying EBITDA of between \$1.8m to \$2.2m.

Equity Capital Raising

The Company is undertaking an equity capital raising comprising a placement to Directors, subject to shareholder approval, and professional and sophisticated investors ("Placement") to raise approximately \$1.0m followed by a Share Purchase Plan ("SPP") partially underwritten to \$1.0m.

Funds from the equity capital raising will be used to meet the restructuring and related costs, working capital and investment into new e-Commerce capabilities. The Placement comprises 25.0m shares issued at \$0.04 each, representing a 26% discount to the last closing pricing of A\$0.054 and 35% discount to the 5-day volume weighted average price.

In addition to the Placement, eligible shareholders will be invited to participate in an SPP that will enable shareholders to apply for up to \$15,000 of shares at the same price as the Placement. Baillieu Limited is acting as Lead Manager to the Placement and SPP and has agreed to partially underwrite \$1.0m of the SPP.

Shareholders on the Company's register at 7.00pm on Friday, 7 June 2019 ("Record Date") whose registered address is in Australia or New Zealand will be entitled to participate in the

SPP. Further details on the SPP, including the timetable, will be provided to shareholders shortly.

Purchase of CommsChoice Pty Ltd (CCPL) in December 2017 – Warranty Claims

CommsChoice has issued warranty claims totalling approximately \$3.29m against the lead vendor of CCPL related to the acquisition of the CCPL business at listing. The claims are currently before an Independent Expert for determination, with an outcome expected in July 2019.

CommsChoice is not able to predict with any certainty the outcome of the Independent Expert determination nor the prospects of success of the warranty claims issued by CommsChoice. CommsChoice will keep the market informed of material developments relating to the warranty claims process and the Independent Expert's determination.

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