H1 FY19 RESULTS
INVESTOR PRESENTATION

22 August 2019

Agenda

- Results Snapshot
- Arq Recovery
- Arq Financials
  - Core Operations
  - Non-core Operations
- Appendix One: SMB: Segment Results
- Appendix Two: Adoption of AASB 16: *Leases*
- Appendix Three: Arq Group: core and non-core explained

Summary

After a challenging 12 months the recovery is underway.

- The first half result was a story in two parts;
  - a strong bounce back in the SMB division wasn't enough to offset a challenging first half for the Enterprise division
- A comprehensive recovery plan has been implemented and is delivering results;
  - the SMB division had a very pleasing first half – sales of subscription digital revenue are back to historical levels and core underlying EBITDA was up 57% on the PCP
  - momentum is building in the Enterprise division – but it is early days
  - annualised cost savings of $3.8m have been realised with another $2.0m to come in FY20
- Net debt position is steadily improving;
  - net debt of $51.6m at the end of July and a leverage ratio of 2.1x[1]
  - we expect to be back within our published target range for the net leverage ratio (ie 1.25x - 1.75x) towards the end of H1 FY20[2] on the back of growing billings and continued strong cash conversion
- Full year guidance has been affirmed;
  - H1 FY19 underlying EBITDA for the Group was $9.6m and full year guidance is a range of $27.5m - $30.5m
  - a recovery in the Enterprise division in H2 underpins the achievement of guidance
- We are on-track at the end of H1 FY19 and momentum is building with each month

1. The leverage ratio is calculated as net debt divided by a trailing 12 months EBITDA
2. This is based on the guidance for Group EBITDA.

ARQ group

H1 FY19 Result: group

The Enterprise division experienced significant challenges in H1 2019, dragging on the Group result. The strong bounce back in the SMB division only partially offset the Enterprise shortfall.

Financial Results[1]

Total Revenue
$90.9m
(↓19%)

Underlying EBITDA[2]
$9.6m
(↓62%)

Underlying EPS[2]
0.7cps
(↓89%)

Dividend

The Group has not declared an interim dividend

Debt

Net debt reduced by $21.3m to $51.6m[3]

Net leverage ratio down to 2.1x[4]

Enterprise

Enterprise had a challenging H1 due to delays in revenue and a shortfall in new business;

- revenue $44.2m (-28%) and underlying EBITDA -$0.2m (-101%)[1]
- revenue has improved over Q2 and the pipeline for H2 is building steadily

Small & Medium Business

SMB revenue down due to compounding effect of subscription revenue miss in Q2 FY18;

- revenue $46.7m (-9%) and underlying EBITDA $10.4m (+12%)[1]
- sustainable cost saving initiatives delivering ~ $3.8m pa (with $2.0m more to come by FY20)

1. Comparisons versus H1 FY18 financial results.
2. Underlying EBITDA and EPS excludes one-off and non-recurring expenses.
3. Following the sale of the TPP Reseller business.
4. The leverage ratio is calculated as net debt divided by a trailing 12 months EBITDA.

H1 FY19 Result: core and non-core operations[1]

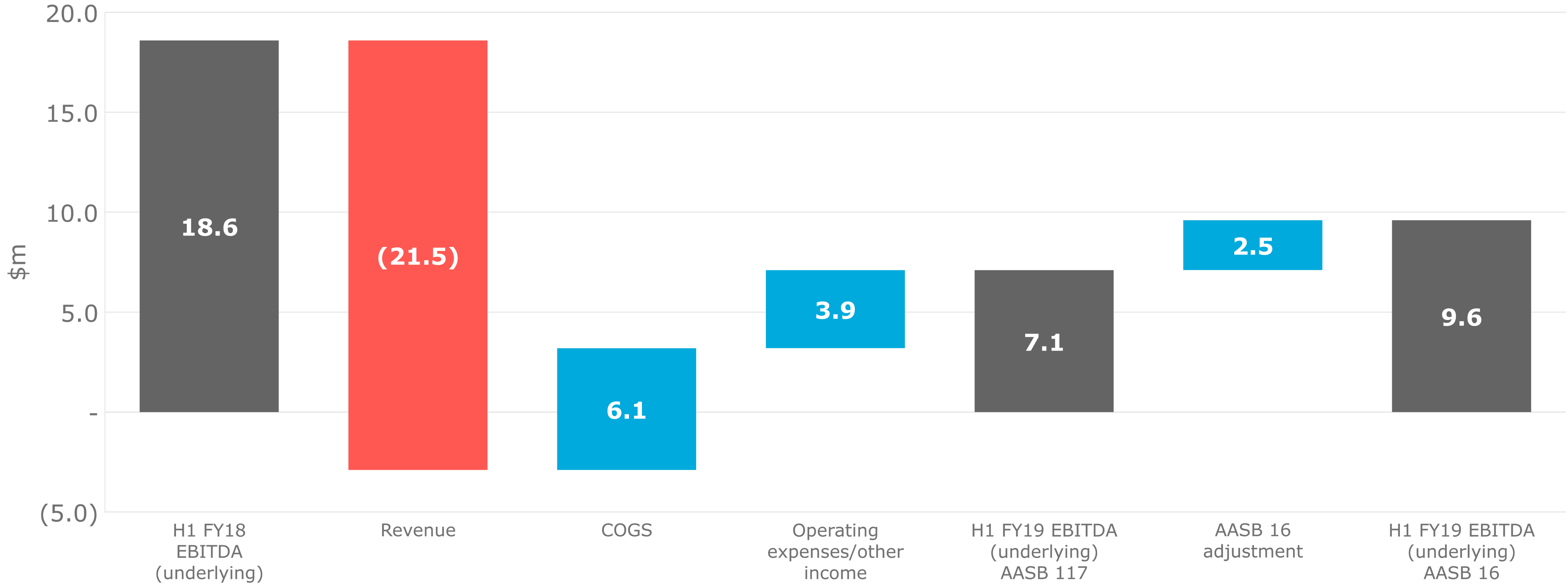
Challenging performance in Enterprise with a strong bounce back in Core SMB

	Core[1]							Non- Core[1]	
Half Year ended 30 June 2019	**Enterprise**	**Δ%**	**SMB Direct[5]**	**Δ%**	**Corporate[6]**	**Arq Group[6]**	**Δ%[7]**	**SMB Indirect[5]**	**Arq Group (Total)**
Revenue	$44.2m	(28%)	$34.6m	(10%)	-	$78.8m	(21%)	$12.1m	$90.9m
Gross Margin	$17.5m	(43%)	$23.5m	(6%)	$0.2m	$41.2m	(26%)	$7.1m	$48.3m
Operating Expenses[2,3]	($17.7m)	(2%)	($19.1m)	14%	($0.8m)	($37.6m)	8%	($1.1m)	($38.7m)
Underlying EBITDA[4]	**($0.2m)**	**(101%)**	**$4.4m**	**57%**	**($0.6m)**	**$3.6m**	**(91%)**	**$6.0m**	**$9.6m**
Non-recurring adjustments	($0.2m)		($0.3m)		($1.3m)	($1.8m)		$0.0m	($1.8m)
Reported EBITDA	**($0.4m)**	**(103%)**	**$4.1m**	**116%**	**($1.9m)**	**$1.8m**	**(135%)**	**$6.0m**	**$7.8m**

1. The Group result comprises the contribution from both "core" and "non-core" operations. Non-core operations are those parts of the business that are marked for divestment, have been divested, or are winding down. The core operations will be the driver of future performance. On page 45 there is a chart that breaks out the core and non-core elements of the Group and shows the contribution to the H1 FY19 result from each of them.
2. Included in overhead expenses for the core business are stranded costs that will be removed from the business over the course of the next three years. The annualised amount of stranded costs are approximately $2.0m.
3. Operating expenses excludes non-recurring expenses such as integration costs, transaction costs, movements in contingent consideration etc.
4. Underlying EBITDA excludes non-recurring expenses.
5. Segment results for the SMB business unit (i.e. the aggregation of SMB Direct and SMB Indirect business units) is presented in Appendix One to this presentation.
6. Financial information presented above is prepared under AASB 16: *Leases*.
7. Period on period movement has been calculated using financial information prepared under AASB 117: *Leases*.

H1 FY19 Result: underlying EBITDA bridge

Underlying EBITDA impacted by challenging revenue performance in Enterprise



1. Period on period movements are derived from pro forma revenue, COGs and operating expenses.

H1 FY19 Result: adoption of AASB 16

The new leasing standard (AASB 16) shifts lease costs from opex to depreciation and interest, nominally increasing EBITDA (no cash impact)

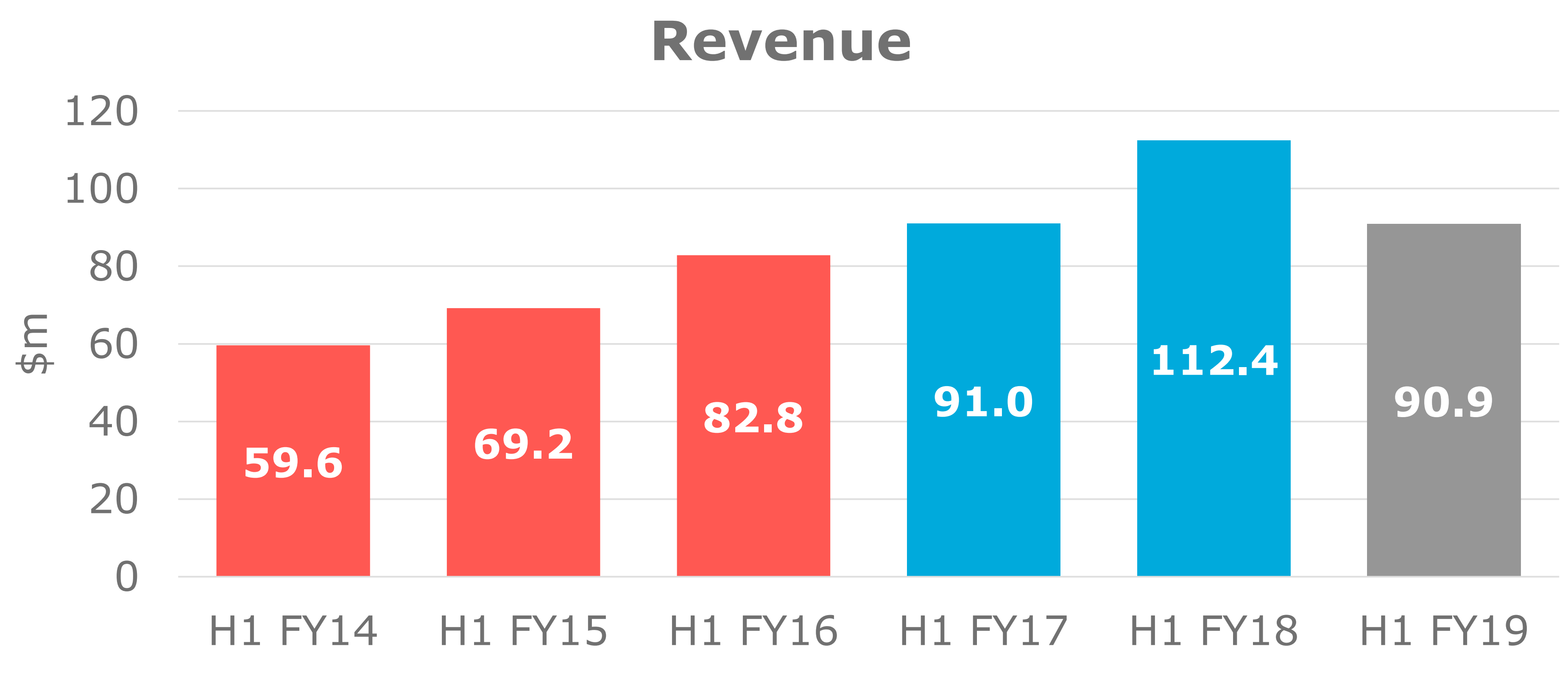
Half year ended 30 June 2019	H1 FY19 AASB 16	Restatement to AASB 117	H1 FY19 AASB 117	H1 FY18 AASB 117	Δ%[1]	Notes
Revenue (excl. interest)	$90.9m	$0.0m	$90.9m	$112.4m	(19%)	Revenue is down due to delays in revenue, the poor performance in signing new business in Enterprise in H1, and the compounding impact of lower than expected new subscription sales in SMB in FY18 (resulting in a lower stepping off point in FY19).
COGS	($42.8m)	$0.0m	($42.8m)	($48.9m)	12%	Variable COGS savings due to lower revenue during the period.
Gross margin (excl. interest)	**$48.1m**	**$0.0m**	**$48.1m**	**$63.5m**	**(24%)**	Margin has been impacted by revenue mix changes in both SMB and Enterprise.
Other income	$0.2m	$0.0m	$0.2m	$0.0m	100%	
Operating expenses	($38.7m)	($2.5m)	($41.2m)	($44.9m)	8%	The current period has benefited from cost control including headcount efficiencies.
Underlying EBITDA	**$9.6m**	**($2.5m)**	**$7.1m**	**$18.6m**	**(62%)**	EBITDA has been impacted by a decline in revenue and margin compared to the prior comparative period.
D&A	($7.8m)	$2.4m	($5.4m)	($4.8m)	(13%)	Impact of increased depreciation due to expansion in office footprint.
Net interest expense	($1.6m)	$0.3m	($1.3m)	($1.2m)	(8%)	
Income tax credit/ (expense)	$0.6m	($0.1m)	$0.6m	($3.4m)	n/a	
Profit attributable to NCI	$0.0m	$0.0m	$0.0m	($0.1m)	100%	
Underlying NPAT	**$0.8m**	**$0.1m**	**$1.0m**	**$9.1m**	**(89%)**	

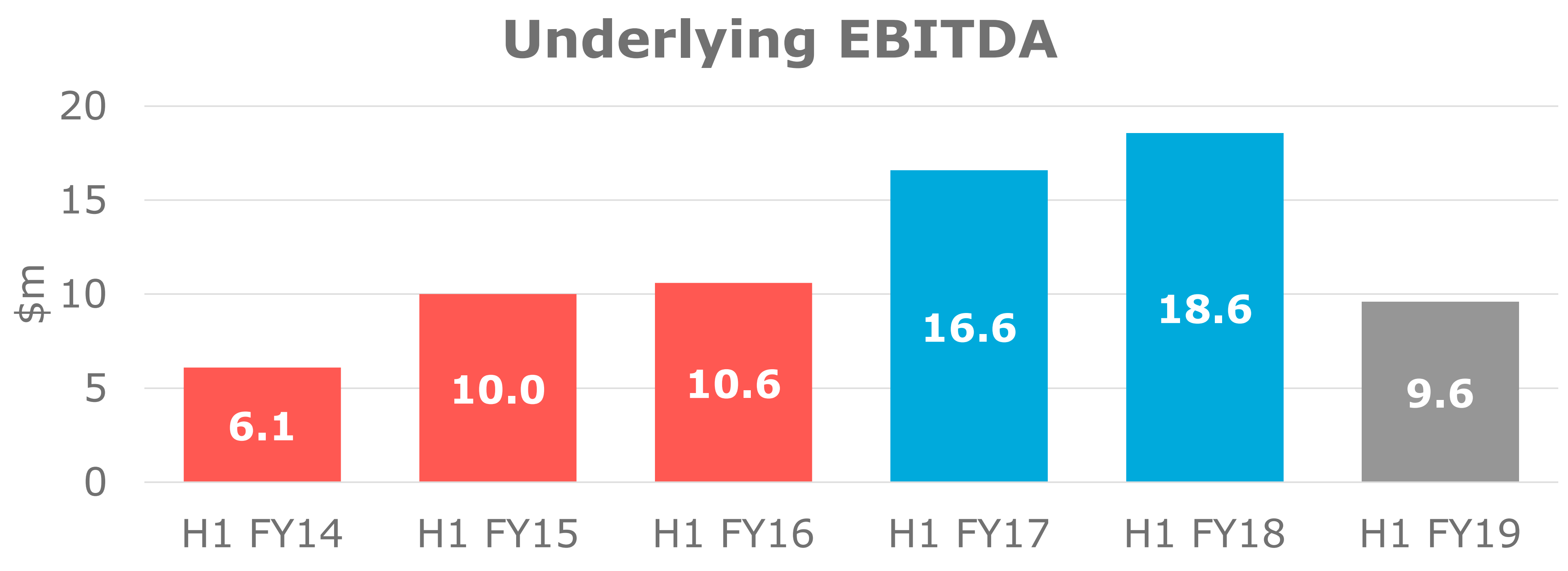
Note: Figures throughout this document may not be exact due to rounding and includes non-IFRS financial information that is relevant for users understanding the performance of the business.

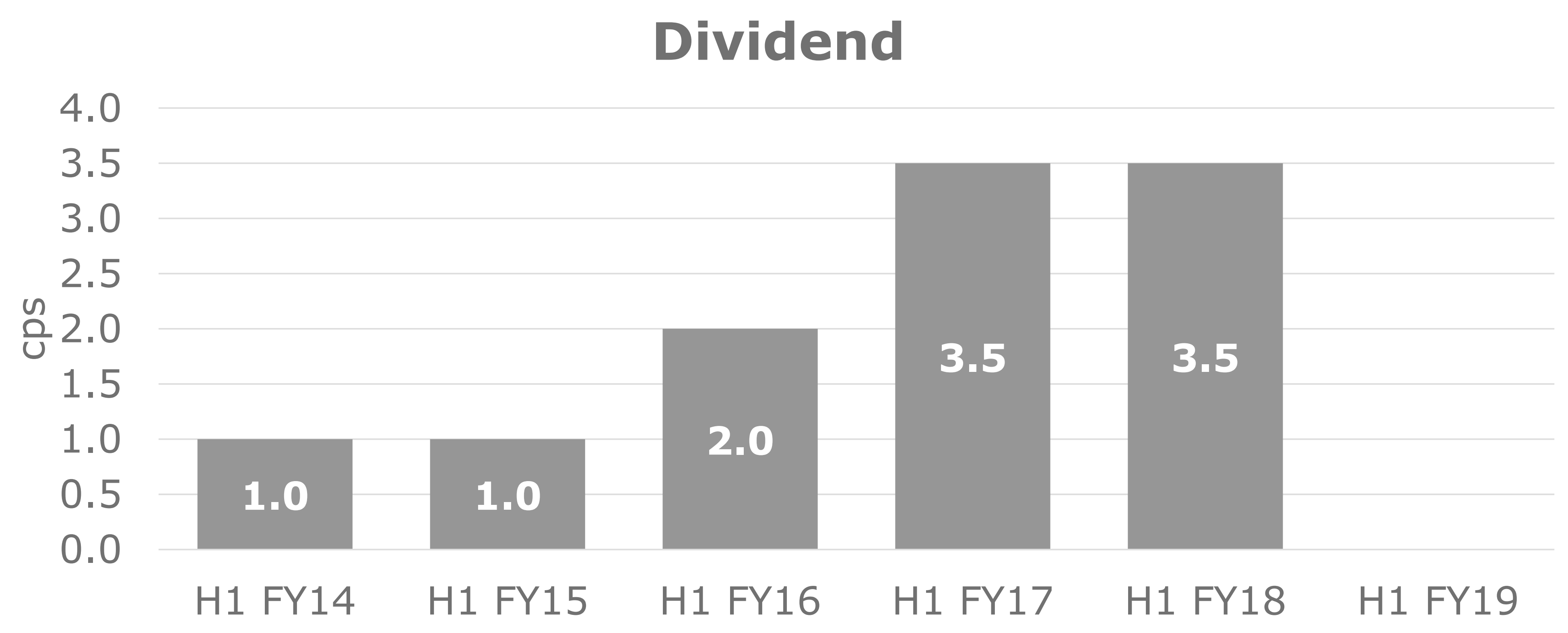
1. Period on period movement has been calculated using financial information prepared under AASB117: *Leases*.
2. Underlying EBITDA and EPS excludes one-off and non-recurring expenses.

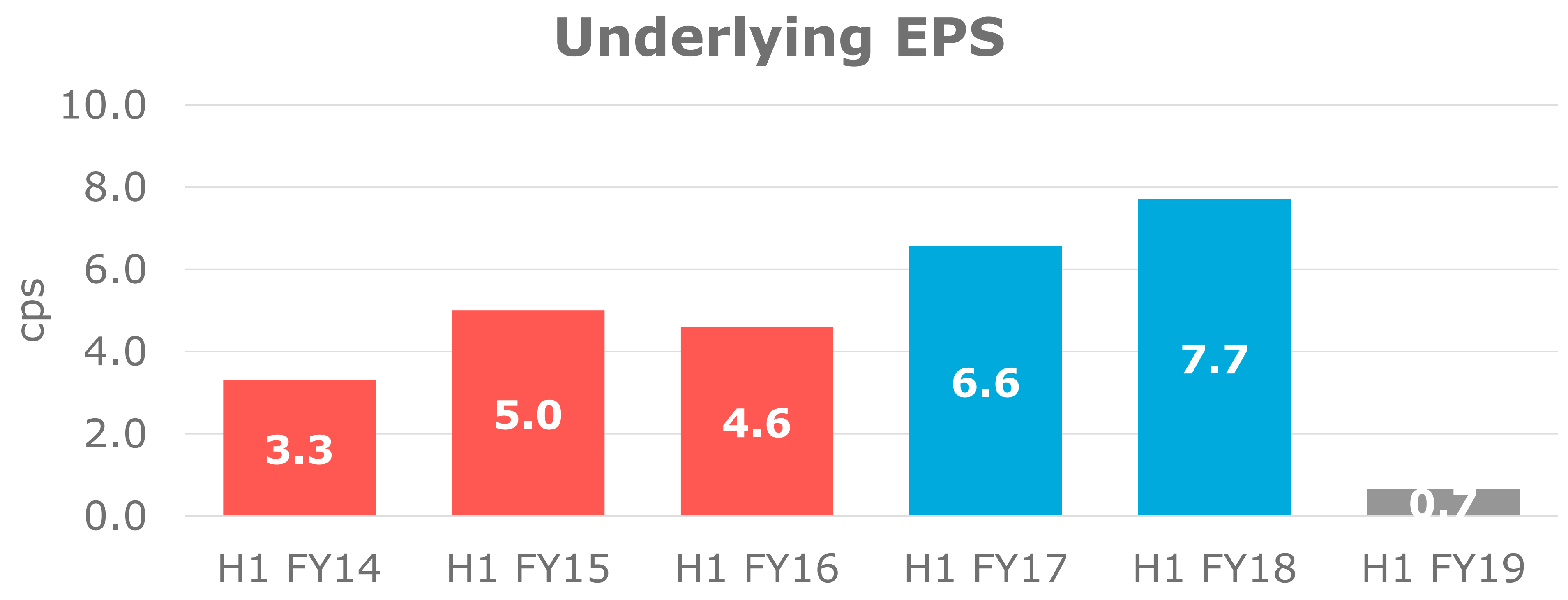
Track record: challenging half detracts from record of consistent growth

Following a challenging half, growth expected to resume in H2.









Pre adoption of AASB 15 and AASB 16 accounting polices

Post adoption of AASB 15 accounting policy and pre adoption of AASB 16 accounting policy

Post adoption of AASB 15 and AASB 16 accounting policies

1. On 1 January 2019, the Group adopted the accounting standard, AASB 16: *Leases*. H1 FY19 financial information has been presented on this basis. Financial information for periods prior to 1 January 2019 are presented in accordance with AASB 117: *Leases*.

Recovery: what has been achieved?

The recovery in SMB is largely complete and we enter H2 2019 with a stronger business. The recovery in Enterprise is a work in progress with encouraging growth in the pipeline.

Issue	Status
SMB	
Loss of momentum in new solutions sales (commencing Q2 FY18).	Focus on sustainable solutions growth delivering results. Month-on-month increases in new solutions sales from January 2019 to June 2019. Trend continuing in July and August.
Enterprise	
Delay in turning on new revenue in H1 FY19.	Revenue from new contracts now coming online as expected.
Loss of momentum in signing new business in Melbourne in H1 FY19.	Growing pipeline of new opportunities. First >$1.0m mobile project in six months won in July.
Capital Management	
Key customer contract dispute with $9.5m in withheld payments.	Operating within covenants and expect to be back within our target range for the net leverage ratio by late in H1 FY20[1]. Cash conversion was 123% in H1 FY19 notwithstanding withheld payments.
Disappointing H1 FY19 for the Enterprise division.	

1. This is based on achieving the guidance for group EBITDA.

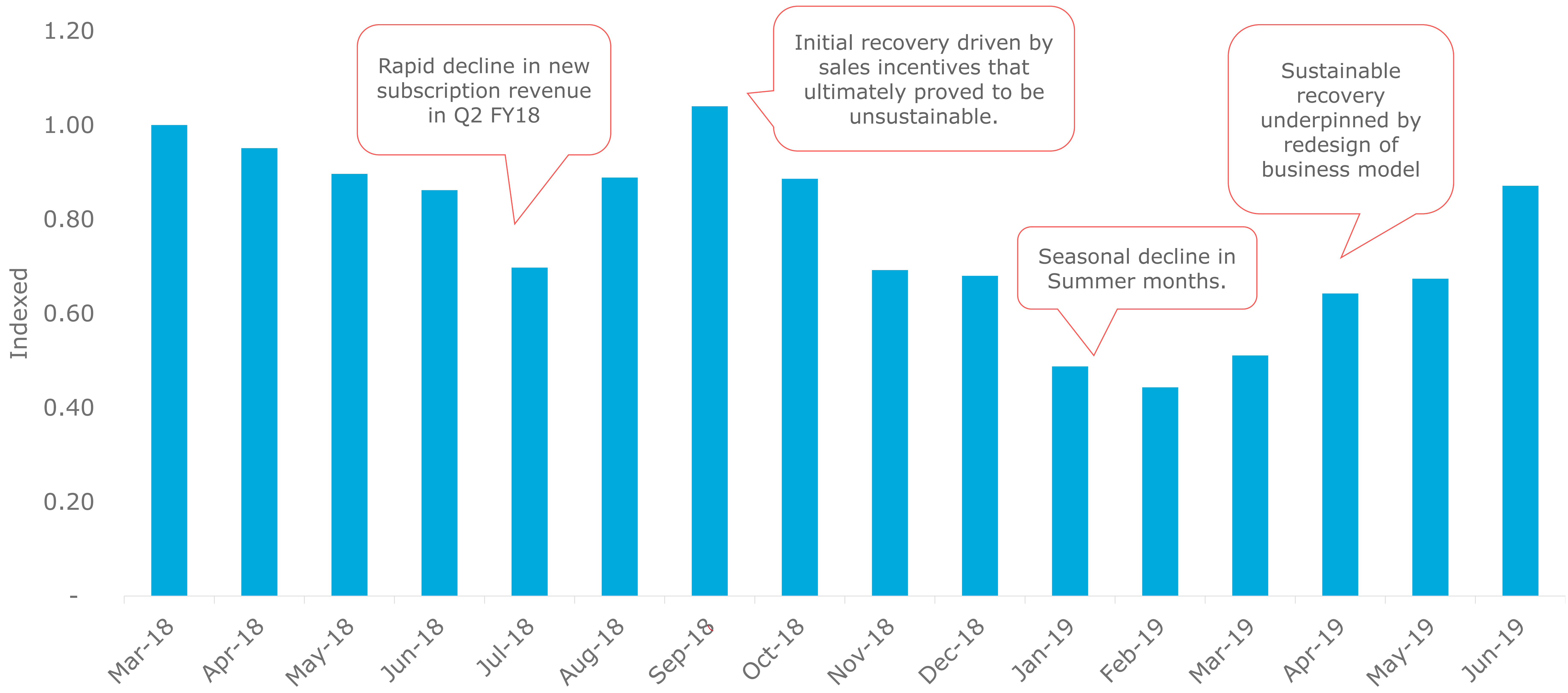
Recovery: what has changed?

Significant changes to people, governance and process have been implemented to address the root causes of challenges in SMB and Enterprise.

- People
  - Increased investment in Enterprise sales team in Melbourne office
  - Restructure of Enterprise business from a product-led to a customer-led focus to deliver a better customer experience and enhance sales success rate
  - Restructure of SMB digital sales, account management and fulfilment teams, to provide better customer experience and solutions tailored to customer needs
  - Increased investment in financial planning and analysis capability
- Governance
  - Removal of senior management layer to ensure faster flow of information
  - CFO/CEO leading weekly sales and revenue meetings
- Process
  - Overhaul of the sales & forecasting process
  - Redesign of the Enterprise operating model
- Tools
  - Commenced implementation of Group-wide resource management system to, among other things, enable consistent and effective management of billable utilisation and better management of project profitability

SMB (core): consistent growth in new subscription revenue[1]

The turnaround in SMB is well advanced. New digital sales have recovered to early 2018 levels and the upward trend is continuing. Underlying EBITDA was up 57% on the PCP.

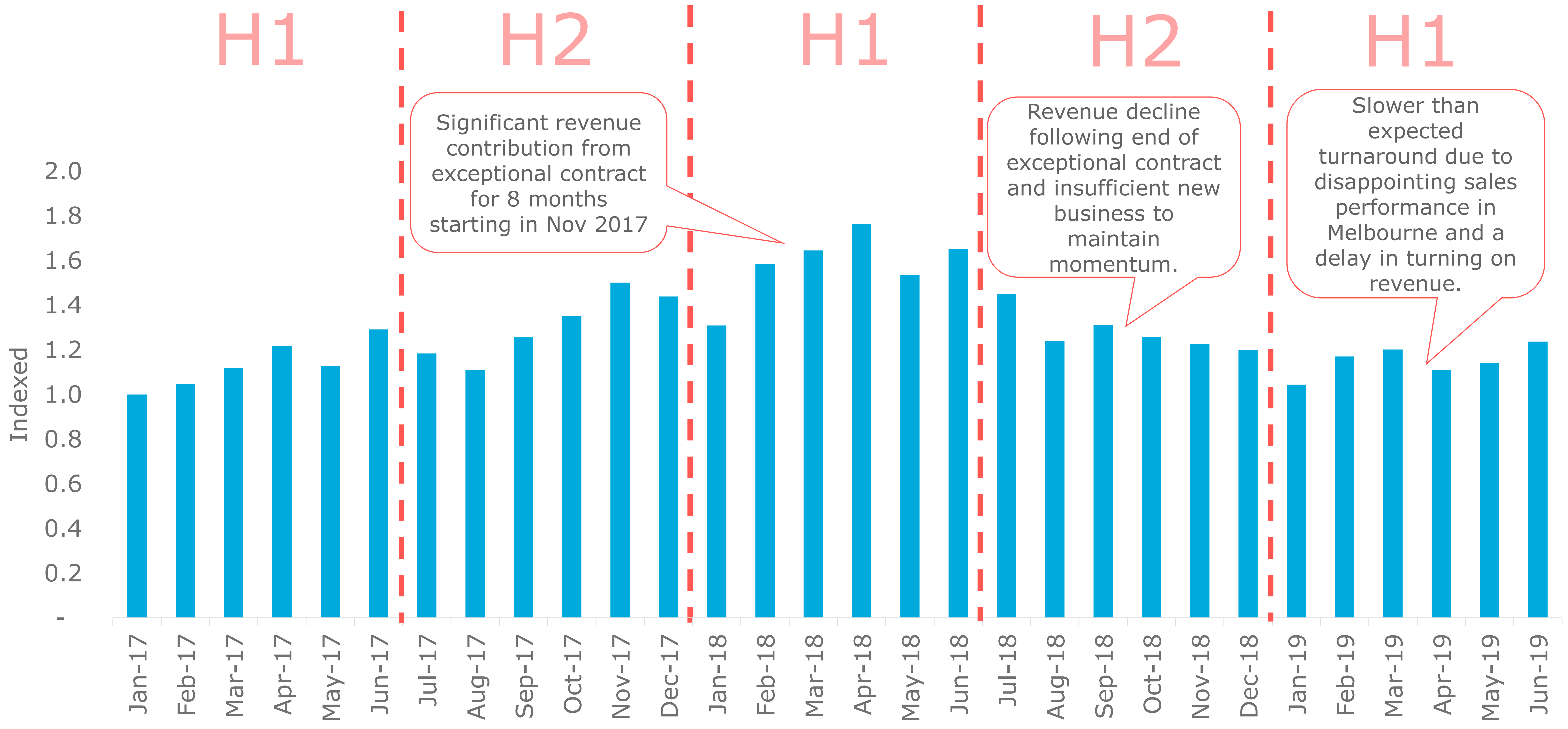


- In Q2 FY18 the SMB division experienced a rapid decline in new digital subscription revenue.
- The compounding effect on future recurring revenue resulted in a downgrade in August 2018.
- A re-design of the SMB business model has resulted in sustainable growth in new digital revenue from the beginning of 2019.
- The trend in new digital revenue growth has continued in July and August.

1. New subscription revenue is a daily average of new digital subscription revenue, indexed to March 2018. March 2018 marked the start of the deterioration in new digital sales that contributed to the poor H2 FY18.

Enterprise: revenue per billable day[1]

The recovery plan for Enterprise is gaining traction. A good second half will provide a springboard for a return to growth in FY20.

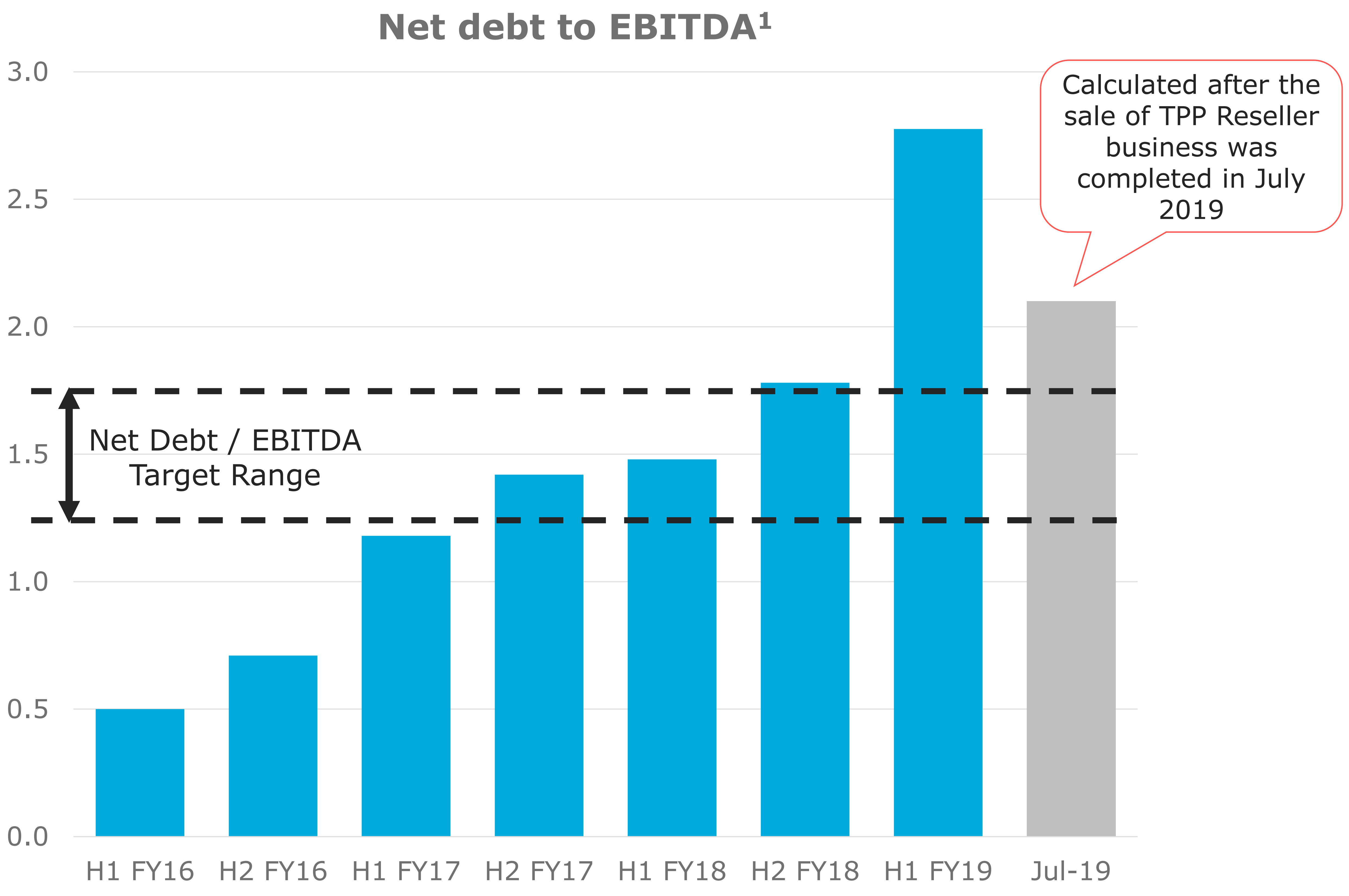


- Period-on-period revenue performance is distorted by the inclusion of an exceptional contract in H1 FY18.
- H1 FY19 revenue performance is consistent with H1 FY17.
- The pipeline for the remaining 5 months of 2019 is building steadily.
- A recovery in H2 FY19 will provide a springboard for a return to growth in FY20.

1. Average revenue per billable day has been indexed against the January 2017 revenue per billable day.

Net debt: leverage ratio improving

The one-off cash outgoings of the past 18 months (approx. $17.0m) are largely behind us. Net debt will steadily decline and our net leverage ratio will be within our published target range by late in H1 FY20.



- The Group's bank covenant for Net Debt/EBITDA was 3.0x prior to the sale of the TPP Reseller business and reduced to 2.5x following the receipt of the upfront component ($21.3m) of the sale proceeds in late July.
- As at 31 July 2019 net debt was $51.6m for a leverage ratio of 2.1x.
- Net debt increased beyond target levels due to the impact of the following significant outflows:
  - fit-out costs associated with expanding our footprint in Melbourne and Sydney;
  - one off costs incurred in rebranding; and
  - higher than expected earnout payments as a result of strong performance of InfoReady acquisition.
- The Group expects to be operating within its published target range for the leverage ratio (1.25x to 1.75x) by late H1 2020[2] on the back of the recovery in Enterprise and continued strong cash conversion.

1. Based on a trailing 12 month underlying EBITDA. Underlying EBITDA has been calculated using financial information prepared under AASB 117: *Leases.*
2. This is based on the guidance for Group EBITDA.

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Outlook: FY19 guidance affirmed

Guidance has been restated following adoption of AASB 16 with no effective change to the original guidance.

Measure	Original FY19 Guidance (AASB 117)	Restated FY19 Guidance (AASB 16)	H1 FY19 Actual (AASB 16)	Commentary
Group				
Underlying EBITDA ($m)	$22.0m – $25.5m	$27.0m – $30.5m	$9.6m	The achievement of guidance is underpinned by growth in the SMB division (driven by the launch of .au domains on 1 October 2019), and the anticipated recovery in Enterprise underlying EBITDA in H2.
Core				
Underlying EBITDA ($m)	$15.5m – $18.5m	$20.5m – $23.5m	$3.6m	

Key Points:

1. The guidance issued in June was prepared on the basis of AASB 117 – the old accounting standard for leases. This table presents the guidance for FY19 restated following the adoption of AASB 16 – the new accounting standard for leases.
2. There has been no effective change in guidance following the restatement.
3. The first half results have been prepared post the adoption of AASB 16.
4. The adoption of AASB 16 has no impact on cash. However, costs associated with operating leases are essentially reallocated from operating expenditure (i.e. above EBITDA) to depreciation and interest (i.e. below EBITDA). This has the effect of nominally increasing EBITDA (with an offsetting impact on D&A and interest).

Summary

After a challenging 12 months the recovery is underway.

- The first half result was a story in two parts;
  - a strong bounce back in the SMB division wasn’t enough to offset a challenging first half for the Enterprise division
- A comprehensive recovery plan has been implemented and is delivering results;
  - the SMB division had a very pleasing first half – sales of subscription digital revenue are back to historical levels and core underlying EBITDA was up 57% on the PCP
  - momentum is building in the Enterprise division – but it is early days
  - annualised cost savings of $3.8m have been realised with another $2.0m to come in FY20
- Net debt position is steadily improving;
  - net debt of $51.6m at the end of July and a leverage ratio of 2.1x[1]
  - we expect to be back within our published target range for the net leverage ratio (ie 1.25x - 1.75x) towards the end of H1 FY20[2] on the back of growing billings and continued strong cash conversion
- Full year guidance has been affirmed;
  - H1 FY19 underlying EBITDA for the Group was $9.6m and full year guidance is a range of $27.5m - $30.5m
  - a recovery in the Enterprise division in H2 underpins the achievement of guidance
- We are on-track at the end of H1 FY19 and momentum is building with each month

1. The leverage ratio is calculated as net debt divided by a trailing 12 months EBITDA
2. This is based on the guidance for Group EBITDA.

Arq Group Financials

ARQ group

H1 FY19 Results: reported

Half year ended 30 June 2019	H1 FY19 AASB 16	H1 FY19 AASB 117	H1 FY18 AASB 117	Δ%[1]	Notes (Movements relate to numbers presented under AASB 117)
Revenue	$90.9m	$90.9m	$112.4m	(19%)	Revenue has been negatively impacted by poor performance in signing new business in Enterprise in H1 and the compounding impact of lower than expected new subscription sales in SMB in FY18 (resulting in a lower stepping off point in FY19).
EBITDA	$7.8m	$5.3m	$8.5m	(38%)	EBITDA has been impacted by a decline in revenue and margin compared to the prior comparative period. This has been partially offset by a smaller impact of one-off items compared to H1 FY18.
EBITDA margin	8.6%	5.8%	7.6%	(24%)	Impacted by the drivers mentioned above.
NPAT	($0.6m)	($0.5m)	($2.7m)	81%	NPAT has been favourably impacted by a smaller impact of one-off items compared to H1 FY18.
EPS (cents)	(0.5c)	n/a	(2.3c)	n/a	

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1. Period on period movement has been calculated using financial information prepared under AASB 117: *Leases*.

ARQ group

H1 FY19 Results: reported

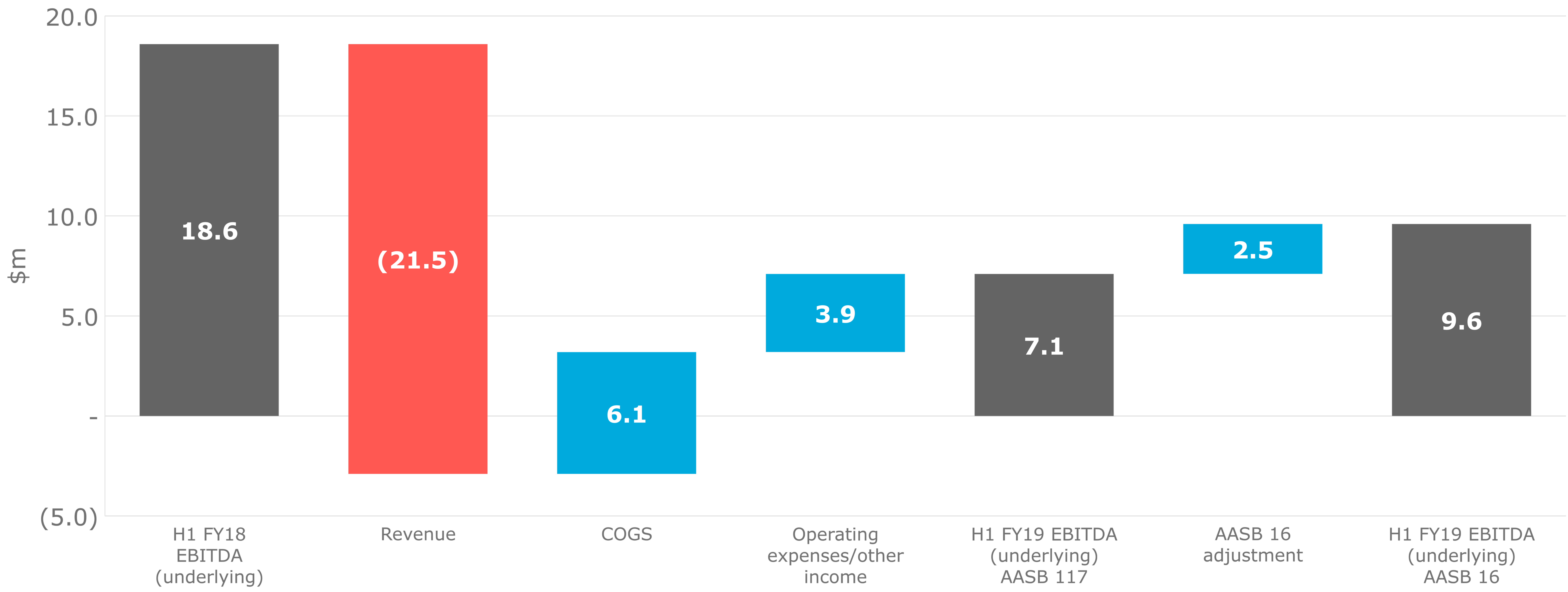
Half year ended 30 June 2019	H1 FY19 AASB 16	H1 FY19 AASB 117	H1 FY18 AASB 117	Δ%[1]	Notes (Movements relate to numbers presented under AASB 117)
Revenue (excl. interest)	$90.9m	$90.9m	$112.4m	(19%)	Revenue has been negatively impacted by poor performance in signing new business in Enterprise in H1 and the compounding impact of lower than expected new subscription sales in SMB in FY18 (resulting in a lower stepping off point in FY19).
COGS	($42.8m)	($42.8m)	($48.9m)	12%	Variable COGS savings due to lower revenue during the period.
Gross margin (excl. interest)	**$48.1m**	**$48.1m**	**$63.5m**	**(24%)**	Margin has been impacted by revenue mix changes in both SMB and Enterprise.
Other income	$0.3m	$0.3m	$0.0m	n/a	
Operating expenses	($40.6m)	($43.1m)	($55.0m)	22%	Prior period includes one-off costs associated with the reassessment of the contingent consideration liability and rebranding costs. The current period has also benefited from cost control including headcount efficiencies.
Reported EBITDA	**$7.8m**	**$5.3m**	**$8.5m**	**(38%)**	EBITDA has been impacted by a decline in revenue and margin compared to the prior comparative period. This has been partially offset by a smaller impact of one-off items compared to H1 FY18.
D&A	($7.8m)	($5.4m)	($8.5m)	(36%)	Prior period includes accelerated amortisation of WebCentral brand as a result of the rebranding.
Net interest expense	($1.7m)	($1.4m)	($1.3m)	(8%)	
Income tax credit/ (expense)	$1.1m	$1.0m	($1.3m)	n/a	The prior period was impacted by non-tax deducible expenses.
Profit attributable to NCI	$0.0m	$0.0m	($0.1m)	100%	
Reported NPAT	**($0.6m)**	**($0.5m)**	**($2.7m)**	**81%**	NPAT has benefited from a smaller impact of one-off items compared to H1 FY18.

Note: Figures throughout this document may not be exact due to rounding and includes non-IFRS financial information that is relevant for users understanding the performance of the business.

1. Period on period movement has been calculated using financial information prepared under AASB117: *Leases*.

H1 FY19: underlying EBITDA bridge

Underlying EBITDA margins have been impacted by the top line performance



16.5% margin

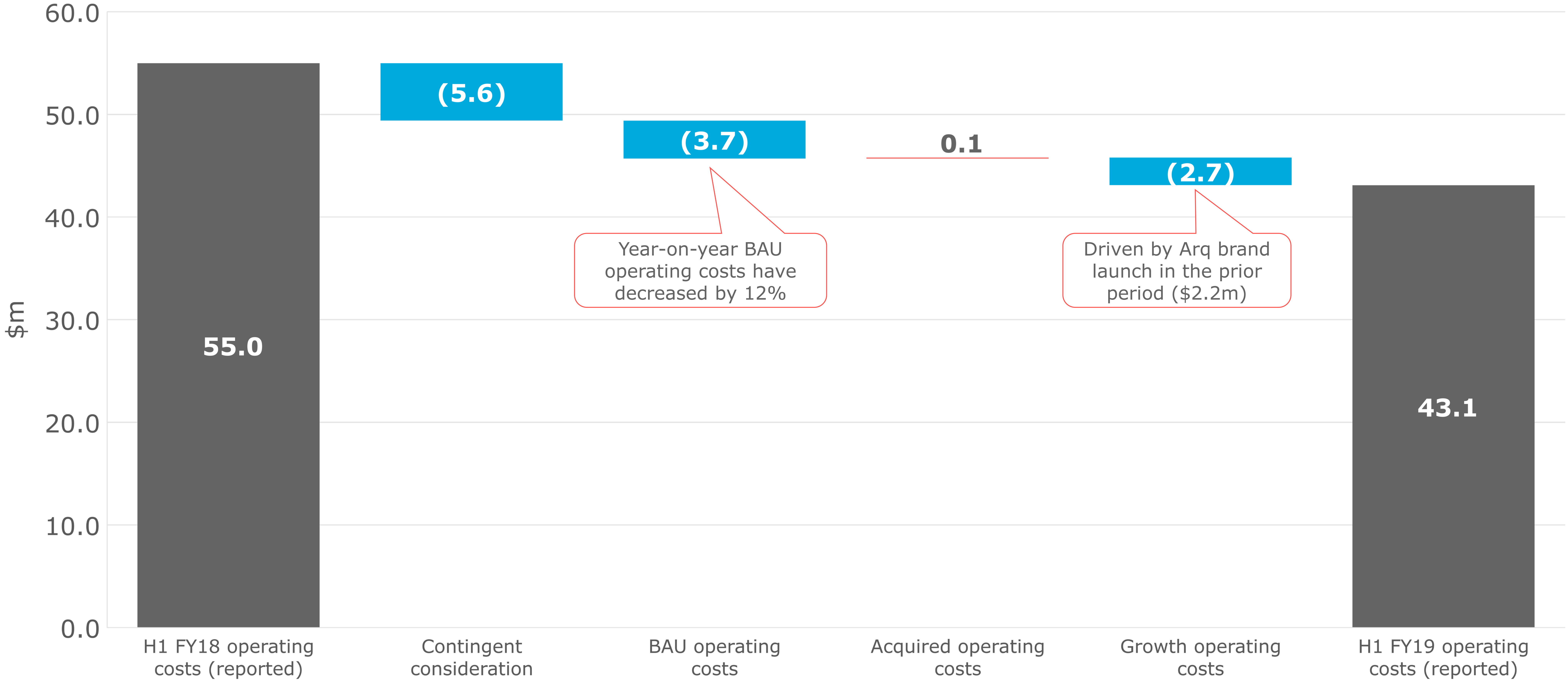
10.6% margin

1. Period on period movements are derived from pro forma revenue, COGs and operating expenses.

ARQ group

H1 FY19: operating costs bridge

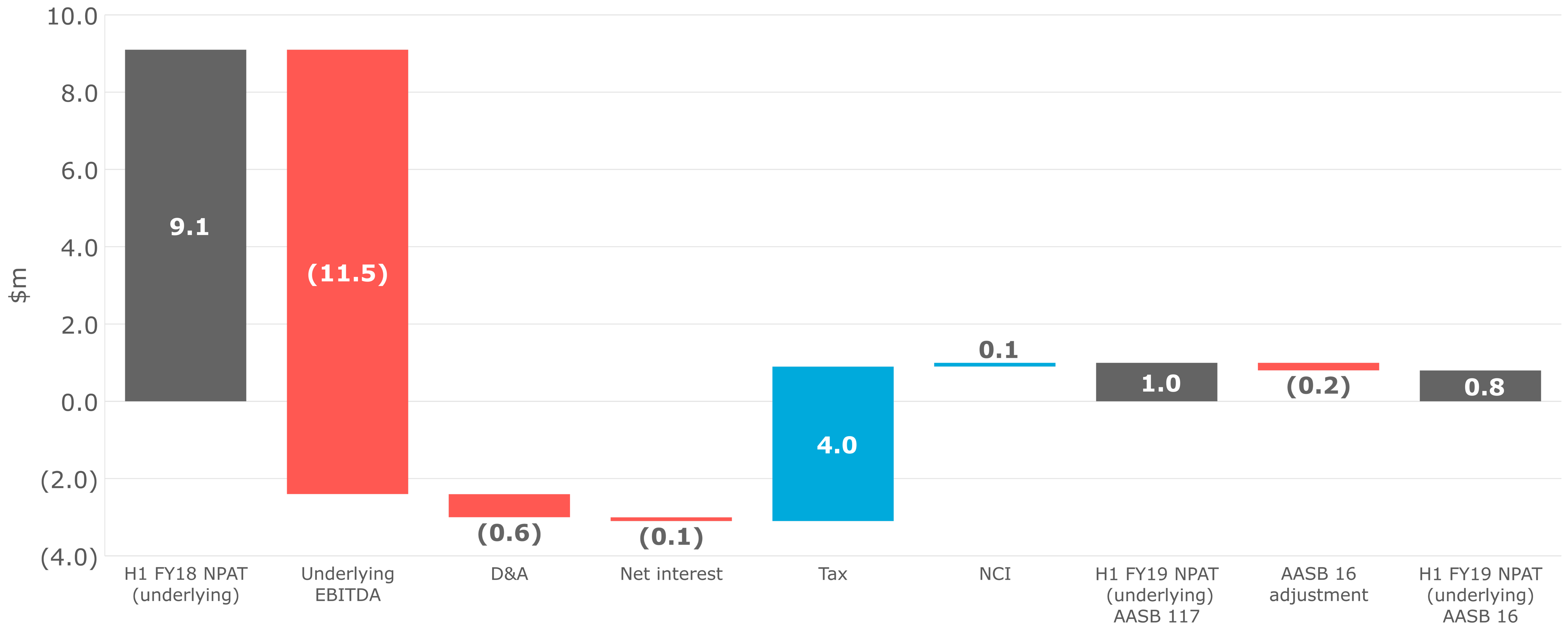
The Group's operating cost base has benefitted from tight cost control and the absence of one-off items of expenditure relating to the acquisition of InfoReady and the launch of the 'Arq Group' brand.



1. BAU operating costs includes investment in marketing, technology, integration and pay increases.
2. Current and prior period financial information presented above is prepared under the AASB 117: *Leases*.

H1 FY19: underlying NPAT bridge

Underlying EBITDA performance is the key driver of the underlying NPAT result



1. Underlying EBITDA excludes one-off and non-recurring expenses.

H1 FY19 Results:
Core Operations

Core Operations: results

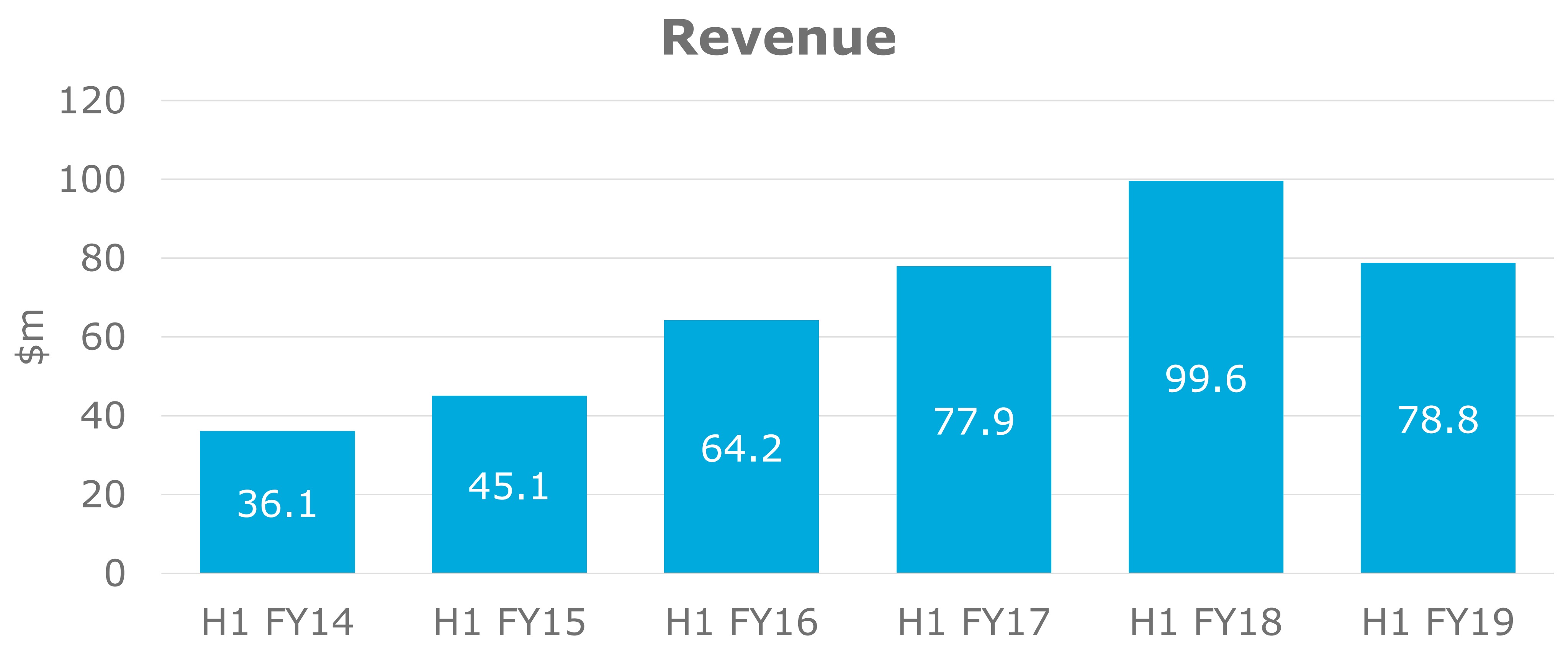
Half year ended 30 June 2019	H1 FY19 AASB 16	H1 FY19 AASB 117	H1 FY18 AASB 117	Δ%	Notes (Movements relate to numbers presented under AASB 117)
Revenue (exc. interest)	$78.8m	$78.8m	$99.6m	(21%)	Revenue has been negatively impacted by poor performance in signing new business in Enterprise in H1 and the compounding impact of lower than expected new subscription sales in SMB in FY18 (resulting in a lower stepping off point in FY19).
COGS	($37.6m)	($37.6m)	($43.7m)	14%	Variable COGS savings due to lower revenue during the period.
Gross margin (exc. interest)	$41.2m	$41.2m	$55.9m	(26%)	Margin has been impacted by decline in high margin solutions products and unfavourable revenue mix in Enterprise.
Operating expenses	($37.6m)	($40.1m)	($43.8m)	8%	The current period has benefited from cost control including headcount efficiencies.
Underlying EBITDA	**$3.6m**	**$1.1m**	**$12.1m**	**(91%)**	
Underlying EBITDA margin	**5%**	**1%**	**12%**	**(92%)**	
Non-recurring adjustments	($1.8m)	($1.8m)	($10.1m)	n/a	
Reported EBITDA	$1.8m	($0.7m)	$2.0m	(135%)	

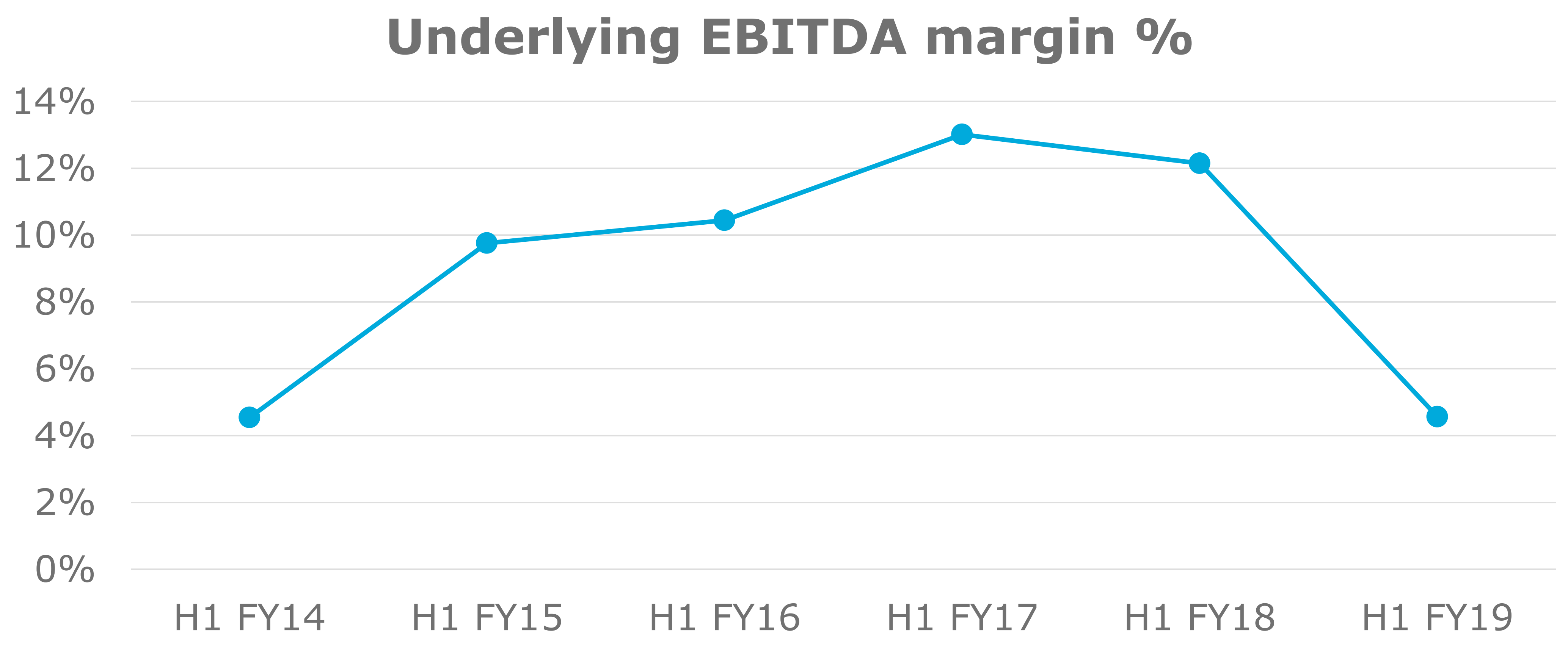
Note: Figures throughout this document may not be exact due to rounding and includes non-IFRS financial information that is relevant for users understanding the performance of the business.

1. Period on period movement has been calculated using financial information prepared under AASB117: *Leases.*

ARQ group

Core Operations: revenue and margin





Commentary	
Revenue	Revenue for H1 FY19 has declined from the prior year as a result of unexpected delays in turning on revenue from new contracts and executional issues in Melbourne, that are being addressed. In addition, the prior year contained a contribution from an exceptional customer contract that was not present in H1 FY19.
EBITDA Margin	Underlying EBITDA margin has been impacted by the drop in Enterprise revenue in H1 FY19. This has been partially offset by improvements in the Underlying EBITDA margin of the Core SMB business, which is underpinned by synergy savings from SMB integration program and operational cost efficiencies achieved through a redesign of the SMB Solutions business model.

1. On 1 January 2018, the Group adopted two new accounting standards, AASB 15: *Revenue from Contracts* with Customers and AASB 9: *Financial Instruments*. FY18 financial information (and FY17 prior year comparative) have been presented on this basis. Financial information for periods prior to 1 January 2017 are presented in accordance with, AASB 118: *Revenue*, AASB 132: *Financial Instruments: Presentation* and AASB 139: *Recognition and Measurement*.
2. On 1 January 2019, the Group adopted the new accounting standard, AASB 16: *Leases*. FY19 financial information has been presented on this basis. Financial information for periods prior to 1 January 2019 are presented in accordance with AASB 117: *Leases*.

Enterprise:

results and performance

Enterprise: segment results

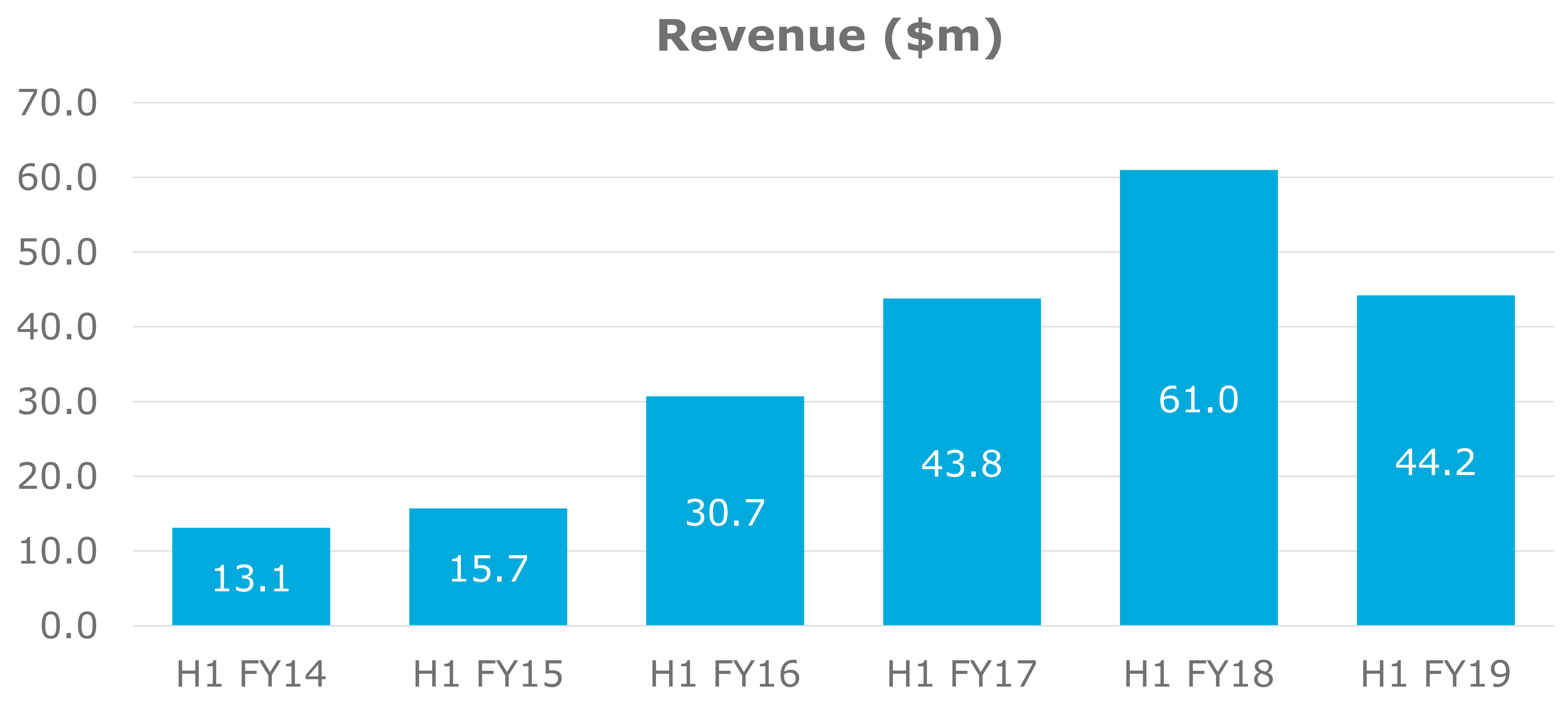
The Enterprise division had a challenging first half but a recovery is underway.

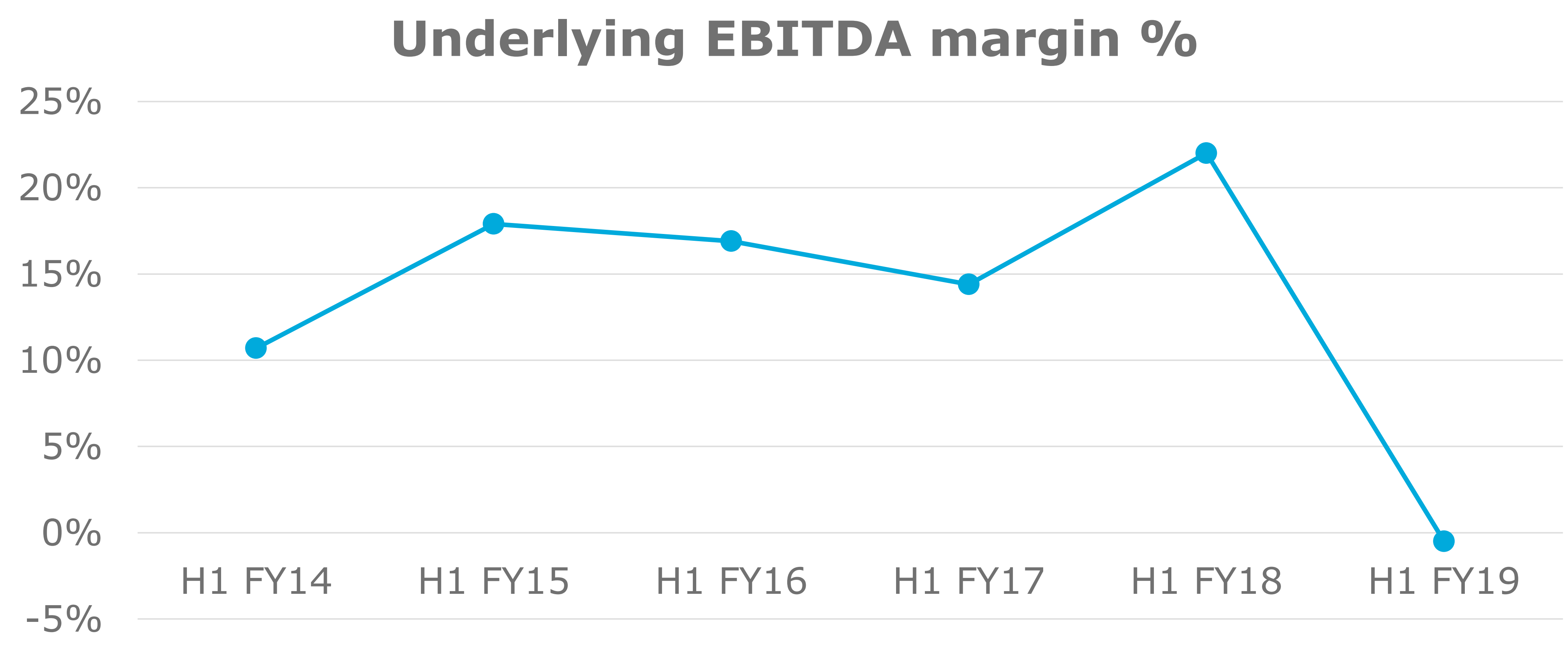
Half year ended 30 June 2019	H1 FY19 AASB 117	H1 FY18 AASB 117	Δ%	Notes
Revenue (excl. interest)	$44.2m	$61.0m	(28%)	Revenue has been negatively impacted by poor performance in signing new business in Melbourne and delays in turning on revenue. The comparison to the PCP is also distorted by an exceptional customer contract providing $15.3m in revenue in H1 FY18.
COGS	($26.7m)	($30.2m)	12%	
Gross margin (excl. interest)	$17.5m	$30.8m	(43%)	Margin has been impacted by an unfavourable revenue mix.
Operating expenses	($17.7m)	($17.4m)	(2%)	
Underlying EBITDA	**($0.2m)**	**$13.4m**	**(101%)**	
Underlying EBITDA margin	**0%**	**22.0%**	**n/a**	
Non-recurring adjustments	($0.2m)	($0.3m)	33%	Other non-operating expenses included in the Enterprise results
Reported EBITDA	**($0.4m)**	**$13.1m**	**(103%)**	

1. The segment results have been presented using financial information prepared under AASB117: *Leases*. Refer to the table in Appendix Two that presents a summary of the financial impacts of the application of AASB 16 at a Group level.

Enterprise: revenue and margin

Revenue and margin have been impacted in the current half by unexpected delays in turning on revenue from new contracts and executional issues in Melbourne. These have been addressed.





Outlook	
Revenue	Revenue for H1 FY19 has declined from the prior year as a result of unexpected delays in turning on revenue from new contracts and executional issues in Melbourne. These have been addressed. In addition, the prior year contained a contribution from an exceptional customer contract that was not present in H1 FY19.
EBITDA Margin	Underlying EBITDA margin has been impacted by the drop in Enterprise revenue in H1 FY19, in addition to the absence of the exceptional customer contract (present in H1 FY19), which generated a higher than average margin.

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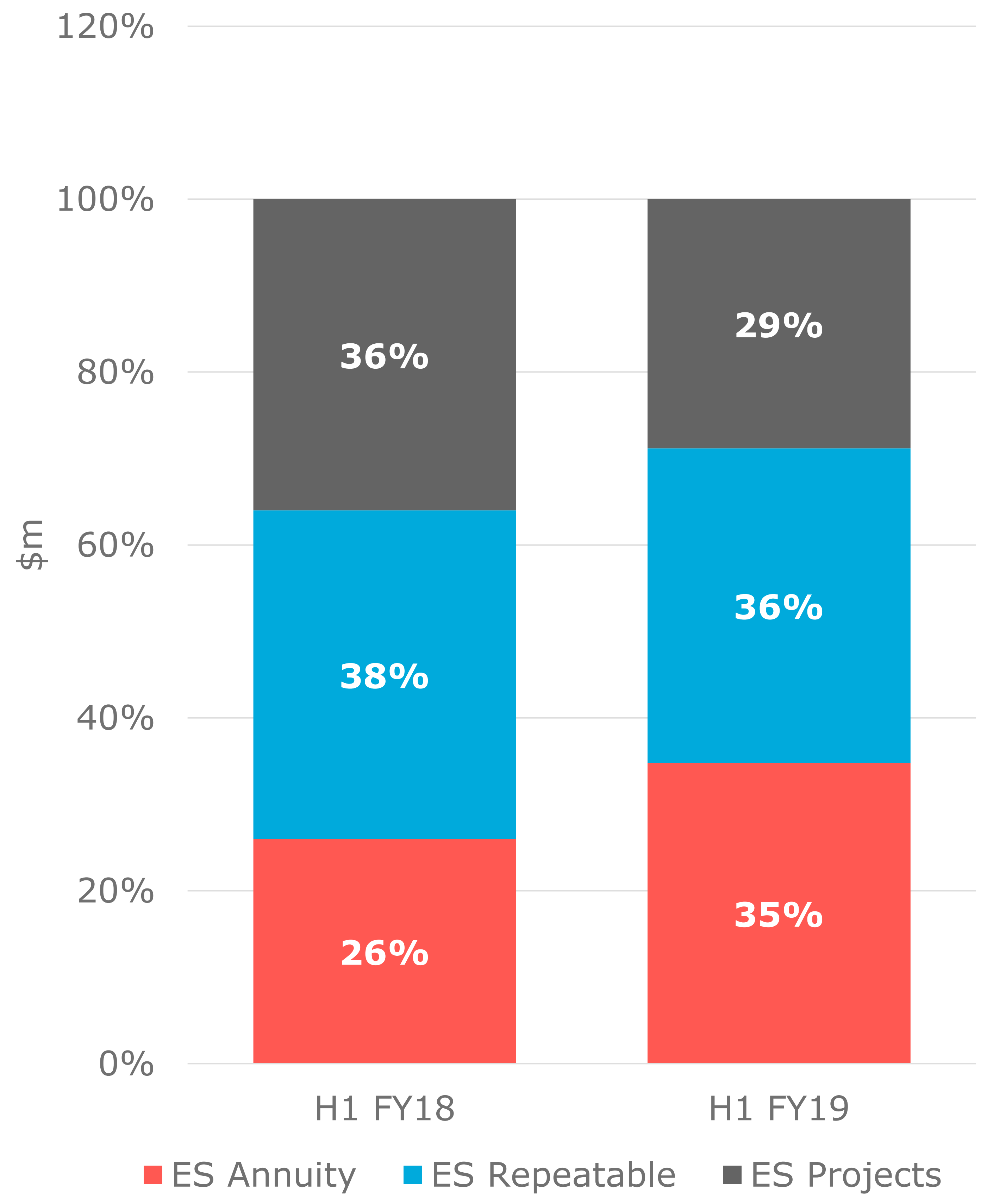
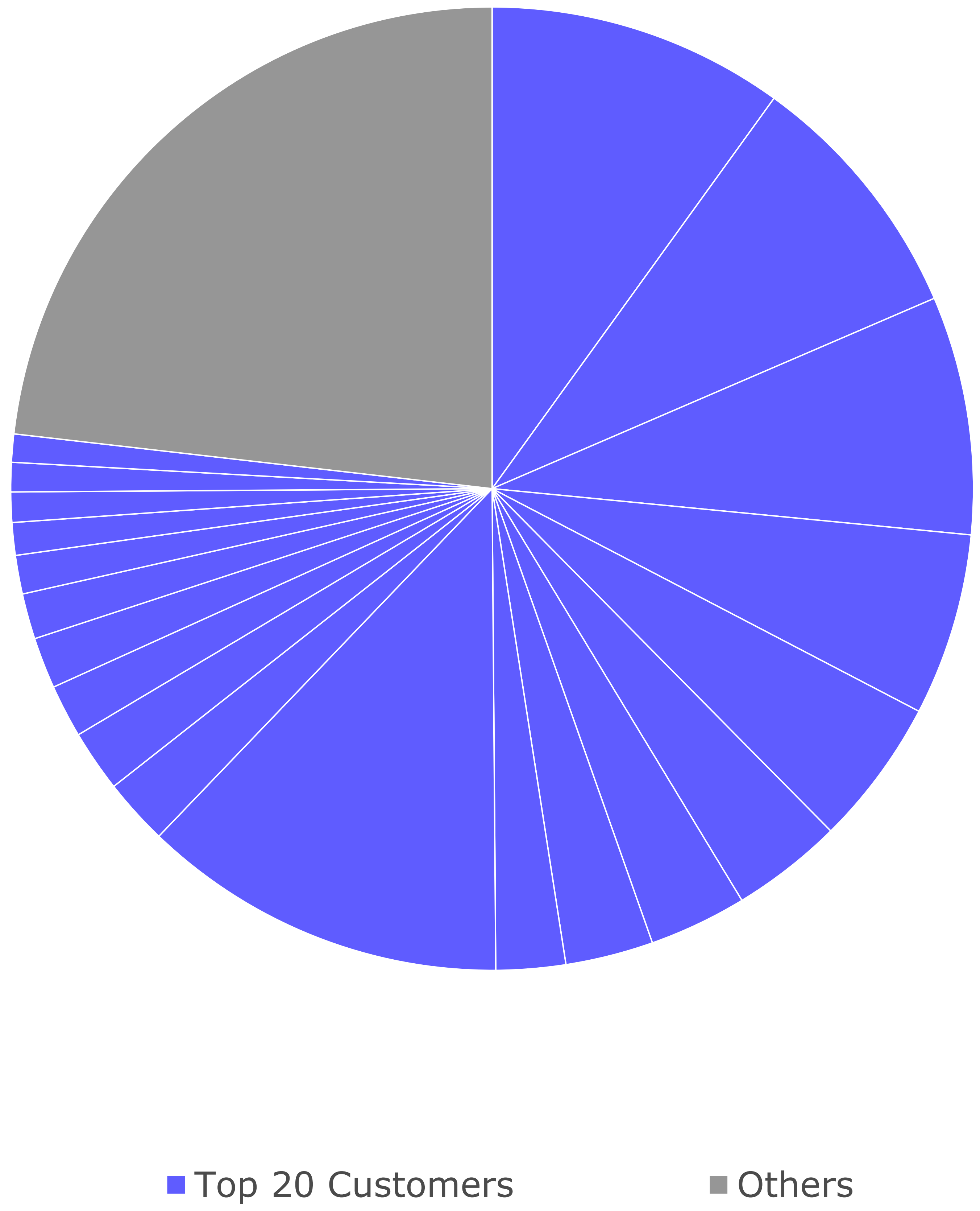
Enterprise execution: revenue quality

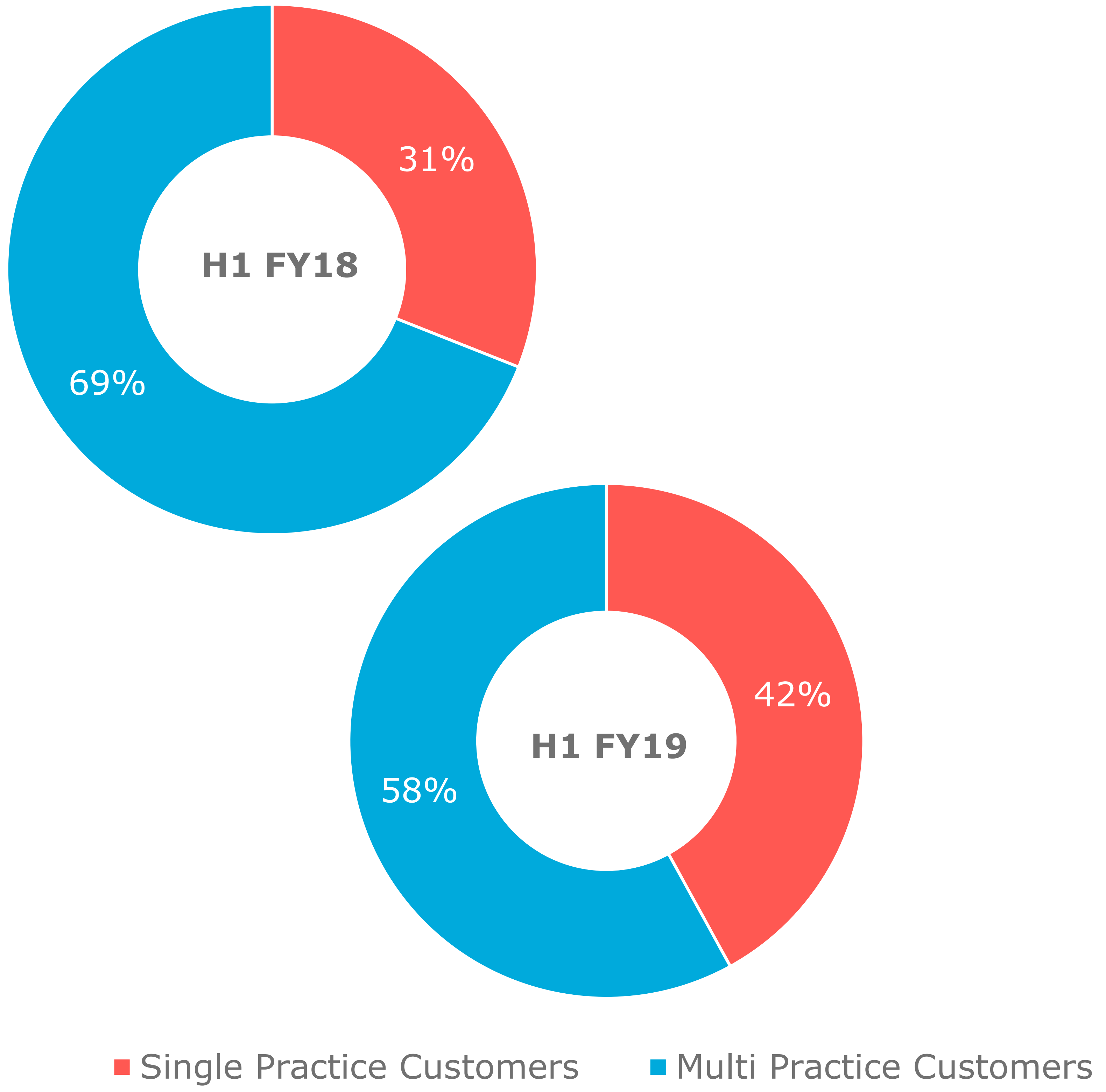
Revenue mix



Customer Concentration



Multi-practice revenue



Definitions: 1. annual revenue is contracted recurring income, 2. repeatable revenues are instances where we have been consistently billing the same customer for 2 or more years, 3. project revenue is where we have been billing the customer for less than two years, 4. a multi-practice customer is an Enterprise customer who takes services from 2 or more of the practices (i.e. mobile, data and analytics, and cloud).

SMB Direct:

results and performance

ARQ group

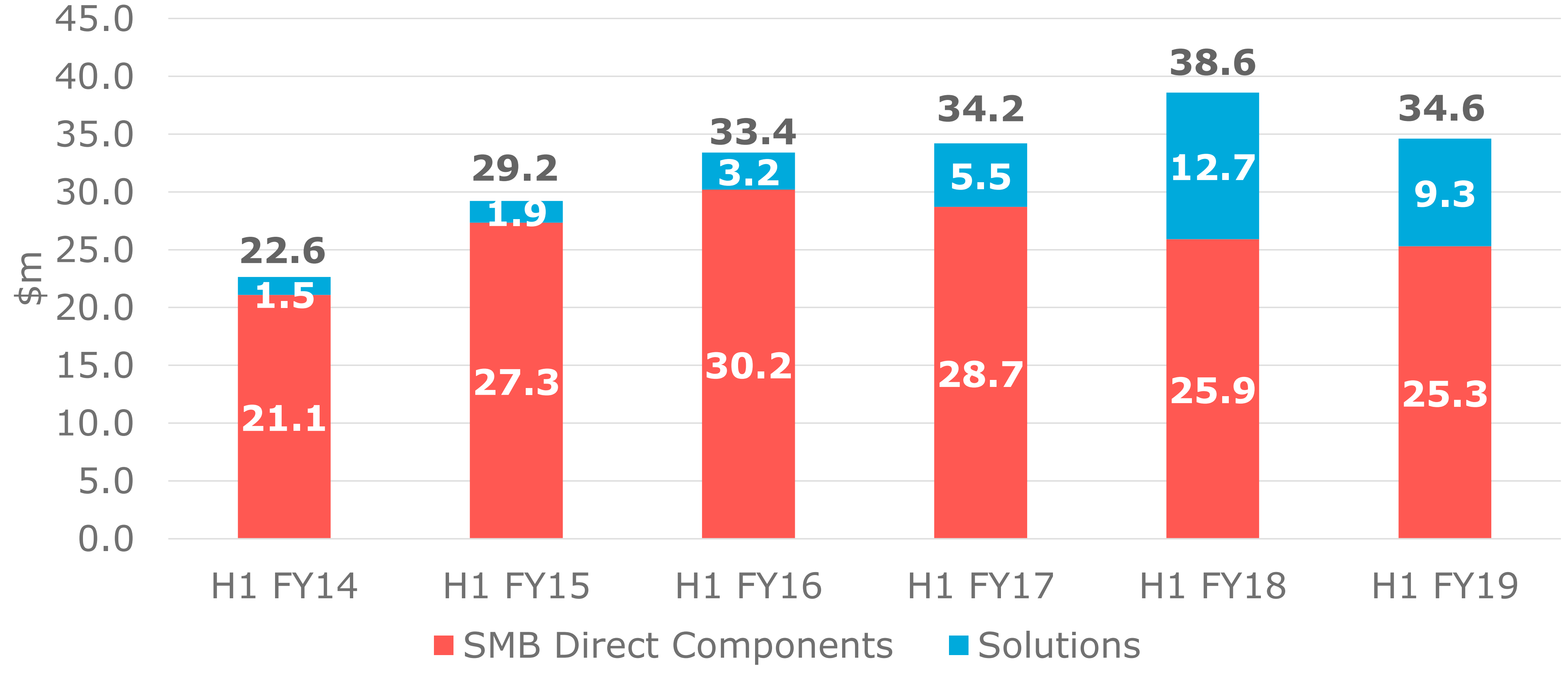
SMB Direct: segment results (core)

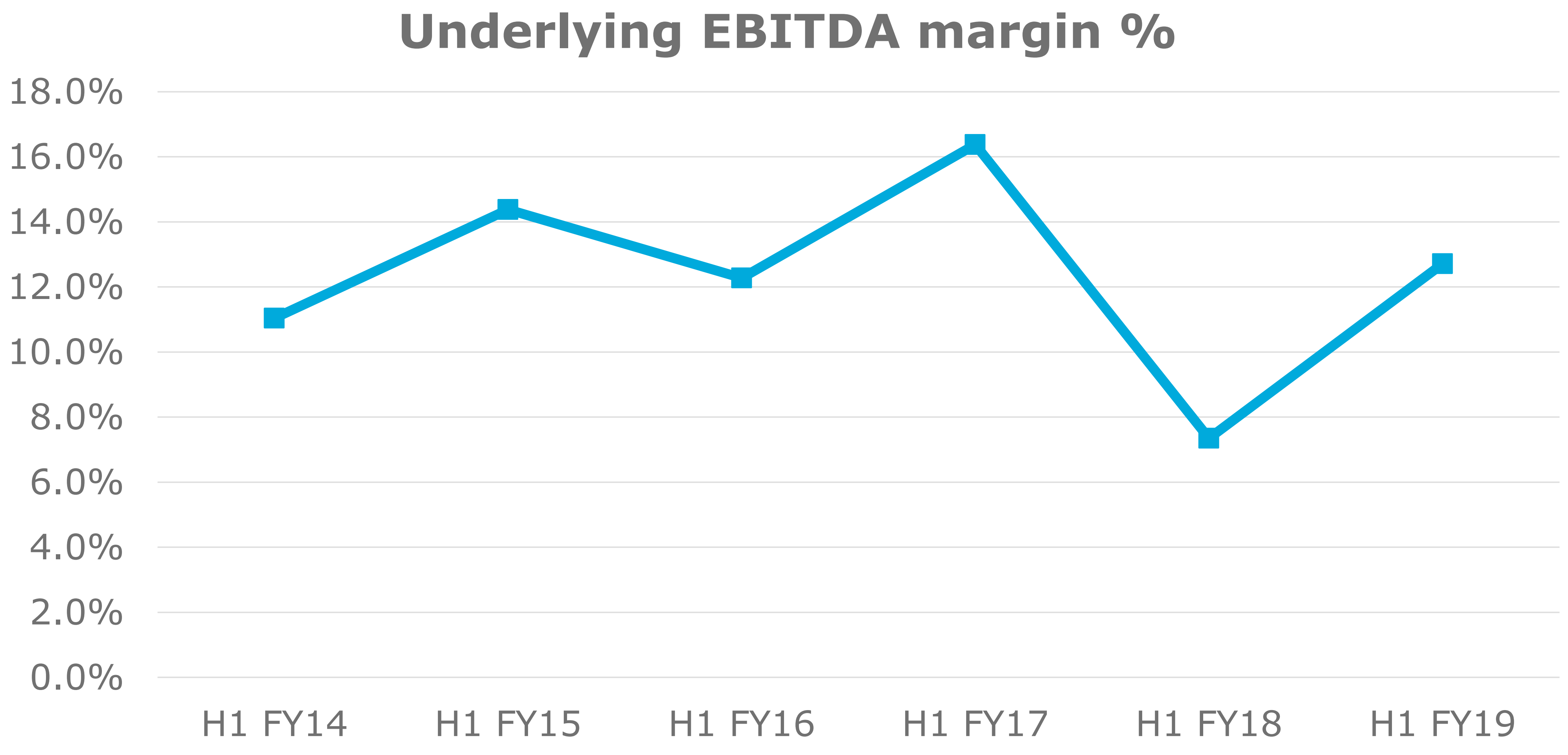
Half year ended 30 June 2019	H1 FY19 AASB 117	H1 FY18 AASB 117	Δ%	Notes
Revenue (exc. interest)	$34.6m	$38.6m	(10%)	Decrease due to decline in solutions products ($3.4m) and Direct Components ($0.6m).
COGS	($11.1m)	($13.5m)	18%	
Gross margin (exc. interest)	$23.5m	$25.1m	(6%)	Improved margin % due to progressive insourcing of solutions fulfilment and COGS initiatives in Components.
Operating expenses	($19.1m)	($22.3m)	14%	Benefit of tight cost management, including headcount efficiencies.
Underlying EBITDA	**$4.4m**	**$2.8m**	**57%**	
Underlying EBITDA margin	**13%**	**7%**	**86%**	This has been favourably impacted by operating cost efficiencies.
Non-recurring adjustments and pro forma contribution	($0.3m)	($0.9m)	67%	One-off costs of integrating acquired businesses.
Reported EBITDA	**$4.1m**	**$1.9m**	**116%**	

1. The segment results have been presented using financial information prepared under AASB117: *Leases*. Refer to the table in Appendix Two that presents a summary of the financial impacts of the application of AASB 16 at a Group level.

SMB Direct: revenue and margin

Good recovery in the underlying EBITDA margin driven by sustainable cost savings





Outlook	
Revenue	Decline in WME subscription services as a result of lower new sales in H2 FY18 causing the FY19 stepping off point to be materially lower than FY18. Turnaround initiatives showing growth in new subscription sales in H1 FY19.
EBITDA Margin	Sustainable cost savings have not negatively impacted revenue resulting in a stronger EBITDA position.

1. On 1 January 2018, the Group adopted two new accounting standards, AASB 15: *Revenue from Contracts with Customers* and AASB 9: *Financial Instruments*. FY18 financial information (and FY17 prior year comparative) have been presented on this basis. Financial information for periods prior to 1 January 2017 are presented in accordance with, AASB 118: *Revenue*, AASB 132: *Financial Instruments: Presentation* and AASB 139: Recognition and Measurement.

H1 FY19 Results:
Non-Core Operations

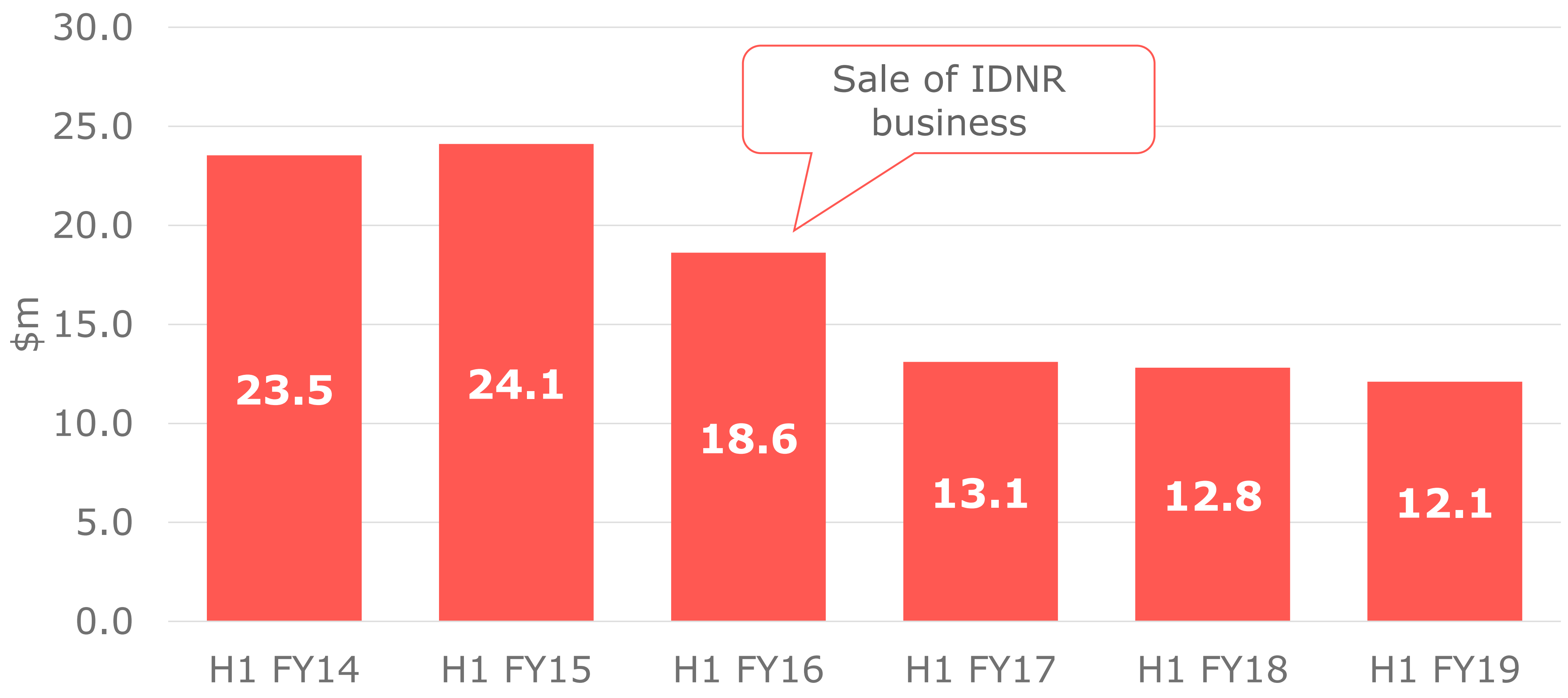
SMB Indirect: segment results (non-core)

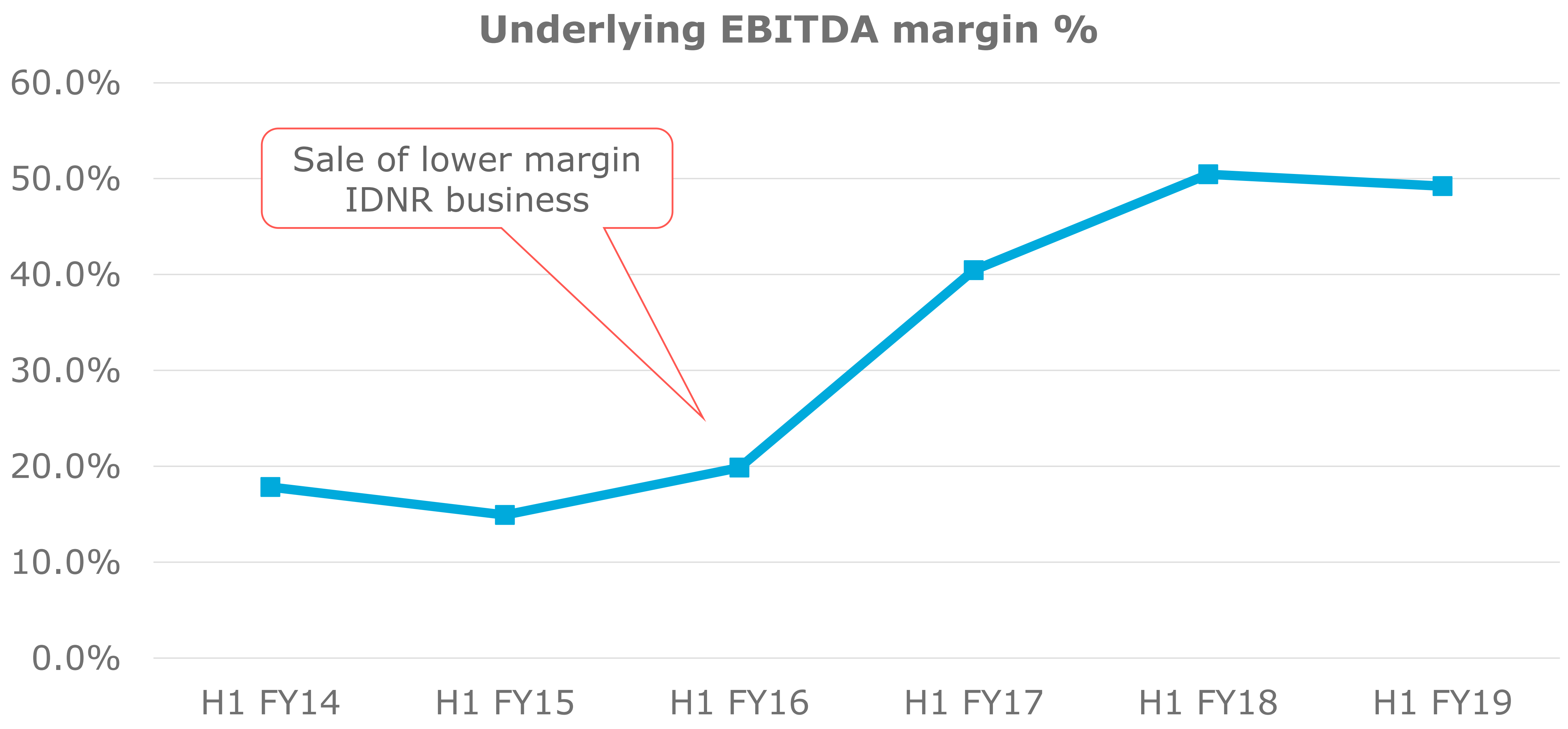
Half year ended 30 June 2019	H1 FY19 AASB 117	H1 FY18 AASB 117	Δ%	Notes
Revenue (exc. interest)	$12.1m	$12.8m	(5%)	Continued decline in Indirect part of SMB business.
COGS	($5.0m)	($5.2m)	4%	
Gross margin (exc. interest)	$7.1m	$7.6m	(7%)	Lower margin % due to decline in higher margin products.
Operating expenses	($1.1m)	($1.1m)	0%	
Underlying EBITDA	**$6.0m**	**$6.5m**	**(8%)**	
Underlying EBITDA margin	**50%**	**51%**	**(2%)**	
Non-recurring adjustments	$0.0m	$0.0m		
Reported EBITDA	**$6.0m**	**$6.5m**	**(8%)**	

1. The segment results have been presented using financial information prepared under AASB117: *Leases*. Refer to the table in Appendix Two that presents a summary of the financial impacts of the application of AASB 16 at a Group level.

SMB Indirect: revenue and margin

The SMB Indirect business is in systemic decline





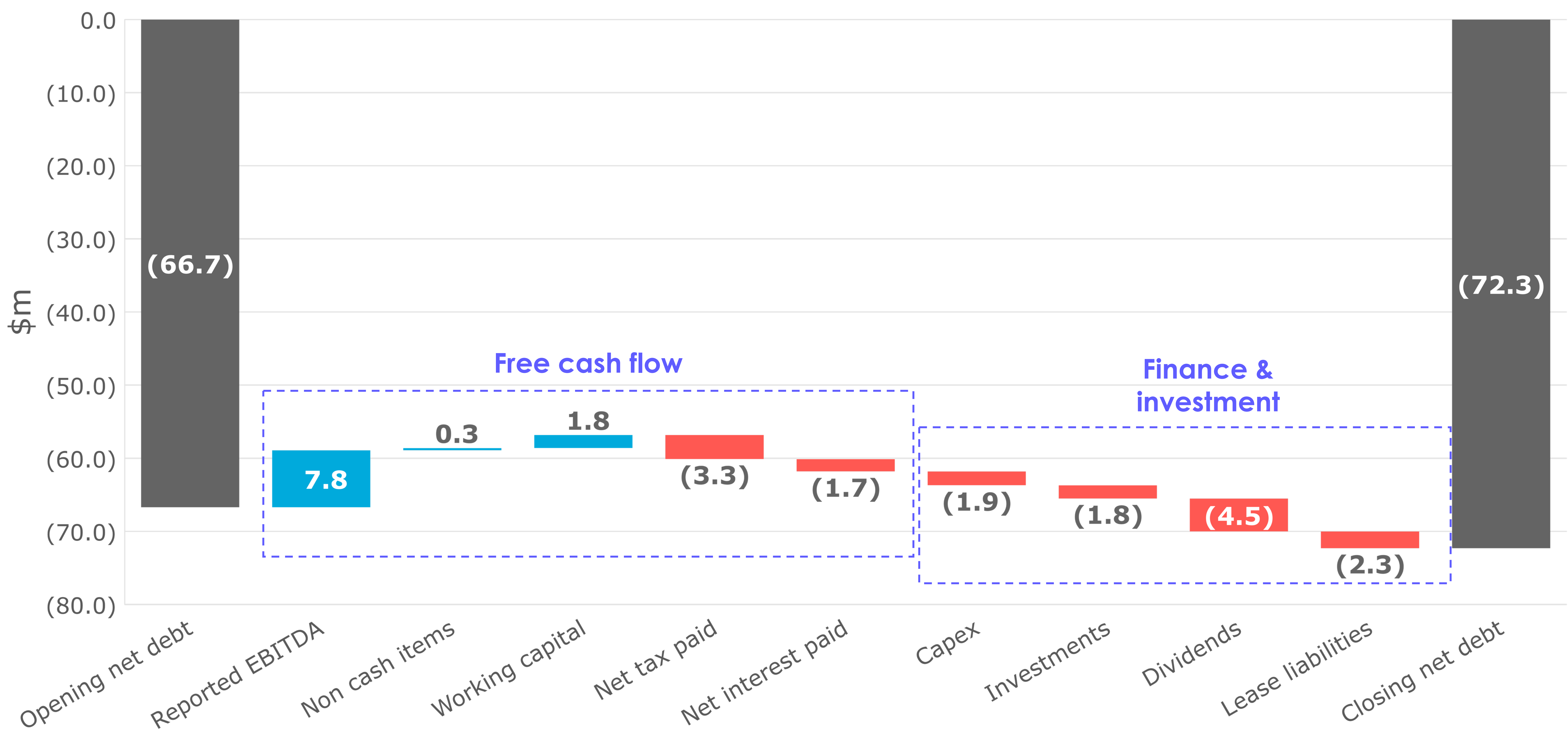
Outlook	
Revenue	Successfully completed the divestment of the TPP Wholesale Reseller business, contributing $21.3m to our balance sheet. The other half of the Indirect business comprises a single customer who has indicated that they will be materially reducing their spend but the timing and quantum of this remains unclear. As such we cannot confidently forecast this contribution due to the uncertainty surround the timing and the quantum of both the divestment and the reduction in spend from the large customer.

1. On 1 January 2018, the Group adopted two new accounting standards, AASB 15: *Revenue from Contracts* with Customers and AASB 9: *Financial Instruments*. FY18 financial information (and FY17 prior year comparative) have been presented on this basis. Financial information for periods prior to 1 January 2017 are presented in accordance with, AASB 118: *Revenue*, AASB 132: *Financial Instruments: Presentation* and AASB 139: *Recognition and Measurement*.

H1 FY19 Results:
Cash and Capital

H1 FY19: net debt

Net debt increased in line with expectations in the current half, primarily driven by financing and investing cash flows

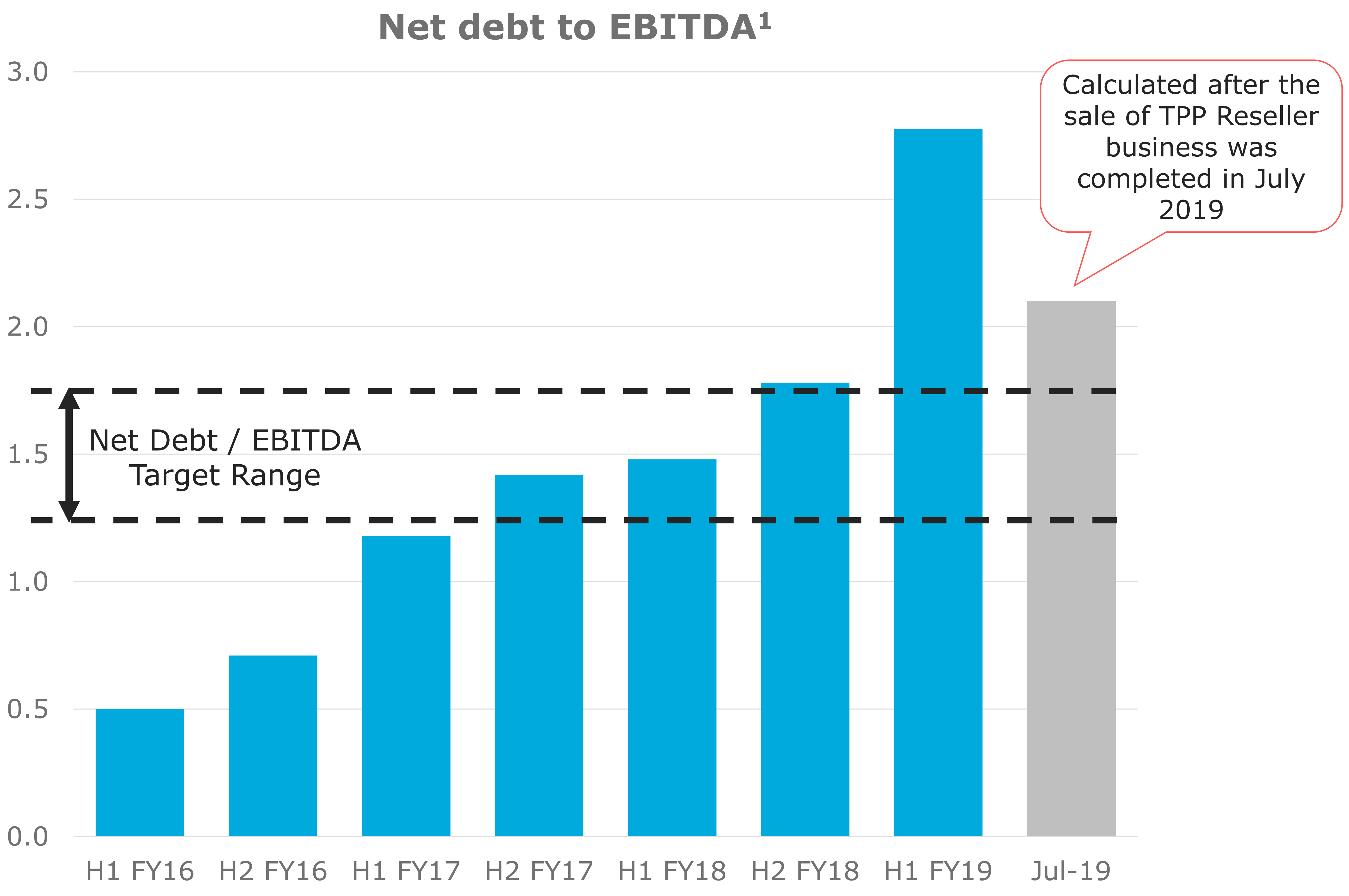


- Free cash flow has benefited from improvements in the working capital position in the current half, resulting from cash flow initiatives implemented.
- The Group paid $1.8m in cash relating to the third and final earnout payment for InfoReady in the current half.
- As a result of the adoption of AASB 16: *Leases*, the cash outflows relating to the office lease liabilities have been reclassified as a financing cash flow (previously these were classified as an operating cash flow and included as an offset to the Reported EBITDA item). This has no impact on the net cash movement or net debt position

1. This is based on achieving the guidance for Group EBITDA.

H1 FY19: leverage ratio

The one-off cash outgoings of the past 18 months (approx. $17.0m) are largely behind us. Net debt will steadily decline and our net leverage ratio will be within our published target range by late in H1 FY20.



- The Group's bank covenant for Net Debt/EBITDA was 3.0x prior to the sale of the TPP Reseller business and reduced to 2.5x following the receipt of the upfront component ($21.3m) of the sale proceeds in late July.
- As at 31 July 2019 net debt was $51.6m for a leverage ratio of 2.1x.
- Net debt increased beyond target levels due to the impact of the following significant outflows:
  - fit-out costs associated with expanding our footprint in Melbourne and Sydney;
  - one off costs incurred in rebranding; and
  - higher than expected earnout payments as a result of strong performance of InfoReady acquisition.
- The Group expects to be operating within its published target range for the leverage ratio (1.25x to 1.75x) by late H1 2020[2] on the back of the recovery in Enterprise and continued strong cash conversion.

1. Based on a trailing 12 month underlying EBITDA. Underlying EBITDA has been calculated using financial information prepared under AASB 117: *Leases.*
2. This is based on the guidance for Group EBITDA.

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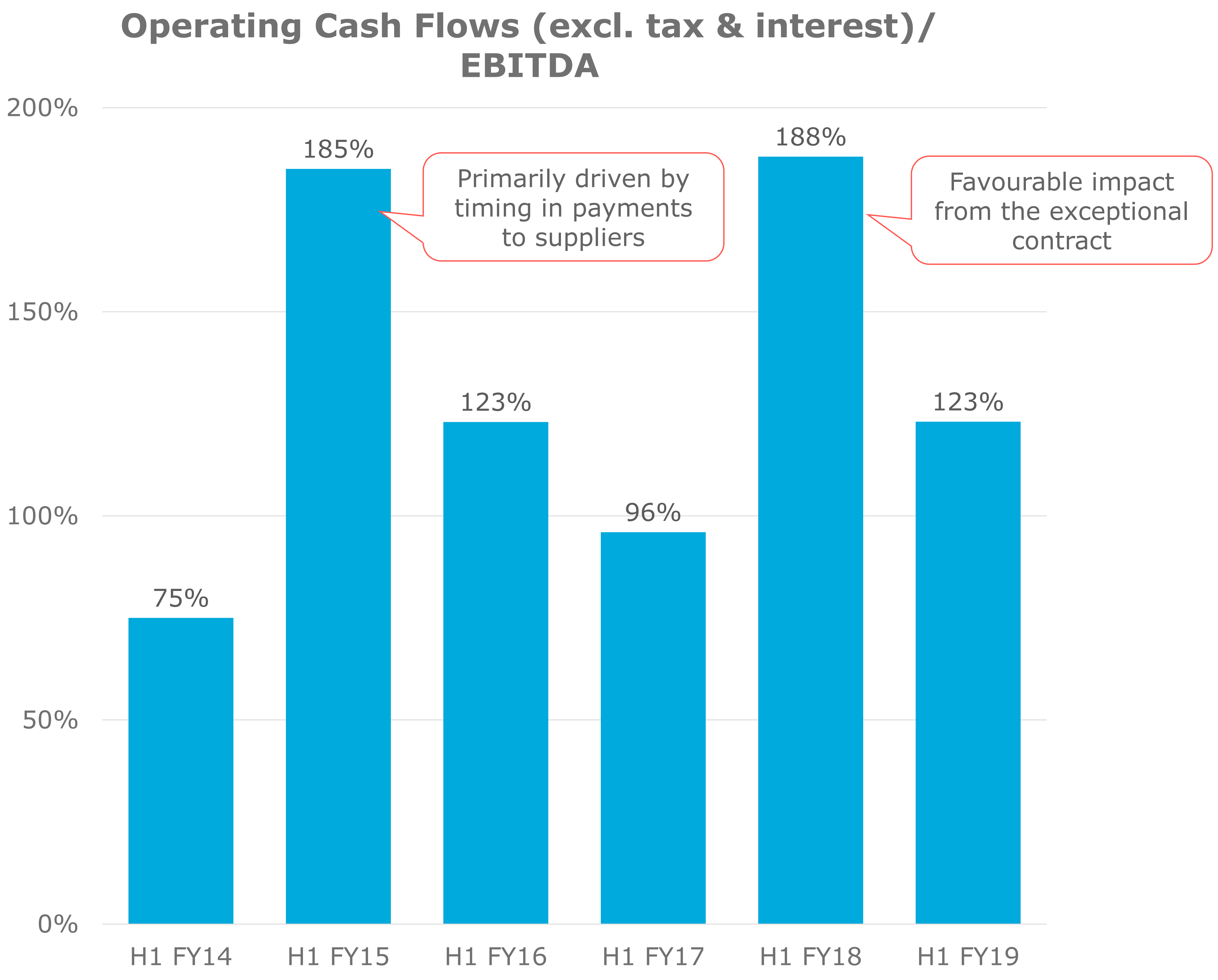
H1 FY19: cash conversion



- The strong cash conversion in H1 FY19 had been underpinned by a number of initiatives to optimise the Group's working capital position, including a restructure of the Group's invoicing process, a review of supplier payment terms, and the introduction of supply chain financing for key customers.
- Free cash flow conversion in H1 was 123%, notwithstanding amounts withheld relating to the key customer contract dispute.
- We expect cash conversion to reduce in H2 FY19 to typical levels.

Appendix One

SMB: segment results

ARQ group

SMB: segment results (core and non-core)

Half year ended 30 June 2019	H1 FY19 AASB 117	H1 FY18 AASB 117	Δ%	Notes
Revenue (exc. interest)	$46.7m	$51.4m	(9%)	Decrease due to decline in solutions products ($3.4m) , Direct Components ($0.6m) and Indirect Components ($0.7m).
COGS	($16.1m)	($18.7m)	14%	
Gross margin (exc. interest)	$30.6m	$32.7m	(6%)	Improved margin % due to progressive insourcing of solutions fulfilment and COGS initiatives in Components.
Operating expenses	($20.2m)	($23.4m)	14%	Benefit of tight cost management, including headcount efficiencies.
Underlying EBITDA	**$10.4m**	**$9.3m**	**12%**	
Underlying EBITDA margin	**22%**	**18%**	**22%**	This has been favourably impacted by operating cost efficiencies.
Non-recurring adjustments and pro forma contribution	($0.3m)	($0.9m)	67%	One-off costs of integrating acquired businesses.
Reported EBITDA	**$10.1m**	**$8.4m**	**20%**	

1. The segment results have been presented using financial information prepared under AASB117: *Leases*. Refer to the table in Appendix Two that presents a summary of the financial impacts of the application of AASB 16 at a Group level.

Appendix Two

Adoption of AASB 16: *Leases*

ARQ group

Adoption of AASB 16: *Leases*

- The Australian Accounting Standards Board (AASB) has issued a new leases standard, AASB 16: *Leases* ('AASB 16'), which became effective from 1 January 2019. This standard supersedes the previous leases standard AASB 117: *Leases*.
- The Group has identified premises contracts (as both a lessor and a lessee) and equipment lease contracts (as a lessee) that are impacted by the application of the new standard.
- The impact of the adoption of AASB 16 has resulted in a reallocation of operating expenses to depreciation and an increase of net assets upon transition. The primary driver of the P&L impact is that premises contracts (as a lessor) changes classification from an operating lease under AASB 117 to a finance lease under AASB 16. This change results in lessor premises income previously recognised in the P&L now being recorded on the balance sheet, with P&L impacts limited to interest income under AASB 16. Cash flows from leases will be unchanged.
- The Group has finalised the financial impact resulting from the application of the new standard from 1 January 2019. The Group has elected to adopt the modified transition approach, which does not require restatement of prior period comparatives. The financial impacts of the application of AASB 16 have been reported in the Appendix 4D and the Half Year Financial Report.

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Adoption of AASB 16: *Leases*

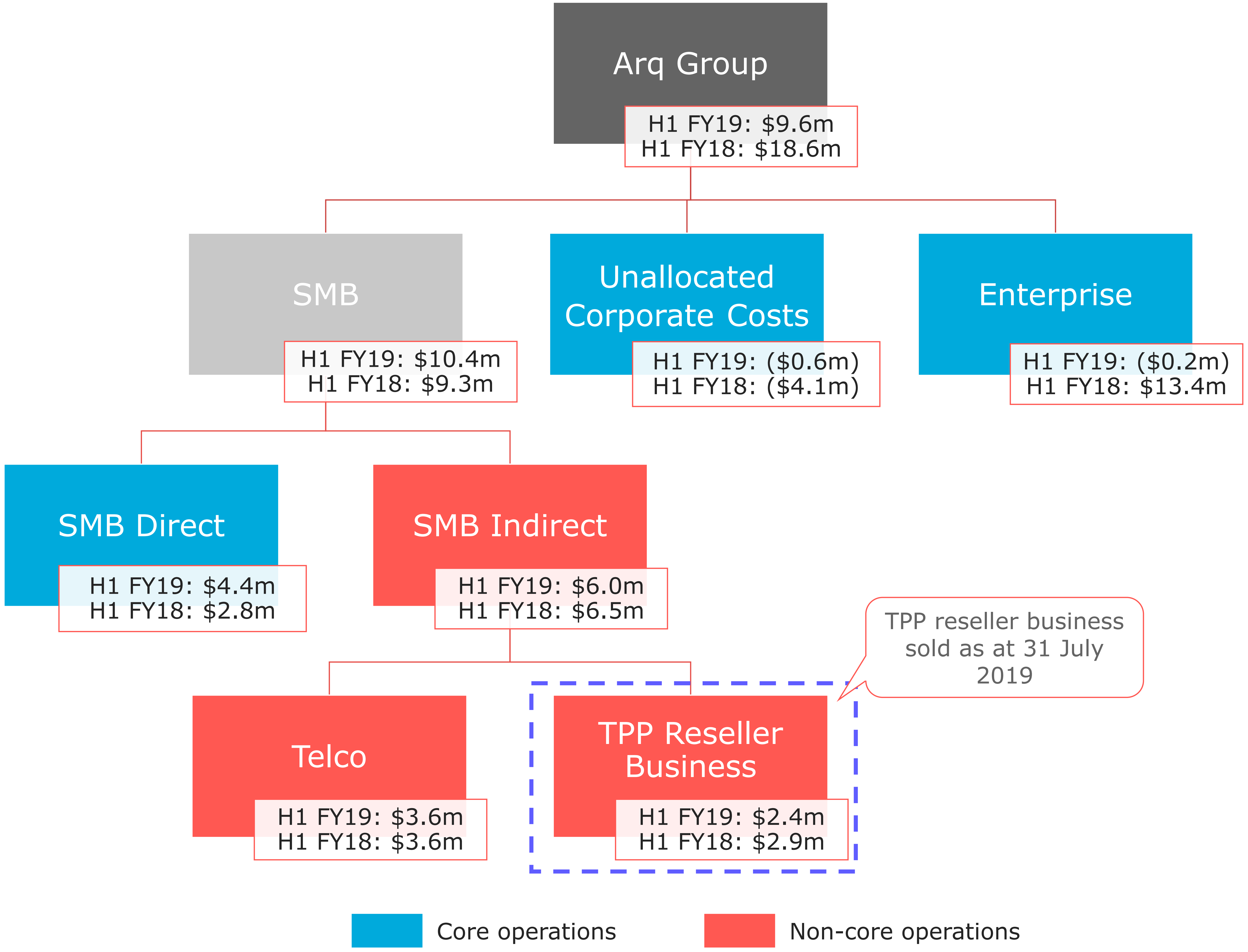
The following table presents a summary of the financial impacts of the application of AASB 16.

Half year ended 30 June 2019	H1 FY19 AASB 16	Adjustment for AASB 117	H1 FY19 AASB 117	H1 FY18 AASB 117
Revenue (excl. interest)	$90.9m	$0.0m	$90.9m	$112.4m
COGS	($42.8m)	$0.0m	($42.8m)	($48.9m)
Gross margin (excl. interest)	**$48.1m**	**$0.0m**	**$48.1m**	**$63.5m**
Other income	$0.3m	$0.0m	$0.3m	$0.0m
Operating expenses	($40.6m)	($2.5m)	($43.1m)	($55.0m)
EBITDA	**$7.8m**	**($2.5m)**	**$5.3m**	**$8.5m**
D&A	($7.8m)	$2.4m	($5.4m)	($8.5m)
Net interest expense	($1.7m)	$0.3m	($1.4m)	($1.3m)
Income tax credit/ (expense)	$1.1m	($0.1m)	$1.0m	($1.3m)
Profit attributable to NCI	$0.0m	$0.0m	$0.0m	($0.1m)
NPAT	**($0.6m)**	**$0.1m**	**($0.5m)**	**($2.7m)**

Appendix Three

Arq Group: core and non-core explained

Arq Group: core and non-core explained



To assist in understanding the future performance of the Group, from the start of the FY19 we separately disclose the contributions of the "core" and "non-core" operations;

- In 2018 we started the final stage of exiting the Indirect part of SMB. Consequently we considered this part of the business to be "non-core". Everything else was considered to be "core".
- While the Indirect part of SMB didn't meet the definition of a discontinued operation for the purposes of AASB 5 (Non-Current Assets Held for Sale And Discontinued Operations), we considered that separately disclosing the respective contributions of the core and non-core operations to the overall group result was both desirable and helpful.
- Accordingly, we present separate P&L statements for the core and non-core operations
- The chart on the left identifies the core and non-core parts of the Group and their respective contributions to core and non-core underlying EBITDA.

Current period financial information presented above is prepared under AASB 16: *Leases*. Prior period financial information presented above is prepared under AASB 117: *Leases*. The impact of H1 FY19 underlying EBITDA following the adoption of AASB 16 has been taken through corporate costs and as a result the period-on-period comparison for all other components is on a like-for-like basis.

Appendix Four

Financial Information

ARQ group

Financial Information: reported to underlying EBITDA from Core Operations

Half year ended 30 June 2019	**H1 FY19 AASB 16**	**H1 FY18 AASB 117**	**Notes**
Reported EBITDA	**$7.8m**	**$8.5m**	
Loss / (gain) on reassessment of contingent consideration liability	($0.1m)	$5.5m	Relates to Infoready acquisition
Integration costs	$0.8m	$1.6m	One off costs to integrate acquisitions
Property costs	$0.1m	$0.4m	Relates to one off costs from property move
Brand costs	$0.2m	$2.2m	One off costs related to re-branding
Transaction costs	$0.4m	$0.4m	One off transaction costs for acquisitions
Restructuring cost	$0.4m	$0.0m	
Underlying EBITDA	**$9.6m**	**$18.6m**	
Underlying EBITDA from Non- Core Operations (SMB Indirect)[1]	$6.0m	$6.5m	
Underlying EBITDA from Core Operations[1]	**$3.6m**	**$12.1m**	

1. In presenting Underlying EBITDA for core operations, the Group has excluded the financial contribution of the SMB Indirect business, which it deems as non-core to the Group.

Financial Information: reported to underlying NPAT from Core Operations

Half year ended 30 June 2019	H1 FY19 AASB 16	H1 FY18 AASB 117	Notes
Reported NPAT	**($0.6m)**	**($2.7m)**	
Loss / (Gain) on reassessment of contingent consideration liability	($0.1m)	$5.5m	Relates to Infoready acquisition
Amortisation of WebCentral brand intangible asset (tax effected)	$0.0m	$2.5m	Accelerated amortisation of the WebCentral brand intangible as a result of re-branding.
Arq brand costs (tax effected)	$0.1m	$1.6m	One off costs related to re-branding
Integration costs (tax effected)	$0.5m	$1.1m	One off costs to integrate acquisitions
Transaction costs (tax effected)	$0.4m	$0.4m	One off transaction costs for acquisitions
Property costs (tax effected)	$0.1m	$0.6m	Relates to one off costs from property move
Unwinding of discount on other financial liabilities	$0.0m	$0.1m	Relates to InfoReady acquisition
Restructuring costs (tax effected)	$0.3m	$0.0m	
Other non-operating expenses (tax effected)	$0.1m	$0.0m	
Underlying NPAT	**$0.8m**	**$9.1m**	
Underlying NPAT from Non- Core Operations (SMB Indirect)[1]	$4.1m	$4.5m	
Underlying NPAT from Core Operations[1]	**($3.3m)**	**$4.6m**	

1. In presenting Underlying NPAT for core operations, the Group has excluded the financial contribution of the SMB Indirect business, which it deems as non-core to the Group.

ARQ group

Financial Information: cash movement

Half year ended 30 June 2019	H1 FY19 AASB 16	H1 FY19 AASB 117	H1 FY18 AASB 117	Notes
OPERATING				
Reported EBITDA	$7.8m	$5.3m	$8.5m	
Non cash items	$0.3m	$0.3m	$5.8m	
Working capital	$1.8m	$1.8m	$7.4m	
Net tax paid	($3.3m)	($3.3m)	($2.6m)	
Net interest paid	($1.7m)	($1.3m)	($1.4m)	
Total Operating	**$4.9m**	**$2.8m**	**$17.7m**	
INVESTING				
Acquisition of InfoReady	($2.0m)	($2.0m)	($5.7m)	Relates to earnout payments for the InfoReady acquisition
Transaction costs	($0.2m)	($0.2m)	($0.1m)	
Return of capital from Tiger Pistol	$0.5m	$0.5m	$0.0m	
Purchase of P,P&E and intangible assets	($1.9m)	($1.9m)	($9.5m)	Prior period includes leasehold improvements for the new Melbourne and Sydney office fit outs.
Total investing	**($3.6m)**	**($3.6m)**	**($15.3m)**	
FINANCING				
Net payment of lease liabilities	($2.3m)	($0.1m)	$0.0m	
Dividend paid	($4.6m)	($4.6m)	($7.0m)	
Proceeds from / (repayment of) borrowings	$5.0m	$5.0m	($0.1m)	
Total Financing	**($1.9m)**	**$0.3m**	**($7.1m)**	

ARQ group

Financial Information: balance sheet

Half year ended 30 June 2019	H1 FY19 AASB 16	H2 FY18 AASB 117	Δ%	Notes
Cash	$7.7m	$8.3m	(7%)	Decrease due to capex investment, instalments for third earnout period of contingent consideration on InfoReady acquisition and dividends paid, partially offset by positive operating cash flows.
Other current assets	$74.2m	$73.0m	2%	Immaterial movement after adjusting for recognition of lease receivable under AASB 16.
Non-current assets	$274.8m	$251.0m	9%	Increase primarily due to recognition of lease receivable and Right-of-use asset under AASB 16.
Total assets	**$356.7m**	**$332.3m**	**7%**	
Current liabilities	$75.8m	$75.4m	(1%)	Increase primarily due to recognition of lease liability under AASB 16, partially offset by reduction of the third earnout liability for InfoReady due to instalments paid through cash and equity.
Non-current liabilities	$119.0m	$94.4m	(26%)	Increase primarily due to recognition of lease liability under AASB 16 and proceeds from borrowings.
Total liabilities	**$194.8m**	**$169.8m**	(15%)	
Equity	$161.9m	$162.5m	0%	Decrease due to dividends paid partially offset by issue of shares for InfoReady earn out liability settlement.