

Macquarie Telecom Group Ltd

Half Year Results 2011

David Tudehope & Michael Simmonds
24 February 2011

Strategic objective



To be Australia's number one Managed Hosting and integrated Telco provider to business and government customers through the delivery of service excellence.

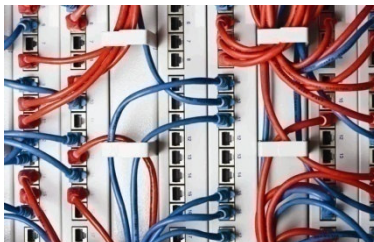
Macquarie Telecom at a glance

Macquarie Telecom delivers a range of Hosting and Telco services specifically to the business and government market



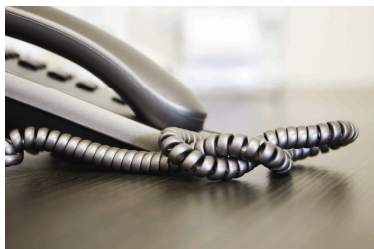
Hosting Division

Our Hosting division focuses on providing secure, scalable, high-availability, fully managed hosting services for our customers' mission critical applications.



Telco Division

Data - we provide reliable and secure IP data network services offering the highest level of network service availability and optimum network solutions to support our customers' business application environments.



Voice - we deliver secure, flexible and cost-effective telephony solutions developed to meet the specific business requirements of our customers and to maximise productive use of telecommunications and control unnecessary spending.



Mobiles - we provide tailored mobile solutions together with a wide range of enhancement management, reporting and cost control tools that enable our customers to effectively manage and control their mobile fleet and its expenditure.



Leadership Position

- The recognised leader in delivering managed hosting of mission critical applications for business and government customers in Australia
- The industry leader in Customer Service judged as the Best Telco in the World for Customer Care at the World Communication Awards



Huge and Growing Market Opportunity

- Trend of selective outsourcing is accelerating due to higher speed internet connectivity driving new web technology and the associated demand for managed hosting
- Emergence of cloud computing, which is a natural extension of managed hosting, will increase this trend and provide new market opportunities
- NBN will create a new playing field that presents opportunity for both the Hosting and Telco businesses



Sustainable Competitive Advantage

- Our world class customer service is a clear differentiator and even more relevant in a NBN world
- Leadership in managed hosting achieved through operational and service excellence with highly certified people, processes and infrastructure



Strong Financial Profile

- Robust Balance Sheet with no debt
- Strong consistent growth in profitability

Agenda

1. Group highlights

2. Financial performance

3. Operational and division review

4. Strategy

5. Outlook

6. Q&A

Group Highlights

Key Financial Highlights

- EBITDA* profit of \$20.3 million up 48% on pcp
- EBIT* profit of \$12.2 million up 104% on pcp
- NPAT* \$9.7 million up 102% on pcp
- EPS* of \$0.46 up 100% on pcp
- Fully franked interim dividend of 10 cps
- Cash and cash equivalents of \$45.4 million and no debt

* Excludes results from discontinued operations

Key Operational Highlights

- Investment of \$60 million to expand Hosting capacity - North Ryde
- Launch of Enterprise Managed Cloud and Self-Managed Cloud offerings
- MacquarieHUB improves customer service

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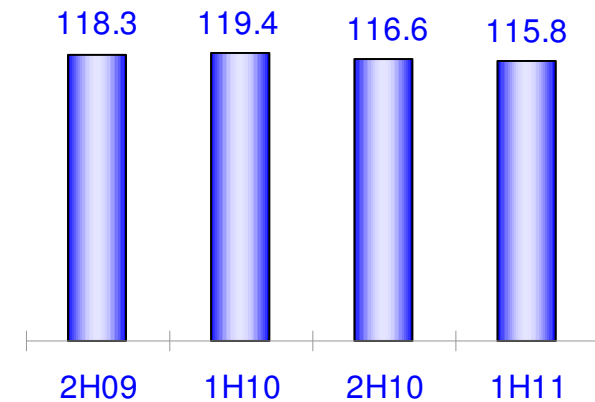
6. Q&A

Earnings continue to improve

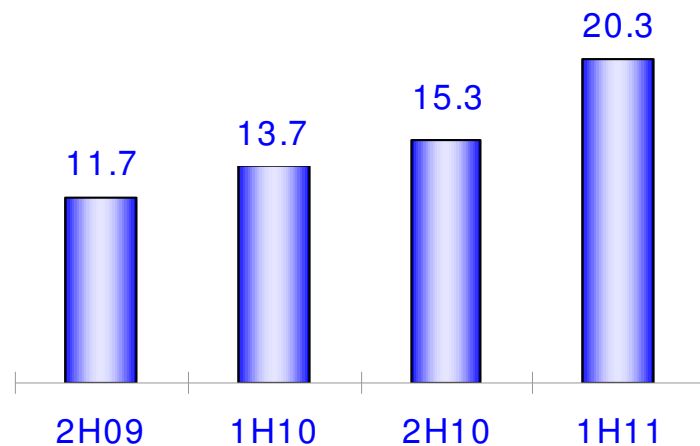
(Excludes profits from discontinued operation)

\$m	1H10	1H11	Change
Revenue	119.4	115.8	(3.0%)
EBITDA	13.7	20.3	48.4%
EBIT	6.0	12.2	103.7%
NPAT	4.8	9.7	101.6%
EPS (cps)	23.2	46.5	100.4%

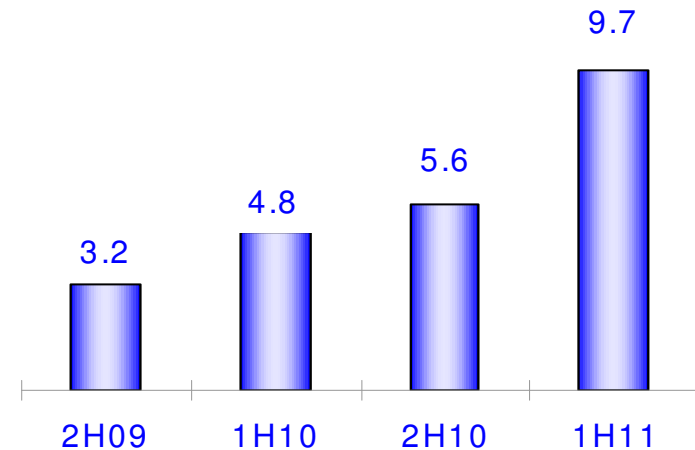
Revenue



EBITDA \$m



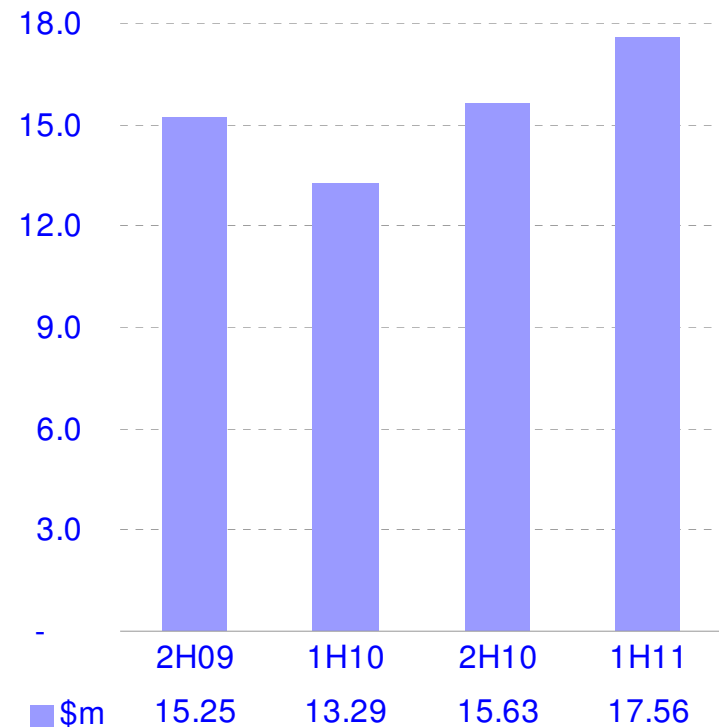
NPAT \$m



Strong operating cash flows

\$m	1H10	1H11
Cash flows from Operating Activities	13.3	17.6
Cash flows from Investing Activities	2.2	(19.8)
Cash flows from Financing Activities	(0.5)	(8.6)
Net Increase/(Decrease) in Cash Held	15.0	(10.9)
Opening Cash & Cash Equivalents	35.3	56.3
Closing Cash & Cash Equivalents	50.3	45.4

Operating cash flows



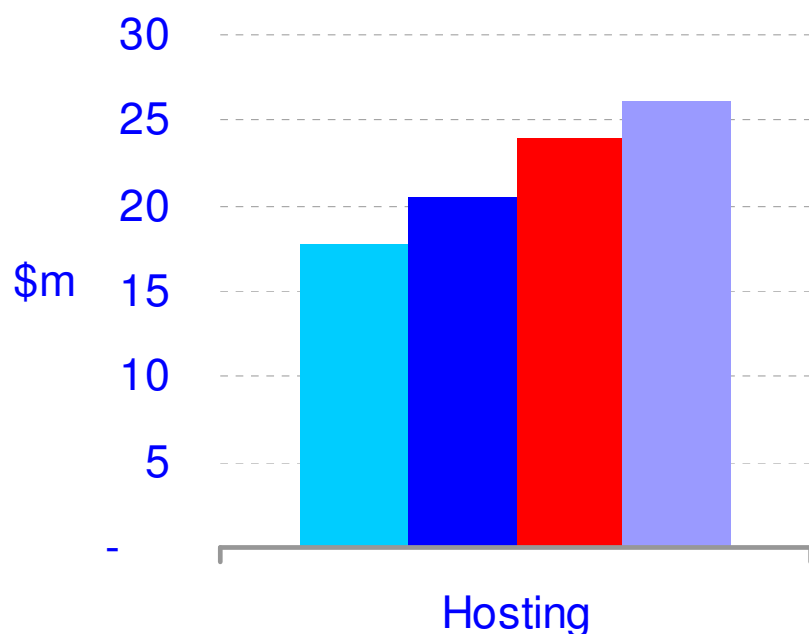
Balance sheet and dividend policy

\$m	1H10	1H11
Cash and cash equivalents	50.3	45.4
Gross Trade Debtors & WIP	19.9	16.9
Other Assets	35.4	48.1
Total Assets	105.7	110.4
Creditors	34.9	32.5
Short and Long Term Debt	1.0	0.0
Other Liabilities	6.3	7.3
Total Liabilities	42.2	39.7
Total Equity	63.5	70.7

- Cash balance of \$45.4 million
- Fully franked interim ordinary dividend of 10 cps
- Strict working capital management
- Strong Balance Sheet with no debt supports strategic growth opportunities

Revenue growth in Hosting continues

(Excludes revenue from discontinued operation)



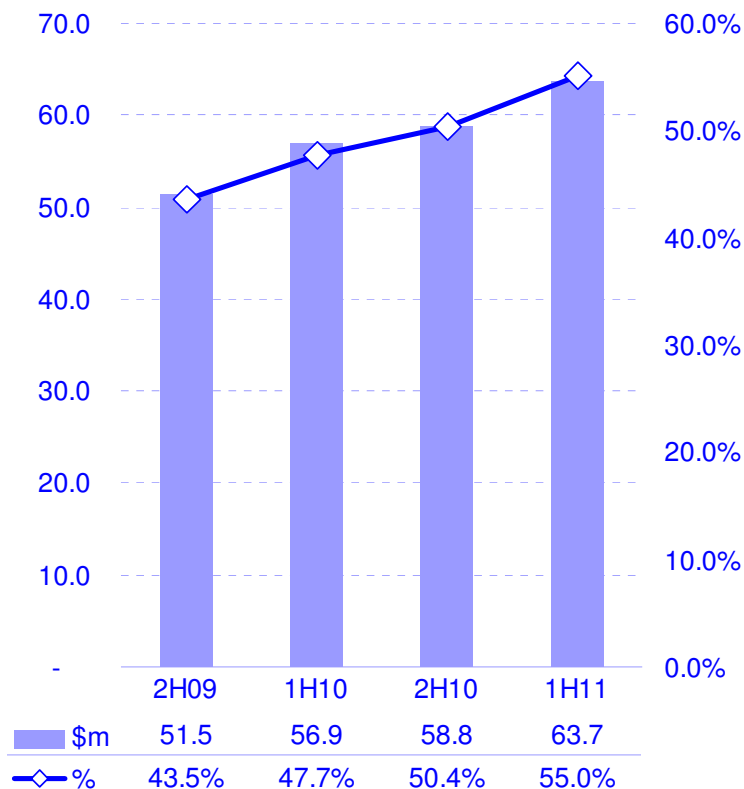
- Hosting revenue up 27.2% on pcp to \$26.1 million as it continues to experience strong sales orders and growth in 1H11
- Telco revenue down 9.3% on pcp primarily due to reduction in Voice as further price competition and fixed to mobile and data substitution continues
- Total revenue down 3.0% on pcp

Revenue \$m	Data	Voice	Mobiles	Telco	Hosting	Total
2H09	30.1	56.9	13.5	100.5	17.8	118.3
1H10	30.2	54.6	14.0	98.8	20.5	119.4
2H10	28.5	49.5	14.7	92.7	24.0	116.6
1H11	29.3	45.4	15.0	89.7	26.1	115.8

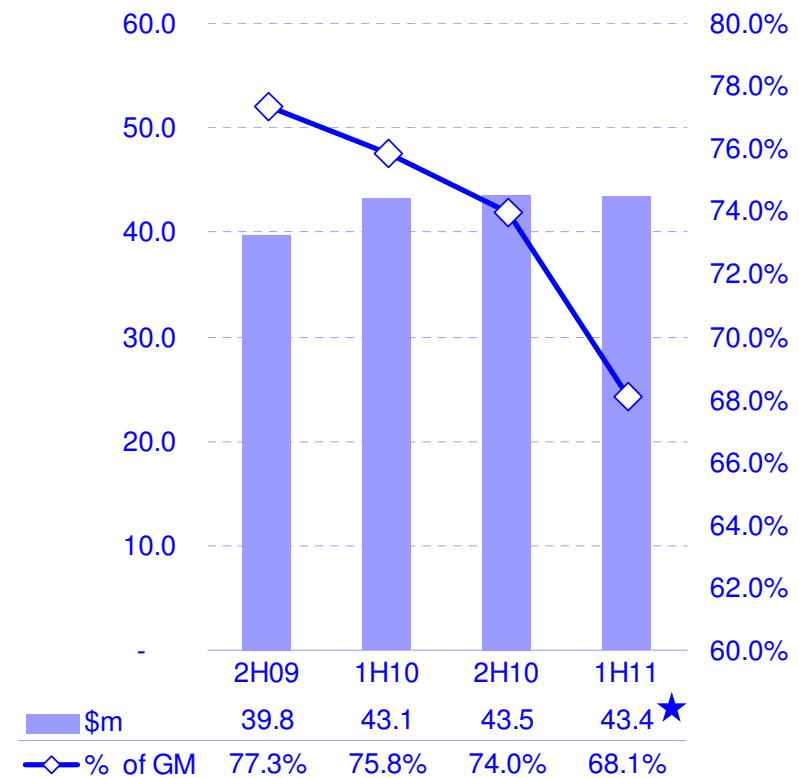
Gross margin grows Opex is stable

(Excludes results from discontinued operation)

Gross margin grows in both \$ and % terms



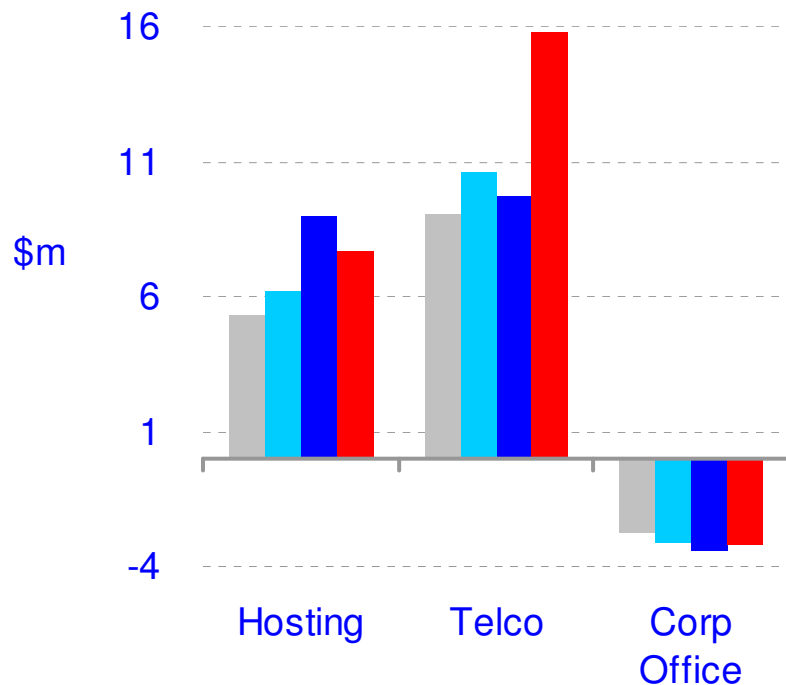
Opex as a % of gross margin declines



★ includes a one-off benefit from the settlement of a prior year dispute of \$1.5 million

EBITDA grows

(Excludes results from discontinued operation)

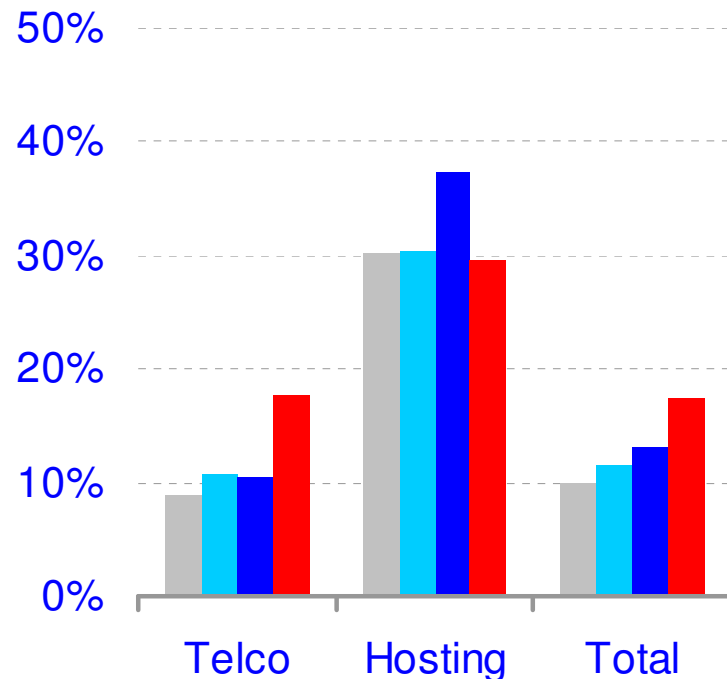


- EBITDA profit of \$20.3 million up 48% on pcp
- Hosting EBITDA up 23.8% on pcp to \$7.7 million
- Telco EBITDA up 48.9% on pcp to \$15.8 million
- Redirection of existing resources from Telco to support growth of Hosting business
- Further investment in Hosting business to take advantage of the emergence of cloud computing

EBITDA \$m	Data	Voice	Mobiles	Telco	Hosting	Corp Office	Total
2H09	1.1	7.1	0.9	9.0	5.3	(2.7)	11.7
1H10	2.3	7.6	0.7	10.6	6.2	(3.1)	13.7
2H10	1.1	7.4	1.2	9.7	9.0	(3.4)	15.3
1H11	4.0	9.9	1.9	15.8	7.7	(3.2)	20.3

EBITDA % Margin on the Rise

(Excludes results from discontinued operation)



		Telco	Hosting	Total
2H09	■	9%	30%	10%
1H10	■	11%	30%	12%
2H10	■	11%	37%	13%
1H11	■	18%	30%	18%

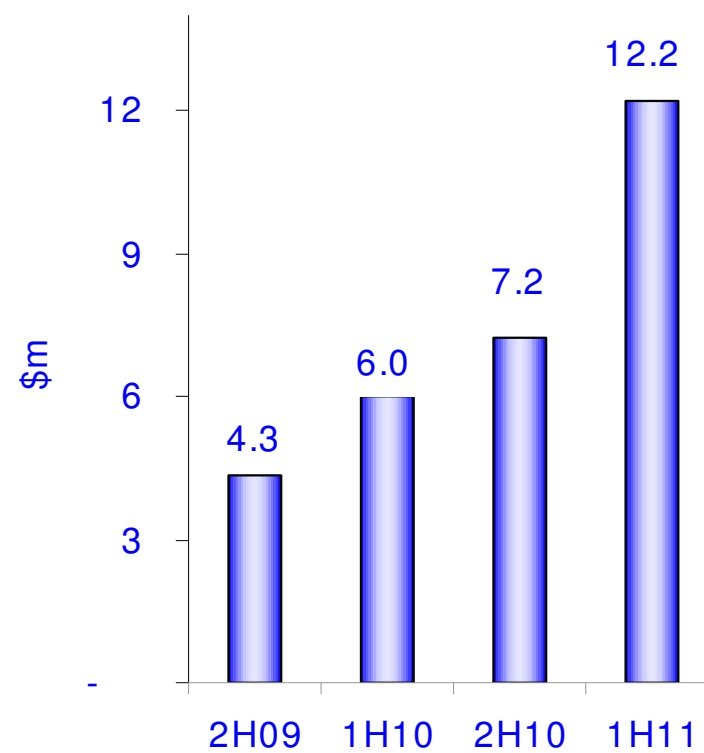
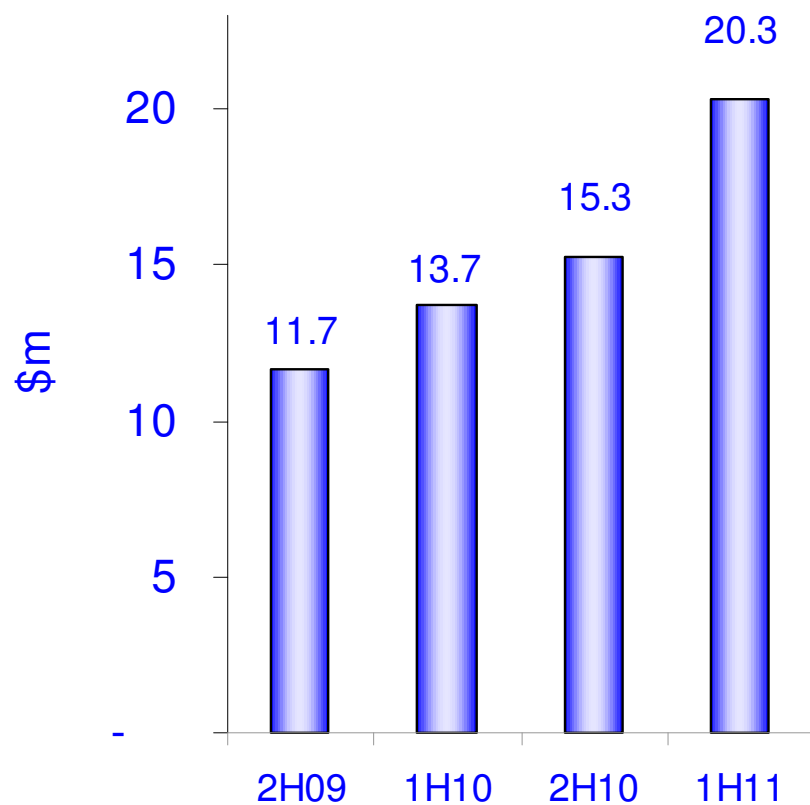
- EBITDA % margin consistently improving
- Telco business supports this growth with continued margin improvement
- Hosting business % margin impacted by investment to take advantage of the emergence of cloud computing. This investment will accelerate in 2H11.
- 1H11 EBITDA % margin includes a one-off benefit from the settlement of a prior year dispute of \$1.5 million

EBITDA & EBIT grow

(Excludes results from discontinued operation)

EBITDA: 48% Increase

EBIT: 104% Increase



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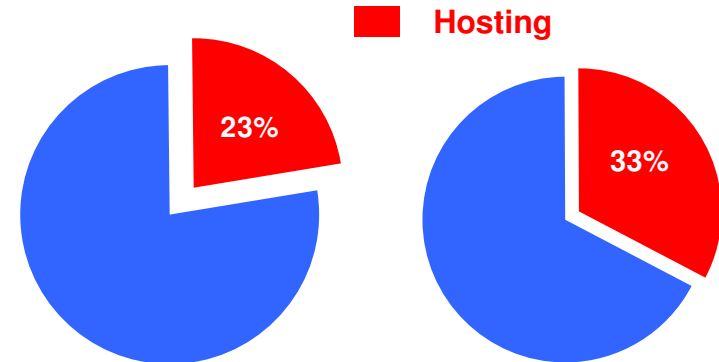
Hosting review

Summary

- Launch of Australian Enterprise Managed Cloud offering to challenge global cloud vendors
- Service eliminates data residency, latency, regulatory and customer service cloud concerns and is a global first allowing companies the ability to burst on demand from diverse infrastructure into the cloud
- Launch of Ninefold Self-Managed cloud offering
- Revenue on a consistent growth path

Revenue %

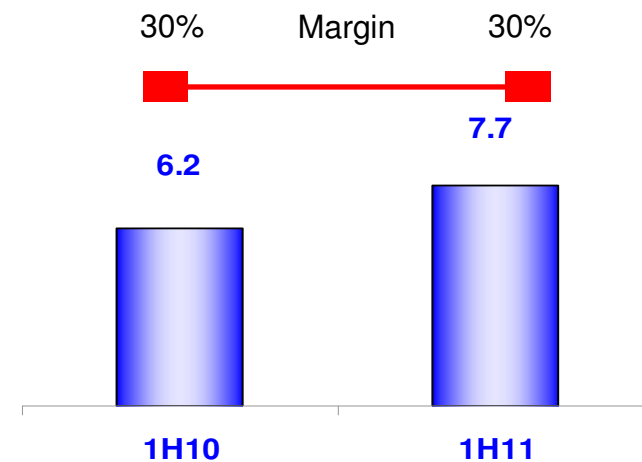
EBITDA %



Key drivers and industry outlook

- Trend of selective outsourcing is accelerating due to higher speed internet connectivity driving new web technology and the associated demand for managed hosting and data centres
- Emergence of cloud computing, which is a natural extension of managed hosting, will increase this trend and provide new market opportunities
- Redundancy and disaster recovery requirements of corporate and governments are growing

Hosting EBITDA (\$m)



Huge and Growing Market Opportunity

Internet Growth

Global internet traffic is expected to quadruple from 2009 to 2014 - a compound annual growth rate of 39% according to the Cisco Visual Networking Index (VNI) Forecast, 2009-2014

The Cloud

Demand for cloud computing services will grow at more than 20 per cent over the next four years, reaching \$US150 billion by 2014 (three times the market's current size) according to Gartner

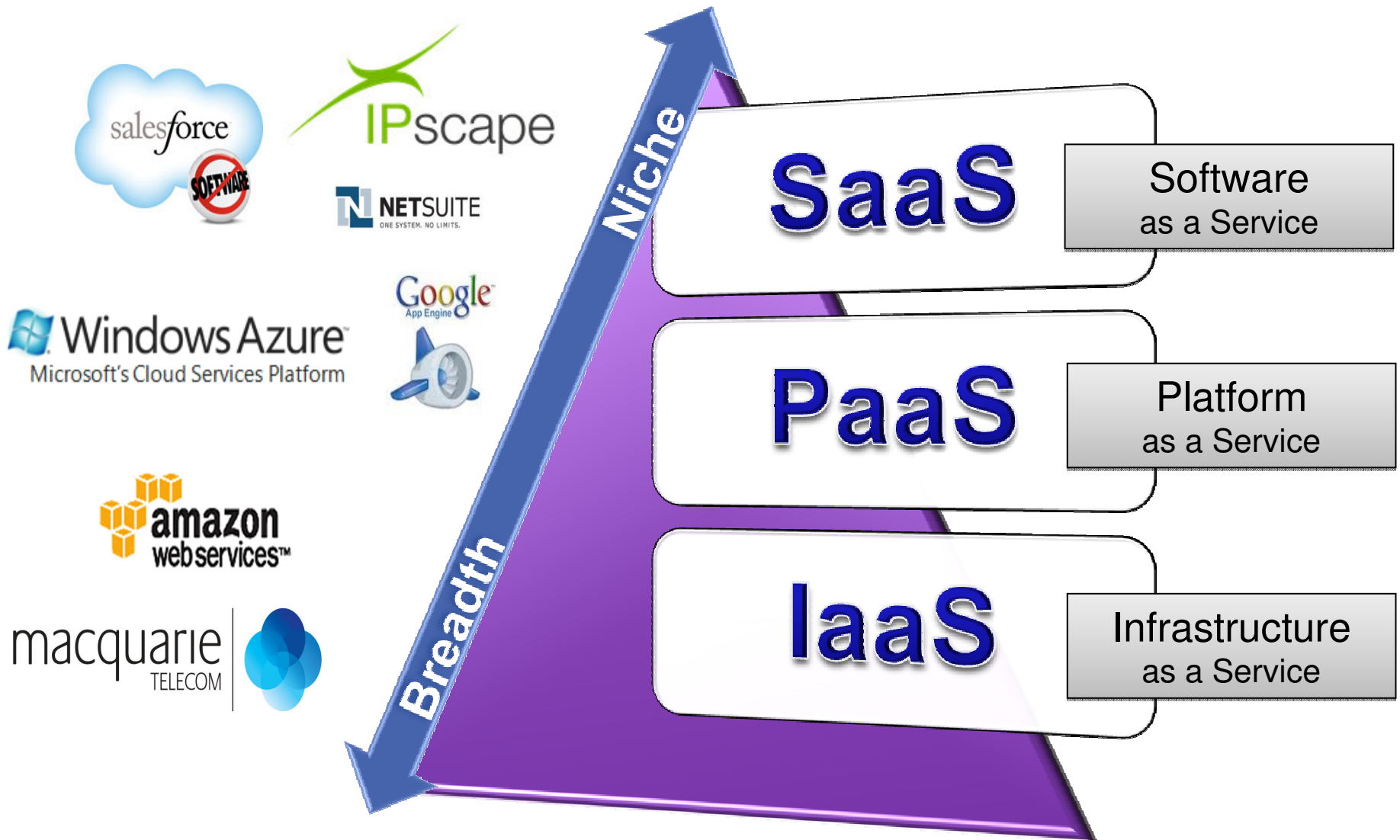
Outsourcing Trend

“By 2012, 20% of business will own no IT assets”
Gartner Key Predictions, January 2010

The Cloud War

“Cloud IaaS is the future of outsourced hosting” according to Gartner - Magic Quadrant for Cloud Infrastructure as a Service and Web Hosting 2011

Cloud Computing Models



Cloud Computing Models

Software As A Service (SaaS)



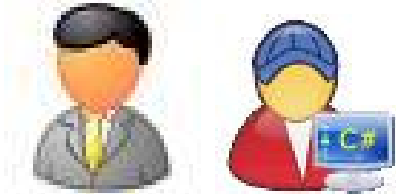
User

Platform As A Service (PaaS)



Developer

Infrastructure As A Service (IaaS)



Developer / IT Team

Macquarie addresses two different IaaS Cloud Markets

Enterprise Managed Cloud

Customers:
Enterprise, Corporate Market

Competition:
Australian Hosters, In House

Self-Managed Cloud

Customers:
Startups, Test & Developers, Entrepreneurs

Competition:
Amazon



Macquarie has two different IaaS Cloud Solutions

Enterprise Managed Cloud

Australian Residency
Account Managed Service
1 Bill for all MT Services
Complex / Customised Design
Integrated with WAN & Web



Self-managed Cloud

Australian residency
Self Managed Portal
Credit Card Bill
Do It Yourself Design
Accessed via Web

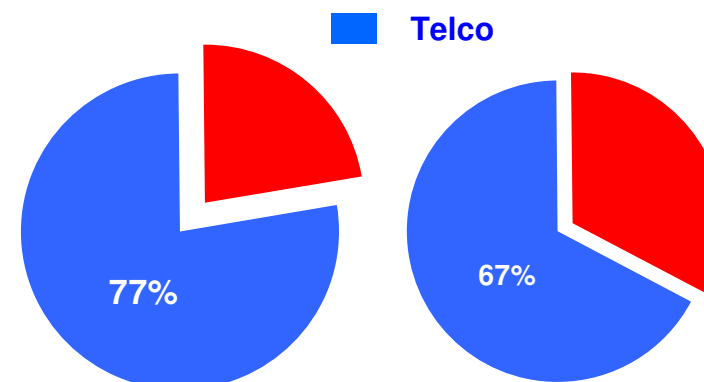
Telco (Data, Voice & Mobiles) review

Summary

- Telco revenue down 9.3% primarily due to reduction in Voice as price competition and fixed to mobile and data substitution continues
- Strict cost control and automation improve margins and EBITDA
- Strong growth in mobile data and international data
- Telco share of operating expenses reduced in FY11 as resources are redirected to the Hosting line of business to support growth

Revenue %

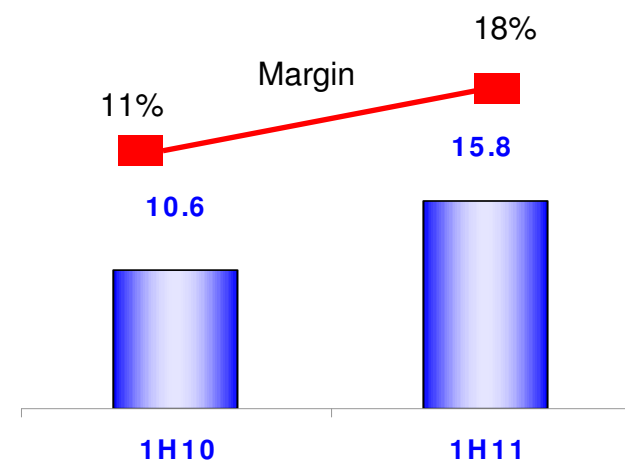
EBITDA %



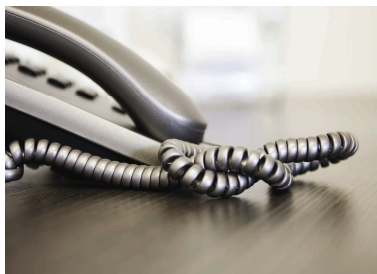
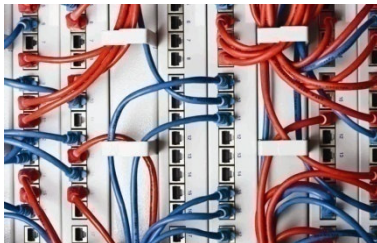
Key drivers and industry outlook

- Continued investment in automation, systems & processes to improve efficiency & costs to serve
- Continued management tool development and focus on driving utilisation in installed base
- MacquarieHUB improves customer service and will lead to increased customer loyalty and retention
- Voice and Data continue to converge
- NBN rollout and adoption

Telco EBITDA (\$m)



National Broadband Network



NBN offers businesses increased productivity, greater speed to market and enhanced customer service. Macquarie Telecom is best placed to help transition businesses to the new online era, differentiated by world class customer service

- Macquarie Telecom, like other Telco providers, will be a wholesale customer of the new NBN/fast broadband network operator acquiring network services which in turn enables Macquarie to provide services to our retail customers
- NBN/Superfast broadband will be a competition leveller for Telco's and the key differentiator for providers will be around customer service (Geoff Johnson, Gartner, Symposium 2009)
- Macquarie Telecom has over 18 years of business telecommunications experience
- Superfast broadband will encourage the development of new web technology increasing internet usage and driving growth in demand for managed hosting and data centres
- Macquarie Telecom has carrier network operating experience and extensive customer migration credentials
- Macquarie Telecom has the leading Telco management tools suite that provides multi-network visibility

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Key Strategic Initiatives – FY2011

People

- Deep technical expertise
- Maintaining high customer service standards through our Personal Accountable Service model

Operational

- Expansion of Hosting Capacity in FY11 to support growth
- Increased investment in automation, systems & processes to improve efficiency & costs to serve

Customers

- Launch of Enterprise Managed Cloud and Self-managed Cloud offerings
- Maintain focus on customer care as a key differentiator through leveraging world-class Contact Centre, the "MacquarieHUB"

Corporate

- Strong balance sheet providing capability to grow organically or through acquisition
- Acquisition opportunities being explored

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Positive FY11 Outlook



- EBITDA Profitability in fiscal 2011 is expected to be between \$37 million and \$39 million.
- Capital expenditure for fiscal 2011, excluding the new data centre development at North Ryde, is expected to be approximately \$18 to \$20 million driven by strong Hosting sales.
- Purchase of land and an existing building in North Ryde for \$10.8 million, settled in December 2010
- Phase one of the North Ryde data centre development will see a further \$49 million invested into mechanical, electrical, plant and equipment needs. Approximately \$30 million of this investment is expected to be made in calendar 2011.

Questions

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