

26th July 2018

QUARTERLY ACTIVITIES REPORT AND APPENDIX 4C FOR QUARTER ENDED 30 JUNE 2018

ASX Symbol: ST1

REGISTERED OFFICE

Level 4, 100 Albert Road
South Melbourne VIC AUS 3205

PRINCIPAL PLACE OF BUSINESS

Level 2
19-25 Raglan Street
South Melbourne VIC 3250

CONTACT

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BOARD OF DIRECTORS

Mr James Joughin (Chairman)
Mr Terry Gray (Director)
Mr Geoff Neate (Managing Director)
Mr Luke Waldren (Director)

ISSUED CAPITAL

Fully paid ordinary shares:	244,960,135
STIO Listed Options:	28,732,256
STAC Unlisted Options:	2,500,000
STAB Performance Rights:	770,000

Spirit Telecom Limited (ASX ST1) ("Spirit") is pleased to provide shareholders with the quarterly activities report and Appendix 4C for the quarter ended 30 June 2018 and FY18 financial summary.

Highlights:

- FY18 unaudited results have seen revenue grow by 41% to \$16.1M, Gross Margin grow by 54% to \$11.1M and Underlying EBITDA grow by 47% to (\$2.9M - \$3.0M)
- Gross profit margin expanded from 64% in FY18 to 69% in FY18 due to continued strong growth in high margin On-Net revenues (~83% GP margin for new business in FY18)
- Receipts from customers reached \$4,457k, representing a 33% increase on Q4'17
- 12 consecutive quarters of growth in On-Net building cash receipts
- On-Net building¹ revenue grew by 22% on Q4'17, with continued growth in both Commercial (+34%) and Residential (+7%) revenues over Q4'17
- Number of On-Net buildings grew by 7% from Q3'18 to 510 (33 net adds)
- Number of connected apartments grew by 1% to 21,896
- Capex per building averaged \$7,609 for FY18 – 38% lower than FY17 average
- Finished the period with \$170k of net debt - an improvement of \$228k on Q3'18
- FY18 net operating cashflow grew by 23% on FY17 to \$1.7m
Normalised operating cashflow for FY18 was \$2.4m, taking in to account previously reported excess creditor payments and one-off acquisition payments

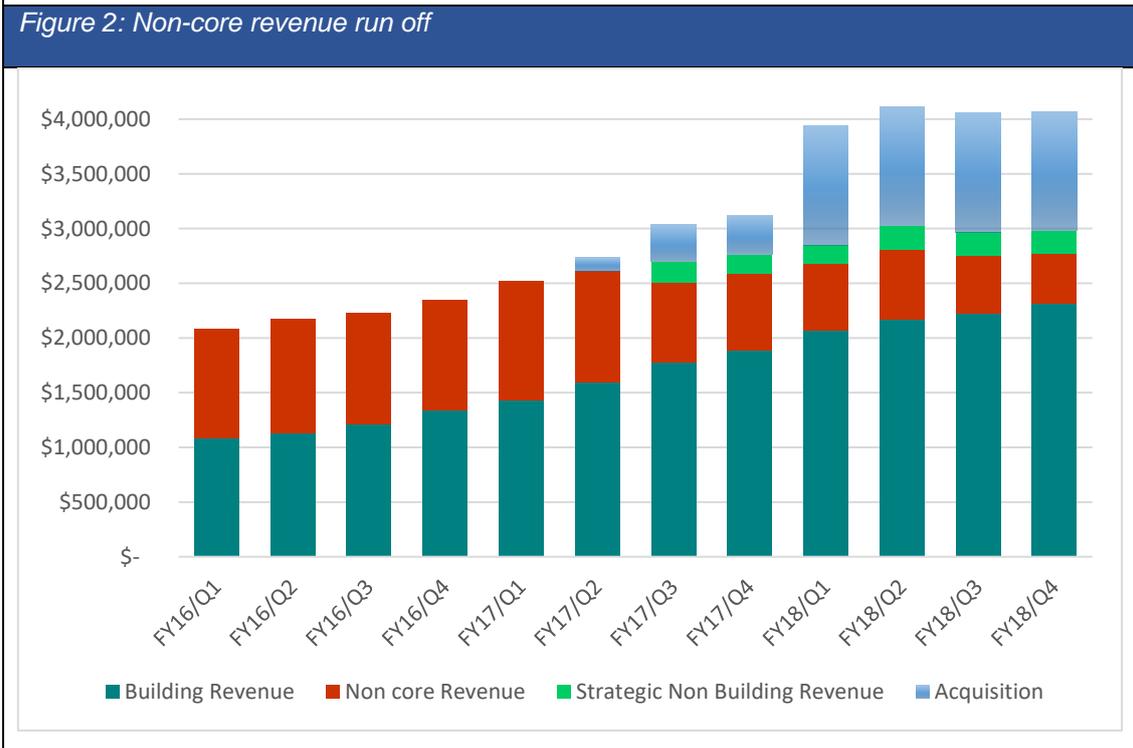
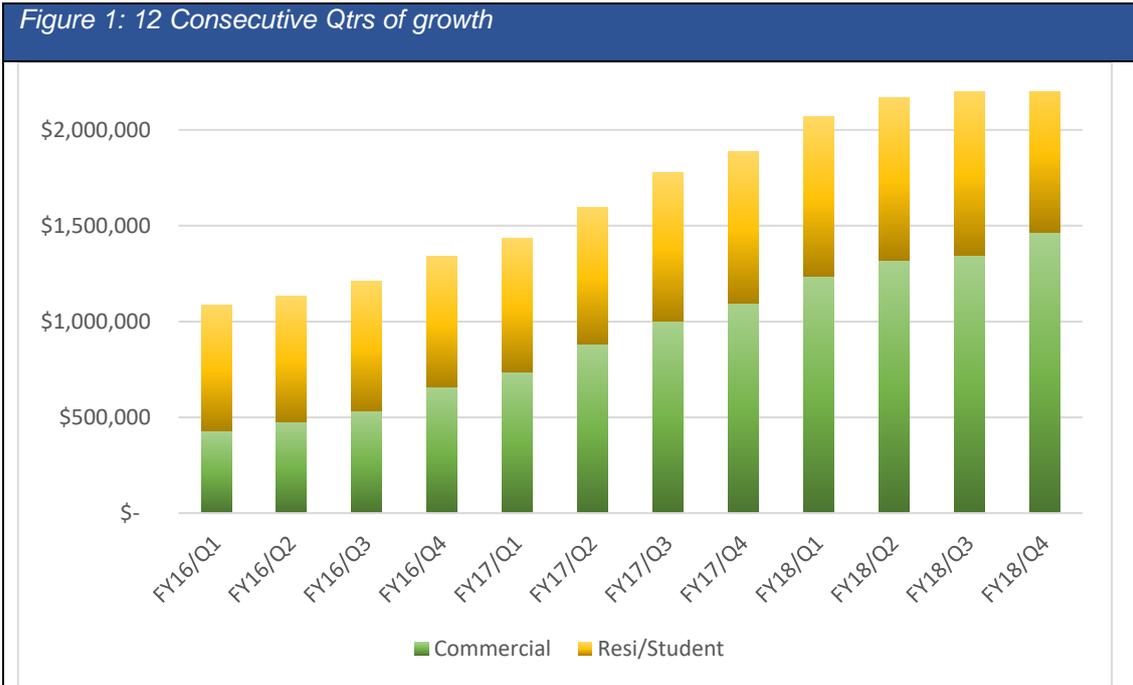
Summary of Activities:

- Net operating cash flow for the quarter was \$303k, marking the 8th consecutive quarter of positive cash flow for the Company.
- Staff numbers increased from 43 to 65 during FY18 due to the 'Wires' acquisition, the on-boarding of sales & marketing staff and the establishment of a 24/7 Network Operations Centre (NOC).
- \$991k (before costs) raised through the early exercise of approximately 5m listed options (ST1O)

Revenue Commentary

High margin building revenues continue to be the key growth driver for the Company, and each quarter account for an increasing proportion of overall revenue. On-Net building revenue grew by 22% on Q4'17, with continued quarter-on-quarter growth of 4% (Figure 1). Commercial revenues grew stronger than expected at 9% from Q3'18, further reflecting the Company's increasing focus on higher ARPU, lower capex Commercial Customers, which now account for 64% of On-Net building revenues and continue to account for an increased proportion of On-Net building revenues. The number of Connected Apartment numbers grew to 21,896, while average residential penetration held at 19%.

The Company continues to enjoy growth in high margin revenue streams, which is evident from the 54% growth in gross margin (unaudited) for FY18, and gross margins expanding to 69% in FY18 (from 64% in FY17).

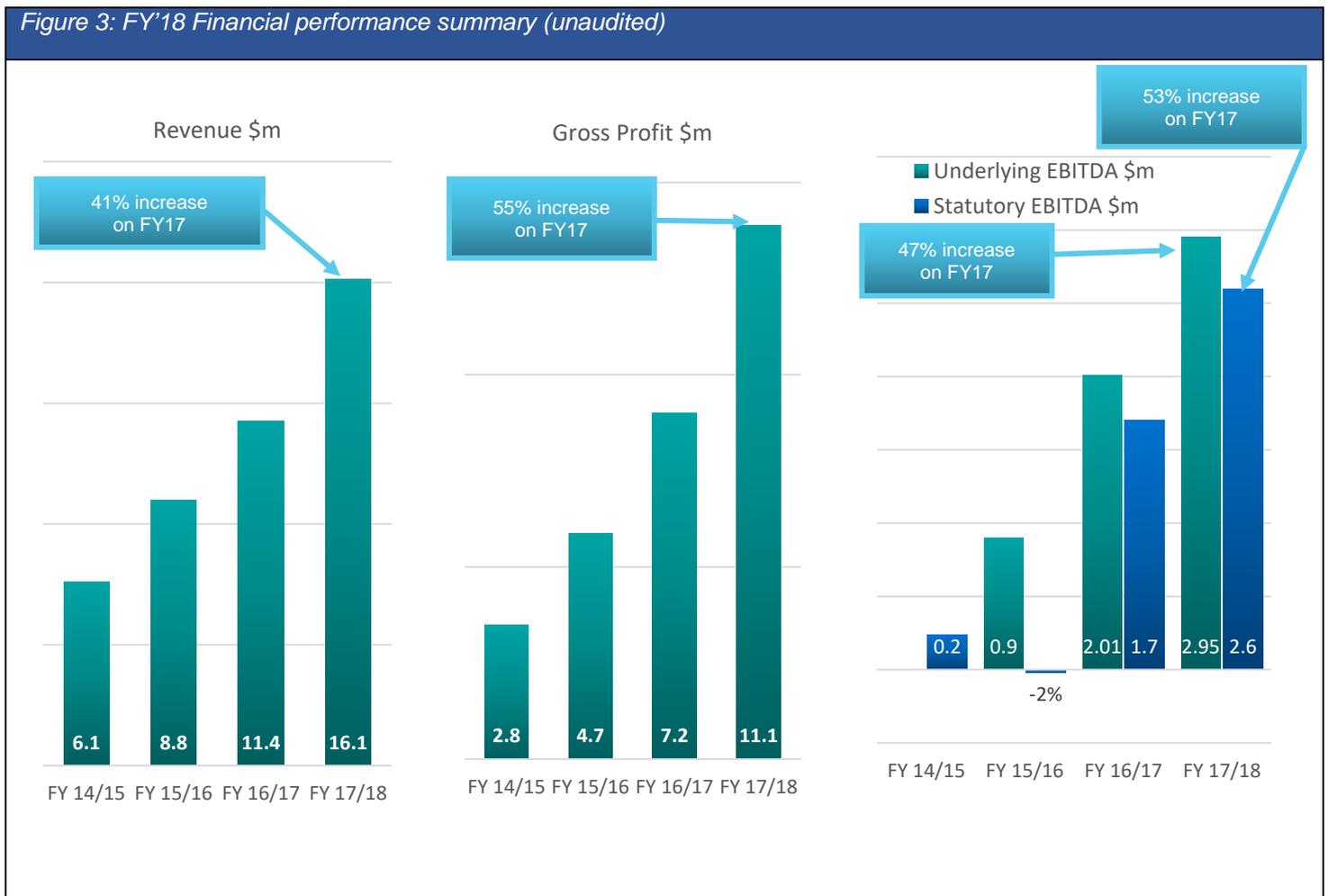


FY18 Performance Summary

Revenues grew by 41% in FY18 to \$16.1m as a result of strong organic sales growth and a growing contribution from the 'World Without Wires' acquisition made during the period. While the greater than expected run-off in lower margin legacy products impacted revenue growth, continued strong growth in high-margin On-Net products led to a 55% increase in gross profit over FY18. The net increase in revenue over FY18 has been at a gross margin of 83%, boosting group margins from 64% in FY17 to 69% in FY18.

Operating expenses increased considerably (\$3m) during FY18 in what was a major growth investment year for the Company, adding key management personnel and increasing headcount by 50% (inclusive of the WWW acquisition). Notwithstanding this, the Company grew underlying EBITDA by 47% to \$2.9-\$3.0m in FY18.

Figure 3: FY'18 Financial performance summary (unaudited)

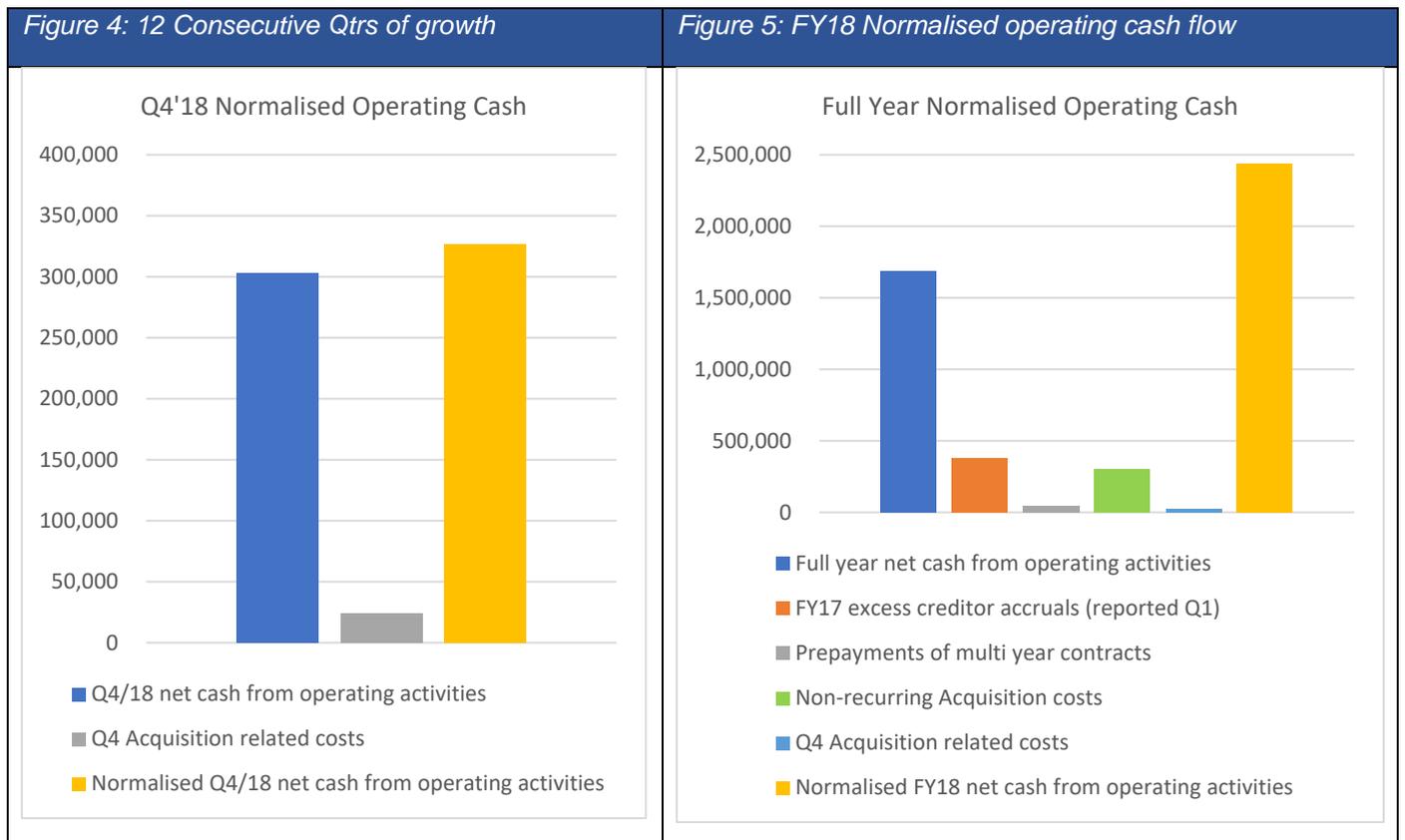


Operational Cashflow commentary

Opex

Reported operating cashflow for the quarter was \$303k. Whilst cash receipts on the prior quarter were steady, staff and admin related costs increased by ~\$419k during the quarter somewhat reflecting increased overhead (establishment of a 24/7 Network Operations centre (NOC) and sales and marketing staff) but also impacted by a \$300k reduction of creditors from the prior quarter. While the full year effect of the new staff numbers will impact FY19, the Company anticipates more modest staff growth going forward.

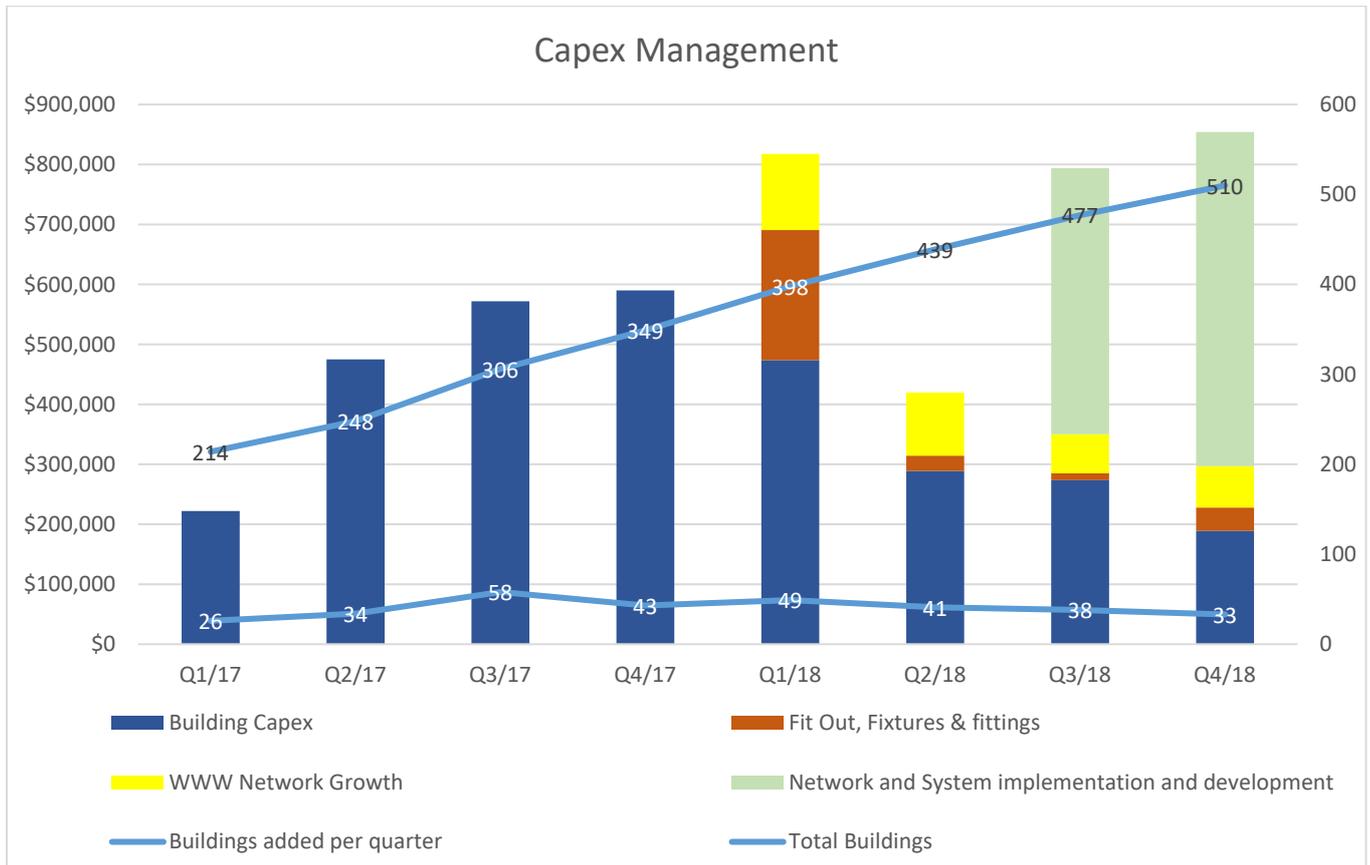
Full year operating cashflow grew by 23% to \$1.7m, while normalised operating cashflow for FY18 was \$2.4m, taking in to account previously reported excess creditor payments and one-off acquisition costs.



Capex

Total capex for the quarter was \$854k, with on-net building capex reducing ~31% from Q3 to ~\$189k, and the clear majority of the remainder being spent on accelerating network expansion activities and finalising the implementation of the NetSuite financial reporting system (as per ASX announcement 5 December 2017).

Average capex per building continues to improve and averaged \$7,609 per building. This is 38% below the FY17 average. Improved capital efficiency remains a key focus for Spirit in conjunction with the network expansion efforts which are expected to open substantial market opportunities.



Outlook

Looking at the FY18 year, the Company is pleased to have delivered robust financial results through both organic and acquisitive growth, while also making significant investments to provide Spirit with a solid foundation for future growth.

Managing Director Geoff Neate stated, *“the past financial year has largely been one of set-up and integration for the Company; we have acquired and integrated a significant acquisition, delivered a more robust financial management system and are currently enhancing the quality of our expanding network, which will serve Spirit and its customers for the long-term future. This has required a significant investment in growing our team by over 50%, primarily in the sales and marketing functions.*

Notwithstanding this, we are pleased to report strong growth in all key financial metrics over FY18, with revenue, gross profit and EBITDA all increasing by over 40%. Looking forward, we expect continued growth in our high margin On-Net building revenues, particularly in the Commercial sector which now account for accelerating proportion of on-net revenues and will continue to evaluate acquisition opportunities with our strengthened Balance Sheet”.

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Spirit Telecom Limited

ABN

73 089 224 402

Quarter ended ("current quarter")

30 June 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to Date (12 Months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	4,457	17,442
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(142)	(641)
(d) leased assets		
(e) staff costs*	(921)	(3,408)
(f) administration and corporate costs	(3,084)	(11,514)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	9	20
1.5 Interest and other costs of finance paid	(16)	(235)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	0	25
1.9 Net cash from / (used in) operating activities	303	1,689
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment*	(774)	(2,767)
(b) businesses (see item 10)	139	(3,013)

Consolidated statement of cash flows	Current quarter \$A'000	Year to Date (12 Months) \$A'000
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets*	(306)	(701)
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	24
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (Cash acquired on acquisition)	-	2
2.6 Net cash from / (used in) investing activities	(941)	(6,455)

* Includes appropriately capitalised wages

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	991	7,635
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	(125)	(395)
3.5 Proceeds from borrowings	-	6,000
3.6 Repayment of borrowings	-	(5,056)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	866	8,184

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	4,402	1,212
4.2 Net cash from / (used in) operating activities (item 1.9 above)	303	1,689
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(941)	(6,455)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	866	8,184

Consolidated statement of cash flows		Current quarter \$A'000	Year to Date (12 Months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	4,630	4,630

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	612	2,391
5.2	Call deposits	4,018	2,011
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	4,630	4,402

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000

50

-

Director's fees and salaries paid to directors during the June 2018 quarter.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000

-

-

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	4,800	4,800
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered or are proposed to be entered into after quarter end, include details of those facilities as well.		

An initial loan facility of \$6,000,000 (disclosed at Section 3.5) has been provided by Bank of Melbourne. The interest rate applied is BBSY plus a margin of 3.5%. The scheduled principal repayments to Bank of Melbourne are \$300,000 per quarter with the first payment made in December 2017. The facility is secured. Additional debt has been amortised in March because of cash proceeds raised from the option exercise process announced to the ASX on 28 March – essentially an advance of the compulsory payments for June and September 2018.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	-
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	(330)
9.4 Leased assets	-
9.5 Staff costs	(1,000)
9.6 Administration and corporate costs	(3,300)
9.7 Other – Investing activities – Capital Expenditure	(1,200)
Other – Financing activities - Repayment of borrowings **	-
9.8 Total estimated cash outflows	(5,830)

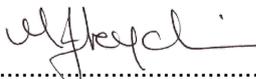
* Please note that the above estimated cash outflows for the next quarter do not include inflows of receipts from customers. The cash outflows are estimates only and variable outflows are calculated on forecast revenue for the quarter. Variable outflows will change if actual revenue differs from forecast revenue.

** The principal of the loan provided by Bank of Melbourne is to be repaid by Scheduled Repayments of \$300,000 per quarter. June and September 2018 have been paid in advance.

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	N/A
10.2 Place of incorporation or registration	-	N/A
10.3 Consideration for acquisition or disposal	-	N/A
10.4 Total net assets	-	N/A
10.5 Nature of business	-	N/A

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: 
(Company secretary)

Date: 26 July 2018

Print name:MELANIE LEYDIN.....

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.