

ASX RELEASE

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ASX Market Release

MSL executing on strategy, delivers strong revenue growth & continues innovation in MPower Platform – FY18 results

MSL Solutions Limited (ASX: MPW) (**MSL** or the **Company**) is pleased to announce its full year results for the financial year ended 30 June 2018 (**FY18**).

FY18 Results Highlights

- **Total revenue and other income of \$35.1 million is in line with forecast. Operating revenue of \$33.6 million is up 44% on the prior year (20% attributable to organic growth), driven by increased sales and penetration of MSL's MPower Technology Platform internationally;**
- **Recurring revenues of \$15.8 million in FY18, representing 47% of total operating revenues, is up 31% on the prior year. Annualised recurring revenue as at June 2018 is \$16.8 million, providing a strong platform for top-line growth in FY19;**
- **FY18 is the first year that half of total operating revenue was generated offshore;**
- **Strong balance sheet, with no debt and cash reserves of \$6.6 million;**
- **Continued strong innovation program with regards to the MPower platform, with \$5.7 million spent on Research & Development, 17% of operating revenue, all expensed above the EBITDA line; and,**
- **Adjusted¹ NPATA of \$5.6 million, up 93% on the prior year; the business also generated positive operating cash flow. Statutory NPATA was \$4.6 million, up from a NPATA loss of \$6.9 million in FY17. Net profit after tax was \$88k compared to a loss in the prior year of \$11.0 million.**

Commenting on the result, MSL CEO Craig Kinross said: "MSL has a niche in a very large, and growing, fragmented global market of technology providers in the sport, leisure and hospitality industry.

We are very pleased to report this strong set of results. We continue to work hard executing on our strategy to deliver customer growth within Australia and overseas, with the company generating half of its revenue from international customers for the first time this year.

We continue to invest in, and innovate, our unique MPower Connect Platform that is redefining sport, leisure and hospitality venues. MPower's modular architecture allows us to add further modules to each customer as required by them, more easily integrate with strategic partners and quickly add synergy value to bolt-on acquisitions.

We now have approximately 2,400 clients in over 25 countries. We are reinvesting in our premium iconic customer brands for growth and are excited by the significant opportunities that exist in the global market to accelerate our revenue growth. Industry trends and our Company fundamentals signal a very positive future for MSL."

¹ Adjusted EBITDA and Adjusted NPATA excludes significant expense items of \$0.9m predominately relating to transaction related expenses, and includes other income from the release of an earn out provision (FY18: \$0.5m, FY17: \$0.7m) and gain on the sale of Zuuse shares (FY18: \$0.6m, FY17: Nil). The prior year result was restated for revenue and expense allocation (refer to Note 1 and Note 5 of the financial statements). In addition, the Company's NPAT benefited from a revision to the useful life of acquired intangible assets in FY17, resulting in a lower amortisation charge compared to forecast, and the income tax benefit for FY18 was enhanced due to higher than forecasted R&D tax concessions and foreign based income at lower corporate tax rates.

Financial Performance

MSL has made significant progress during the year, delivering new sales in Europe, Australia, UAE, Asia and the United States. Additionally, the Company remains focussed on progressing its acquisitions, securing quality customers, improving productivity, managing costs with discipline and investing in its people and technology.

Operating revenue was \$33.6 million for the financial year, which is in line with expectations. During the period, \$15.8 million, or 47% of operating revenue, was recurring revenue, which represents a continued and consistent upward trend.

Within these recurring revenue streams customer support annual fees increased 25% to \$9.2 million and SaaS/Subscription fees increased over 41% to \$6.6 million.

MSL revenues have a seasonality skew to the second half of a financial year. This financial year 41% of revenues were recognised in the first half to 31 December, and 59% in the second half of the year. This is due to the buying patterns of customers for enterprise software being greater in the lead up to the end of financial year, and in the UK this period aligns with the off-season for major stadia clients.

During the year, MSL brought forward investment in product development and overseas expansion, spending \$1.4 million above forecast guidance to take advantage of future growth opportunities in the international markets.

The FY18 Adjusted¹ EBITDA was \$5.2 million, up 148% from the prior corresponding period. The FY18 Adjusted¹ NPATA was \$5.6 million, up 93% on the prior period.

MSL delivered positive operating cash flows of \$0.4 million for FY18. We would expect operating cash flow over time to approximate NPATA. The impacts on the cash flow in the 2018 financial year included \$1.6 million of prior year IPO-related expenses incurred in Q1 2018, \$3.0 million in payments on FY18 sales deferred post 30 June 2018 and \$0.6 million on transaction expenses.

Strengthening Innovation

MSL has continued to invest in research and development with regards to its proprietary MPower Connect Platform. MSL invested \$5.7 million during FY18, approximately 17% of its operating revenue, which will be commercialised in the future. The Company's policy is to expense all research and development costs above the EBITDA line, despite many comparable companies capitalising R&D and then amortising this spend over a period of 5 to 10 years.

This investment was primarily in the areas of:

- Cloud membership, gamification and loyalty;
- Mobile point of sale alternatives i.e. PoS anywhere, anytime on any device;
- Cloud golf solutions;
- Data insights and intelligence; and
- Real-time analytics.

Acquisition Strategy

We believe growth by acquisition to be an efficient and relatively low-cost growth strategy to build our presence and expand our customer base. MSL has demonstrated a strong track record of acquiring quality and complementary bolt-on businesses and integrating these into the core MPower Connect Platform to add synergies.

During the year, we successfully completed the acquisitions of Pricap Services Pty Ltd and the assets of Xcite Media. The Pricap acquisition enhances market share and delivers cross-selling opportunities for both MSL and Pricap existing customers. The Xcite Media transaction further strengthens our solutions that improve the intentional guest experience at a venue.

The Company is currently at advanced stages with various acquisition opportunities and looks forward to providing an update in due course.

Outlook

MSL will continue to execute on our growth strategy set for the next four years.

Over this period the Company expects to maintain historical organic revenue growth rates of 15%+, whilst also expecting to double this growth annually on average in coming years with strategic acquisition opportunities.

The company is targeting a customer base of over 5,000 venues in this 4-year period, whilst continuing to grow MPower Platform solutions at existing customer venues, thereby increasing our average revenue per customer.

Over time, we see our business scaling and driving functional excellence to achieve NPATA margins above 30% in line with comparable companies in international markets.

We expect the seasonality skew of 60% of our revenues generated in the second half of the financial year to continue in the coming year with profitability generated in the second half of the year. Looking forward we will influence smoothing of this skew with increases in our recurring revenue base and expansion into markets such as the US that have a calendar financial year end of 31 December.

In the near term, our focus is to reinvest some of our profits in FY19 into targeted opportunities, designed to accelerate our revenue growth in future periods. These opportunities include:

- Opening of the world golf market with the unification of world handicapping in 2020;
- UAE region leisure and hospitality venue pipeline associated with Expo 2020;
- US market expansion through leveraging recent customer wins and our iconic stadia references in Europe and Australia;
- Growth of retirement living venues around lifestyle assets such as golf courses and bowls clubs with operational requirements mirroring club member-based organisations; and
- Evolution of technology for sport associations along the lines of the federated golf model in Australia serving association needs down to grass roots venues.

MSL looks forward to providing more detail on our FY19 guidance at the AGM scheduled for November 2018.

Results Conference Call

An investor briefing and Q&A session to discuss the FY18 results will be held at 10:00am (AEST) today. Dial-in details to participate in the conference call:

Toll free (within Australia): 1800 908 299
Australia local: +61 2 9007 8048
Conference ID: 230499

For further information, please contact:

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About MSL Solutions Limited

MSL Solutions Limited (ASX: MPW) is an Australian based global provider of hosted, software as a service (**SaaS**) and on-site deployed solutions to clients in the sport, leisure and hospitality sector. MSL services member organisations across APAC, EMEA and North America through its MPower Platform.

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MSL has a head office in Brisbane and offices in Sydney, Melbourne, UK and Denmark. To discover more about MSL please visit www.mpowermsl.com.

About MPower Platform

MSL's MPower Platform connects member organisations' business software and data needs to improve guest engagement, loyalty, gain business efficiencies and improve governance. MSL provides scalable full venue business software applications and data solutions integrated through the MPower core integration architecture. This means that MSL can provide solutions to both small and large organisations and associations. MSL provides cloud-based SaaS, hosted and on-site deployed software, data and loyalty/media solutions.

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