28 February 2019

ASX/Media Release

H1/19 Market Update

Spirit Telecom Limited (ASX:ST1) is pleased to announce its Half Year FY19 report for the period ending 31 December 2018, with highlights including:

- Revenue increased to $8.2M (up 1.3% over H118), impacted by the delay in network rollout (completed) and declining Legacy revenue;
- Gross Profit increased by 9.6% to $5.9m, with group gross margins increasing to 73%;
- Underlying EBITDA decreased to $362k on the back of increased operation spend (Opex) across networking and sales and marketing
- Underlying NPAT declined to a loss of $487k;

The modest growth in revenue was a result of a delay in the rollout of Spirit's expanded network. This was completed mid-November. It has also been impacted by the decline in non-core/legacy type services, such as ADSL, phone lines and other copper-based services. These factors will continue to abate over the coming periods. Notwithstanding the flat revenue, the positive 9% growth in gross margin is attributable to the increase in revenue stemming from Spirit's network. In anticipation of the network expansion, the planned Opex increase, principally in people, marketing and network set up, has seen the decline in EBITDA and NPAT for the first half.

An overview of the Company's financial performance during 1H19 is detailed in the table below.

Period ending 31 December 2018	1H18	1H19	Change (%)
Statutory Revenue and other Income	$8,099,705	$8,203,811	1%
Gross Profit ($)	$5,440,194	$5,960,705	9.6%
Gross Profit (%)	67%	73%	9%
Underlying EBITDA[1,2]	$1,606,687	$362,363	-77%
Statutory EBITDA	$1,227,242	$259,180	-79%
Underlying EBIT[3,4]	$1,006,266	($456,363)	-145%
Statutory EBIT	$626,821	($559,546)	-189%
Underlying NPAT[5,6]	$513,175	($487,202)	-195%
Statutory NPAT	$238,077	($562,010)	-336%
	Cents	**Cents**	
Underlying Earnings Per Share[7]	0.254	(0.199)	
Statutory Earning Per Share	0.118	(0.229)	

1 Refers to earnings before interest, tax, depreciation and amortisation
2 Items associated with acquisition activity and share based payments have been removed
3 Refers to earnings before interest and tax
4 Items associated with acquisition activity and share based payments have been removed
5 Refers to net profit after tax
6 Items associated with acquisition activity and share based payments have been removed
7 Items associated with acquisition activity and share based payments have been removed

Commenting on the result, Spirit Managing Director Geoff Neate said "The timing of the planned increase in Opex spend was misaligned with the network expansion timeframes. The impact of this saw an increase in sales leads and opportunities that were unable to be provisioned in the first half. And, whilst a 10% increase in our targeted business segment is encouraging, it has meant that Opex as a percentage of revenue has not met our expectations. We are encouraged by the demand for our services and are now seeing the EBITDA margins come back to previous levels and expect this trend to continue, in line with the increase in gross margin."

2H19 Outlook

With the network structure now complete the ongoing expansion will move in line with geographic demand. Projects such as Horsham will continue to deliver opportunity and market expansion. Additionally, the demand for the B2B Spirit Sky products is continuing strongly. All these products are high margin services delivered on the Spirit network. The Company expects to reduce the opex spend in the second half and see gross margins continue to grow, delivering EBITDA margins more in line with expectations.

For further Information:

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