

ASX: CCG
ASX Release 28 May 2024

Comms Group Trading Update Q3 FY24

Comms Group Limited (ASX:CCG) ("Comms Group") is pleased to provide the following update for the quarter ending 31 March 2024 (Q3 FY24).

KEY HIGHLIGHTS

- The Comms Group business continues to perform well, showing positive overall growth in the 3rd quarter and with a strong financial position (unaudited) for the 9 months to 31 March 2024.
- Total group operating revenue was \$41.4m (unaudited) for the 9 months to 31 March 2024 (pcp \$38.8m).
- March 2024 revenue was ~ \$5m, a monthly record for the business.
- Group underlying EBITDA was \$5.1m (unaudited) for the 9 months to 31 March 2024 (pcp \$3.5m) and compares to full year FY23 underlying EBITDA of \$4.8m, highlighting the continued strong profit growth across all areas of the business.
- Group margins continue to remain strong at circa 48% and have increased compared to the previous corresponding period of 47%.
- Comms Group reaffirms its guidance for FY24 with revenue of \$53m to \$55m and underlying EBITDA of \$6.5m to \$7.0m.

CEO and Managing Director Comments

CEO and Managing Director, Peter McGrath said,

"We are pleased to see continued growth in the business and an increase in underlying EBITDA and are strongly encouraged by the results and opportunities of each of our three operating businesses including Global, SME telco (Next Telecom group) and ICT managed services (onPlatinum) with all three business units showing an increasing trend in monthly underlying EBITDA.

Across the business we are seeing positive outcomes in new business and enhancement of our core capabilities both in terms of new products, capabilities and geographical expansion into new markets.

Our global business has added significant capability across the Asia Pacific region allowing us to service more Tier 1 carriers, MNCs, large OTTs (over the top) providers and CPaaS and CCaaS customers with the great products and excellent service levels, for which we are known for in the marketplace.

¹ **Underlying EBITDA** is presented to provide an understanding of the underlying performance of the Group's operations. It reflects the results generated from ongoing operating activities that excludes non-operating adjustments considered to be non-cash or non-recurring in nature. These exclusions include net interest, tax, non-cash share LTIP costs, depreciation, amortisation and acquisition, integration and restructuring costs.

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We continue to receive excellent feedback from key customers across all areas of the business and are consistently achieving excellent Net Promoter Score (NPS) targets.”

FINANCIAL OVERVIEW

- Unaudited total group operating revenues for the 9 months to 31 March 2024 was \$41.4m (pcp \$38.8m) and includes \$17.9m from SME, \$9.3m from Global and \$14.2m from ICT.
- Unaudited Group underlying EBITDA for the 9 months to 31 March 2024 was \$5.1m. This is after corporate overhead costs of \$1.8m for the 9 months to 31 March 2024. Full year corporate overhead costs are expected to be around \$2.4m.
- Bad and doubtful debt expenses remain low, and the business has no legal issues on foot.
- The business continues to actively manage supplier costs in light of cost pressures in the economy. Group margins continue to remain strong at circa 48% (pcp 47%) with group gross profit of \$19.8m for the 9 months to 31 March 2024 (unaudited).
- We are seeing opportunities to lower our supply costs as our buying power increases that will improve margins on key products and services. We are in discussions with carriers and partners, particularly around our NBN and voice capabilities, which we will continue to explore into FY25.
- In line with actively managing costs, the business has taken the opportunity to rationalise office space in Sydney, moving all Sydney-based staff across all businesses to one location. The Sydney lease expires at the end of December 2024, whereby the Company will decide whether to renew or move to another location. The two offices that have been rationalised in Sydney (Pitt St and 56 Clarence St) in the last quarter, will result in savings of approximately \$0.7m pa in lease and outgoing costs. The “make good” costs (already paid) to exit these properties was approximately \$0.25m. Total property lease costs for the Group are now circa \$0.6m pa.
- Operating expenditure has been held largely flat at \$14.7m for the 9 months (pcp \$14.8m) compared to \$9.8m for the 1st half FY24 – a good result considering cost increases in the economy and despite wage and other operating cost pressures.
- The Company had cash at bank of \$3.3m (unaudited) on 17 May 2024 and \$7.9m of term loan debt (after the repayment of \$0.8m in the 9-month period).

BUSINESS UNIT UPDATES

1. Comms Group Global

The global business is a key provider of IP voice and UC (unified communications) solutions for end customers (enterprise and MNC's) as well as regional and global carriers, CPaaS (communications platform as a service) providers and CCaaS (contact centre as a service) providers who bundle our services into their solution.

The Global business also owns and operates a domestic (Australian) voice network which delivers wholesale voice, UC, International and Domestic Call Termination to both enterprise and wholesale service providers including our domestic businesses, Next Telecom and onPlatinum.

We service our customers via our extensive global state-of-the-art SIP-based network which includes key points of presence (PoPs) in key regions: Sydney, London, Frankfurt, USA (East & West), Singapore, Japan, Philippines, Indonesia, Hong Kong, China and South Korea. We have recently stood up further PoPs in Brazil and South Africa which are expected to be online shortly.

The service offerings we provide include unified communications (Microsoft Teams & Webex Calling) and cloud PBX services, SIP trunking services, call termination services (domestic/in-country) and the resale of telephone numbers (DIDs).

The Global business continues to add key capabilities in terms of product, geographical reach, resources, systems and core network coverage. This is designed to differentiate ourselves from our competitors and deliver the very best levels of service to our customers - many of which are global businesses in their own right.

Total services in operation continue to grow rapidly with more than ~18.8 million minutes carried across the network in the month of March. Comms Group Global delivers more than 105,000 voice services (including Microsoft Teams seats, Global SIP Trunks and Hosted PBX extensions) and a further ~ 206,000 Global DID (Direct Inward Dial) services under management worldwide.

Comms Group Global has commenced a project to add Operator Connect (OC) capability to our existing foundation of Microsoft Teams (PSTN) calling. Our goal is to be a leading OC provider with a key strength in the Asia Pacific region, leveraging our existing extensive country coverage and telco licences into the OC marketplace.

In relation to our key strategic partnership with Vodafone, the business continues to add key customers to our global network via Vodafone. We have developed bespoke products for Microsoft Teams calling, SIP Trunking, Managed Services and are currently finalising plans to supplement Vodafone's global voice coverage with the first of a number of new deals in closing stages. This includes the first stage of services deployed to a major Australian Bank, over 3 years with additional stages expected to follow.

We have added significant automation and systems capabilities for Vodafone and have employed additional resources in London and Singapore to grow the Vodafone relationship, particularly in APAC, Europe and North America. We have a strong pipeline of opportunities being worked on by both companies and we are committed to assisting Vodafone become a leading unified communications provider globally in the Enterprise/MNC market.

With additional resources in Singapore, we have secured partnerships and additional customers into the APAC region in the quarter and continue to develop relationships with Tier 1 carriers across multiple Asian markets to provide services to their enterprise customers. We are also engaged with a number of large Contact Centre as a Service (CCaaS) providers who are seeking reliable IP voice services across the Asia Pacific region for in-country applications typically targeted at medium and large enterprises. Comms Group

Global is one of the few carriers in the Asia Pacific region that has such an extensive reach of coverage, PoPs and licences.

Total revenue for Global for the 9-month period was \$9.3m with gross margin of 52% and underlying EBITDA of \$1.6m (unaudited). The underlying EBITDA position excludes rent in line with AASB 16.

2. Key Asia Pacific Licencing Capabilities Enhanced

Comms Group is pleased to announce that it has obtained a number of key telco licences over the last 9 months that provides the business with the regulatory protection and rights to provide the types of services we offer. In addition, we have set up either local subsidiaries or branches to enable us to operate and provide the local voice and unified communications services in the markets where we operate.

As of May 2024, Comms Group, via its 100% owned local subsidiaries, has voice licences (or equivalent regulatory rights) to provide local voice and UC services in the following key countries:

- Australia
- New Zealand
- Singapore
- Hong Kong
- Indonesia
- Japan
- Malaysia; and
- Taiwan (branch established, licence in progress)

In addition, we are currently working on finalisation of a VoIP (voice) reseller licence in the Philippines which we expect to finalise and announce shortly. This will be a significant breakthrough for Comms Group. This is a key market for the Company with demand from a range of players including global telcos, OTT providers, CCaaS and CPaaS customers. We will be the first foreign telco to obtain such a licence.

The relevance of these licences is that large enterprises and the global contact centre and OTT providers want to deal with licenced providers so that they can rest assured that the provider has the right to provide the service. The Asia Pacific market is complex in terms of the regulatory position for the provision of voice telco services with a variety of different regimes in place across the region. Unlike the USA, UK and Australia, many of the markets have restrictive arrangements in place.

In a number of other countries in the Asia Pacific region, Comms Group has partnered with local providers allowing us to provide the services co-operatively to extend coverage within the region. This includes the likes of China, South Korea, Thailand and Vietnam. We will continue to explore adding additional countries to our list of licenced countries including outside of the Asia Pacific region.

3. Next Telecom (SME – Mid Market Telco)

Next Telecom is a leading Australian domestic SME/Corporate mid-market Telco incorporating all of our SME telco businesses (including Comms Choice, Binary Networks, Switched-On Australia and Next Telecom).

For our data and internet services, we service customers nationally via our own ISP network with key Points of Presence (PoP) in Brisbane, Sydney and Melbourne. This enables us to procure Business Grade Fibre and NBN services from key wholesale providers and develop our own product offering. Operating our own network provides us with operational efficiencies as well as cost benefits resulting in higher margins for the business.

Whilst key operations are in NSW, VIC & QLD, the business services customers nationally. We will investigate further expansion into other states where opportunities present themselves. We sell our services via a strong direct sales force and an extensive partner network of approximately 140 partners/resellers promoting Next Telecom branded product.

Key in demand products and services include Business Grade Fibre and NBN Broadband services, Microsoft Teams calling, and Teams value added services. We are also seeing strong interest in contact centre, Teams calling and Teams Video conferencing services.

Next sold circa 760 Broadband data services (business grade fibre and NBN) and circa 1600 voice and unified communications services in the 9-month period. A key deal signed in the 3rd quarter was for the provision of up to 600 NBN services for a major infrastructure provider. 320 of these services have been ordered so far.

For the 3rd quarter FY24, Next continued its previous strong new sales levels with a total of \$0.8M in new annual recurring revenue (ARR) of sales contracts signed. Total ARR for the 9 months was \$2.3m of new sales contracts signed.

Total revenue for the 9-month period was \$18.0m with gross margin of 43% and underlying EBITDA of \$3.3m (unaudited). The underlying EBITDA position excludes rent in line with AASB 16.

Analysis of underlying profitability of Next shows expected maintainable annualised EBITDA of circa \$5m. This includes revenue to be added from newly ordered services, circa \$0.2m margin from work in progress synergies (supply side cost reductions) that are now expected to be delivered early in FY25 and \$0.3m margin from re-allocation of domestic corporate customers currently residing in the Global business.

4. onPlatinum (ICT Managed Services Provider)

onPlatinum is a leading IT Managed Service Provider supporting corporate customers' ICT needs, with key offices in the Gold Coast Qld and Sydney.

The business strategy focuses on securing recurring revenue through managed services contracts, typically spanning three-year contract periods. While we prioritise managed services over IT consulting or project-based work, we remain committed to delivering essential projects and IT upgrades for our existing managed services clients. Our estimated recurring revenue currently stands at circa 80%.

Additionally, we observe promising opportunities in the mid-market corporate sector. These companies are increasingly adopting best-of-breed modern workplace solutions and enhanced security measures. The impetus for this shift comes from the demands of remote work, unified communications and the need to fortify IT environments against security threats.

In Q3 FY24, we achieved positive revenue synergies between our onPlatinum and Next business units. We secured a managed services IT contract for an existing Next customer in the food services industry, resulting in increased revenue from \$55,000 per annum to over \$200,000 per annum, with a gross margin of approximately 50%. Additionally, we've successfully secured several cross-selling deals between customers of the respective business units.

The business also took the opportunity to refine supplier costs for its core cloud services platform and expects to save circa \$0.3m in annual costs on this platform, providing further upside for the business.

onPlatinum delivered some new managed services contracts in the quarter for a number of key customers won YTD. The total new sales for the 9-month period YTD FY24 is \$1.8m ARR.

Total revenue for onPlatinum for the 9-month period was \$14.2m with gross margin of 49% and underlying EBITDA of \$2.1m (unaudited). The underlying EBITDA position excludes rent in line with AASB 16.

The underlying profitability of the business continues to improve. In Feb 22, the onPlatinum business had underlying EBITDA of ~ \$1.6m annualised and at the end of FY23, we reported to the market that this had increased to ~ \$2.5m. Analysis of underlying profitability of onPlatinum, shows maintainable annualised EBITDA of greater than \$3m is expected once a number of newly ordered services are delivered and the cost reductions outlined above are implemented. The underlying EBITDA position excludes rent in line with AASB 16.

FY24 total revenues for onPlatinum are expected to see a significant increase over the FY23 revenues.

STRATEGIC REVIEW UPDATE

The Company has continued discussions on the potential sale of one or more business units as a way of bridging the gap between the market value of Comms Group Limited and the Board's view of the underlying value of the Company and its respective business units.

The Board will only progress a sale of one or more parts of the business where that option delivers demonstrable value to shareholders.

At this stage, we are not able to recommend any specific option to shareholders due to the uncertainty as to whether a specific transaction can be concluded at an appropriate value and also taking into account the continued strong performance of the overall business.

As such, the Board has put the strategic review process on hold for now and will continue to review opportunities as and when they arise.

OUTLOOK

Comms Group is pleased to reaffirm its FY24 guidance of Group revenue in the range of \$53m to \$55m and underlying EBITDA expected to be in the range of \$6.5m to \$7.0m.

Authorised for release by the Board of Comms Group Limited.

ENDS

FOR MORE INFORMATION

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ABOUT COMMS GROUP

Comms Group provides a full range of IT and Communications services from the Cloud including IT managed services, cloud hosting, cloud communications and UcaaS services.

The company is delivering on its three key strategic growth pillars of International, Domestic - through the **Next Telecom** and **onPlatinum** brands and Wholesale and Partner services.

Domestic SME/Corporate Services (branded Next Telecom and onPlatinum) – domestically the group delivers a vast array of comms services for businesses including, data services (Fibre, NBN), IP voice, inbound/toll-free, wrapped into an award-winning state-of-the-art service layer as well as an extensive range of ICT services including managed IT services, cloud and security services.

Global Services (branded Comms Group Global) – Comms Group Global uses its cloud based global business phone platform and its global Microsoft Teams telephony calling platform to provide fully managed key UCaaS and CPaaS services for customers in multiple regions internationally. We cover 65 countries for full PSTN replacement and another 30+ countries via on premises solutions/carrier partners.

We also offer key wholesale services and leverage our international network to deliver services to key wholesale and partner customers globally.

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