

Spirit Technology Solutions Ltd (ASX:ST1)

Nexgen Acquisition

Spirit Doubles B2B Customer Base

March 2021

DEAL RATIONALE – DOUBLES THE SPIRIT B2B CUSTOMERS BASE TO >10,500

Nexgen acquisition transforms Spirit and creates scale: >10,500 B2B clients and a sales force of +100 people selling nationally:

- The acquisition brings over five thousand new clients, and one hundred new sales people to Spirit to drive organic growth, complementary products, scale and will generate an additional **\$36.0M in revenue with 80% of this as recurring revenue.**
- **Nexgen is tracking to a forecast FY21 EBITDA in the range of \$7.2M - \$7.6M**, the implied multiple is 6.5x with the completion payment (including a deferred component of \$10M) capped at \$50.0M excluding any agreed Milestone Incentives available based on performance target for FY22 and FY23.
- Spirit has successfully conducted an unconditional Placement to institutional and sophisticated investors **raising \$23.8M** to fund the Nexgen acquisition.
- CBA has further increased the Spirit debt facility by **\$10.0M, the additional funds raises the debt facility limit to \$25.0M.**

Nexgen & Business Telecom

- Client base comprises over **5,500 Australian SME's**, with an **average contract term 4.5 years.**
- **Organic growth: +100 sales team members instantly join Spirit** to sell the existing Nexgen products and cross sell Spirit's Internet, Cloud, Voice, Mobiles and Cyber Security.
- Nexgen generates revenues under customer contracts of up to five years.
- Established in 2009 & comprises of the Nexgen and Business Telecom businesses.

Spirit & Nexgen



Run rate revenue
>\$140M per annum

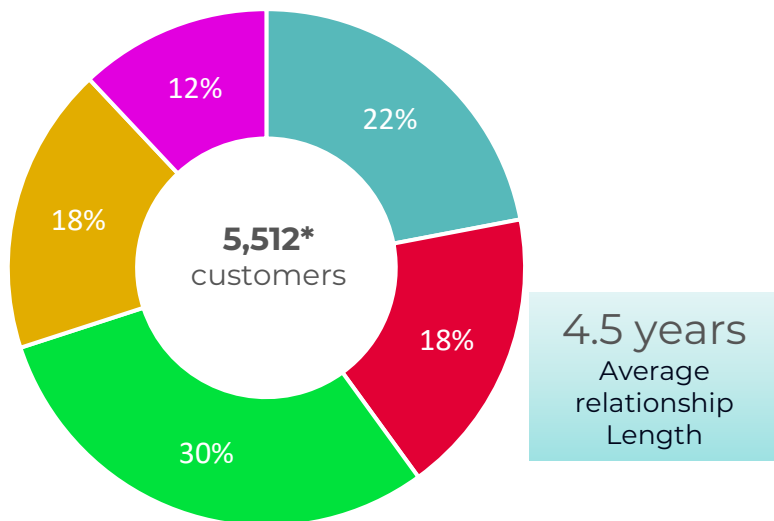


**> 10,500 B2B
customers nationally**

NEXGEN'S GROWING CUSTOMER BASE

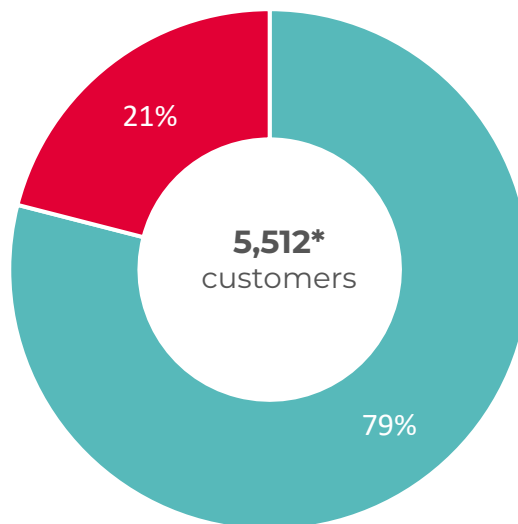
Nexgen's growth is sustained through new customer acquisition and low customer attrition

CUSTOMER TENURE



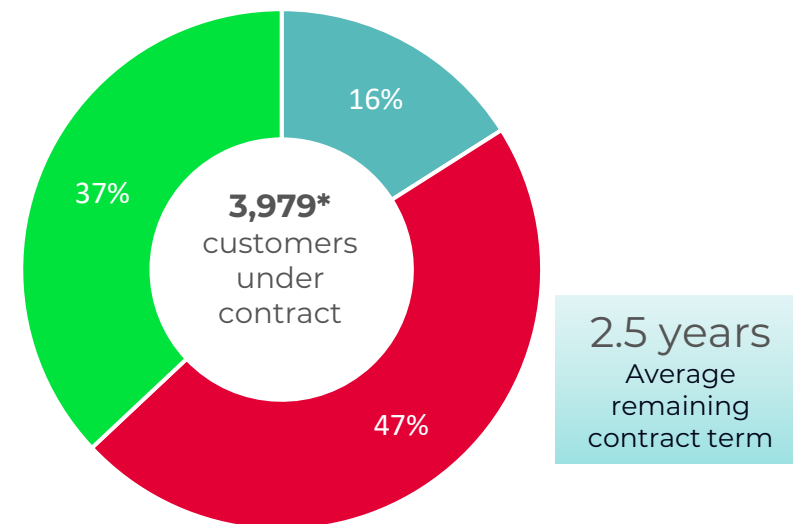
■ Less than 1 year ■ 1 year ■ 2 - 3 years
■ 4 - 5 years ■ Over 5 years

CONTRACT STATUS **



■ Customers under contract
■ Month-to-month contracts

REMAINING CONTRACT LENGTH**



■ Less than 1 year ■ 1- 2 years ■ 3 - 4 years

*No of "active billing" customers as at 8 May 2020.

**As at 1 June 2020.

COMBINED SPIRIT & NEXGEN – NATIONAL SCALE DRIVING ORGANIC GROWTH



Run rate revenue
>\$140M per annum



**> 10,500 B2B
customers nationally**



Combined **> 140 Spirit &
Nexgen Sales People** –
driving organic growth



>350 resellers selling
Spirit products



National advertising:
TV, Digital, Sky News,
Airport Media, Foxtel,
& Billboards



**Competitive advantage
across Telco & IT**
products = Techo
demand driven growth



Winning **large
Corporate accounts**
nationally via combined
IT & Telco products



**Recurring revenues
at \$65M-\$70M**

COMPLEMENTARY PRODUCT SETS

Nexgen delivers tailored, innovative, end to end business communication services, providing Spirit with cross sell opportunities



NETWORK SOLUTIONS

- Nexgen offers a full suite of customised communication services and plans across multiple providers, networks and technologies.
- Nexgen simplifies the myriad of options and functionalities available in the Australian market, including; PSTN, ISDN, SIP (VoIP and hybrid VoIP), DSL, NBN and Fibre and hosted (UCaaS) offerings;
- **Voice:** local, national, international and calls to mobile,
- **Mobile:** vendor independent mobile plans from a large number of underlying service providers,
- **Data:** business internet plans (including ADSL 2+, midband, NBN and high-speed fibre).



COMMUNICATIONS INFRASTRUCTURE

- Nexgen provides a broad range of equipment and software technologies that facilitate communications across multiple modes and from multiple locations and/or devices.
- Communications infrastructure includes;
 - Cloud/IP communications technologies'
 - Modems'
 - Switches'
 - Conferencing equipment.

NEXGEN OPERATING MODEL IS SALES, MARKETING & SERVICE FOCUSED

Nexgen's success is underpinned by its proven sales, customer service and operating processes which will be migrated into Spirit to drive organic growth across it's Data, Cloud, Cyber and IT Services range



Nexgen sources sales leads from multiple sources including:

- Purchased databases and other lists,
- Referrals (including from industry groups and associations),
- Marketing and advertising (including website optimisation and paid searches).

Inbound and outbound leads are assigned to a new business or "Fresh" sales team to qualify:

- A team member calls the target, leading to a sales appointment (and subsequent sales conversion),
- Unsuccessful initial interactions are referred for follow up/"Hit" contact.

Nexgen onboards a customer following the execution of the sales agreements:

- Onboarding (which culminates in installation and customer acceptance) typically takes 21 days depending on the design, complexity and size of solution.

Every customer and prospect is tracked in Nexgen's CRM system:

- Sales teams are supported by robust CRM and management reporting systems that facilitate tracking of all contacts. The Company's CRM system includes over 300,000 NSW, QLD and VIC based clients and prospects.

Nexgen offers a single point of contact for client service and to ensure consistent engagement:

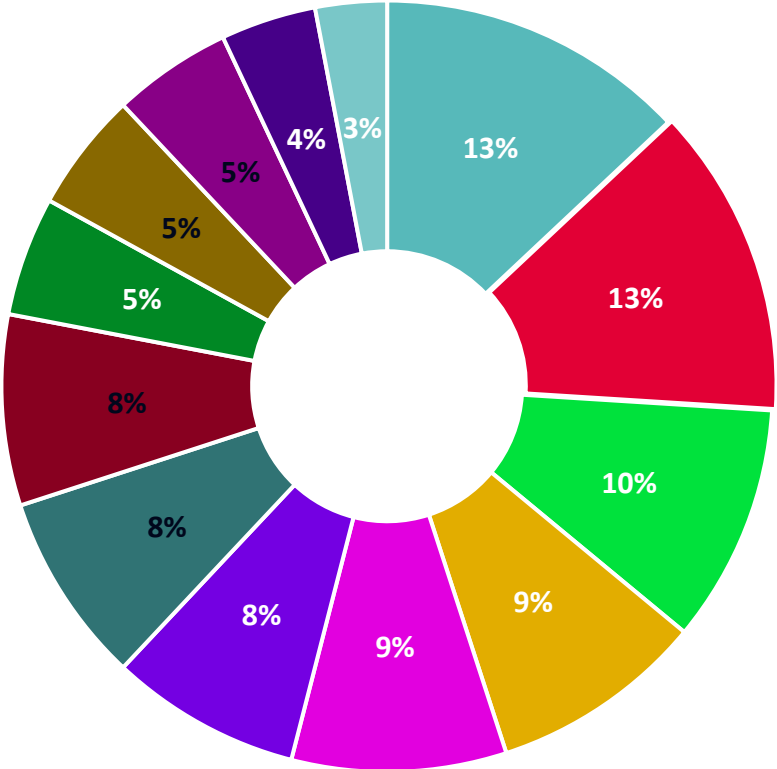
- Nexgen's 24-7 help desk provides responsive issue resolution,
- Courtesy and follow on calls are made to all customers on a regular basis.

NEXGEN CUSTOMER PROFILE

Nexgen has a large diversified and resilient customer base of over 5,000 SMB customers. When combined with Spirit this creates a portfolio of over 10,000 customers

NEXGEN CUSTOMER BREAKDOWN BY INDUSTRY *

- Medical and health care
- Construction and engineering
- Prof. Serv. - Finance, Acctg. & Legal
- Prof. Serv. - Other
- Manufacturing and industrial
- Other services - beauty services etc.
- Automotive
- Retail
- Wholesale, transport, and logistics



The Company's client base comprises a large proportion of professional service providers (including medical, dental, allied health, legal and finance companies) that provide essential services.

As a result, the Company's recurring revenue base is relatively resilient in the current COVID environment.

Nexgen's customer base is highly fragmented with the top 20 customers accounting for less than 4% of total revenues.

**The NextGen customer breakdown is based on a sample of 4,751 contracts originated during the period Jan 2017 – May 2020.*

GROWTH OPPORTUNITIES & SYNERGIES - NEXGEN & SPIRIT



Geographic and Sales Expansion

- Nexgen has significant opportunity to deploy additional sales teams (leveraging its proven sales and marketing processes) within new markets which include VIC, SA & WA.



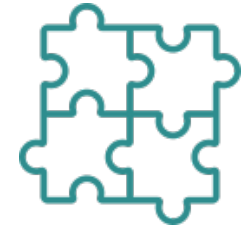
Partner & Reseller distribution

- Nexgen is establishing its own dealer network. The network will initially comprise of 5 or 6 independent dealers.
- The Company will provide training and back-end support to its dealers.
- A number of existing Telco licensees / dealers are disenfranchised with their current arrangements, and as such would be easily migrated to the Nexgen & Spirit platform.



Cross-Sell Spirit products

- **Nexgen will introduce a number of additional complementary products from Spirit including;**
 - **Microsoft Teams calling products,**
 - **Sell Internet/Data products from Spirit X Platform,**
 - **IT services, including Microsoft suite and cloud storage solutions, and**
 - **IT peripherals**



Extract Synergies

- Synergies across key operational systems and processes will be realised:
 - ERP,
 - Billing systems,
 - IT licensing costs,
 - Backoffice integrations.

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Building A Modern Telco For Business.