

M2 Results Presentation (1H11)

For the half year ended 31 December 2010
Vaughan Bowen, MD/CEO



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Goal

To be the pre-eminent provider of telecoms services to Australian small and medium businesses (SMBs) and to reseller telecoms services providers (SP's)



Fast Facts About M2

Through organic growth and selective acquisitions, M2 has delivered nine consecutive years of both revenue and profit growth

Founded 1999, listed on ASX 2004, entered S&P/ASX500 in 2010

More than 400 team members across 7 cities nationally. Retains founding Board & management team

\$500m+ in annualised revenue. Approximately 1% telecoms industry market share

Minimal network infrastructure. Technology flexibility. Low capital expenditure

Nine consecutive years of growth in earnings, EPS and DPS

In the 11 years since its incorporation, M2 has become the largest network independent telco in Australia



M2 Group structure



Full suite of services



Retail & Wholesale brands



Target markets

SMB's
(predominantly)
+ consumers

Reseller telecoms
service providers



Strategic Platforms

Focused Markets

- ❑ Core retail market: Small and medium sized businesses (SMB's)
- ❑ Core wholesale market: small and medium sized telecoms service providers (SP's)
- ❑ Secondary markets: selected consumer segments and mid-sized corporates

Customer Experience

- ❑ Customer satisfaction surveys returning excellent and improving results
- ❑ M2 Telecom's net promoter score is +38
- ❑ Southern Cross Telco's net promoter score is +48
- ❑ Billing / operating systems investment to further improve customer experience

Team

- ❑ M2's team culture at the core of the Company's success
- ❑ Comprehensive Team Member Benefits Program

Technology & Suppliers

- ❑ Long standing wholesale supply arrangements with major infrastructure owners
- ❑ Infrastructure "lite" = in low capital expenditure, low exposure to technology change risk or stranded network assets

Channels to market

- ❑ Exclusive Commander channel in dedicated territories Australia wide
- ❑ Rapidly growing People Telecom channel with Australia wide presence
- ❑ 500+ people representing M2-owned brands and offerings across all channels



The M2 brand family

COMMANDER®
Connecting Business



Trusted brand.
Bundled telecom
services with
equipment for Small
and Medium sized
Businesses and small
corporates.

people
TELECOM



'Challenger' brand,
offering personalised
service and tailored
telecoms for Small
and Medium sized
Businesses.



southern cross
TELCO



Regional focus,
offering full suite
of telecoms to
consumers and
Small Office / Home
Office businesses.

m2wholesale®



Offers wholesale
telecommunications
services to small and
mid-sized telcos and
Internet Service
Providers.



Key achievements 1H11

- ❑ Delivered record financial result; net profit up 40% vs previous corresponding period
- ❑ Further expansion of earnings margins via business efficiencies and improved wholesale buying economies
- ❑ Solid organic growth (70% of total growth organic, 30% via acquisitions)
- ❑ Expanded People Telecom & Commander dealer channels
- ❑ Record Net Promoter Score* achieved across all M2-owned brands, with Southern Cross Telco highest at +48, amongst highest in industry
- ❑ Successful integration of Clever, Bell Networks and Black+White (NZ) acquisitions

* Net Promoter Score is a management tool used to gauge the loyalty of a company's customer relationships and how likely they would be to recommend a company to friends, colleagues and family.



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Priorities for FY2011

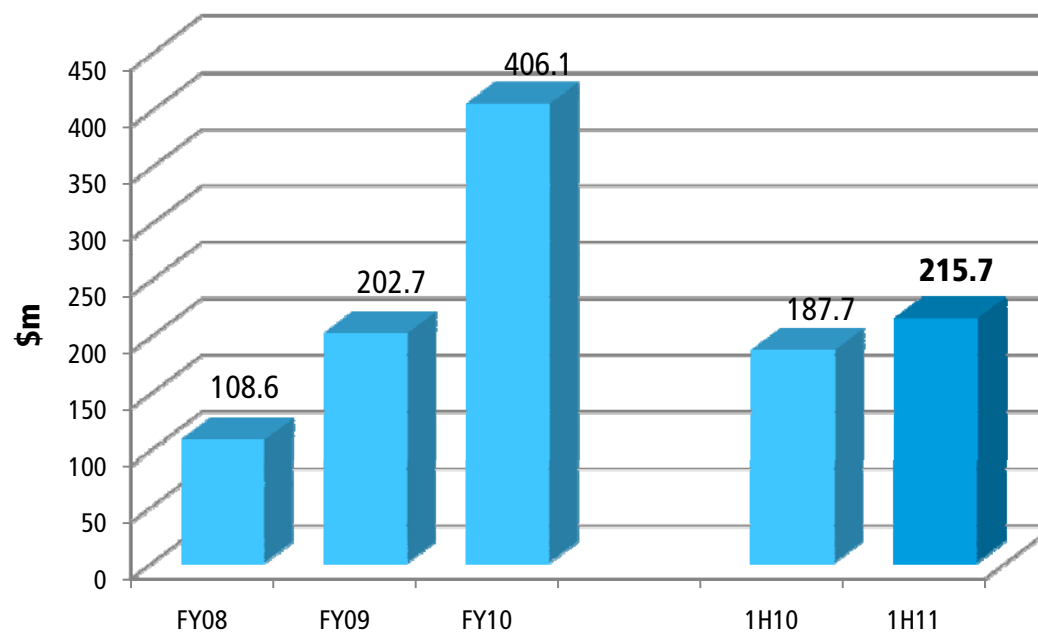
1H11: Record earnings, up 40%

<i>\$m</i>	1H11	1H10	% Change
Revenue	215.7	187.7	Up 15%
EBITDA	20.1	15.3	Up 31%
EBIT	17.4	12.7	Up 37%
EBIT (underlying)	19.0	14.1	Up 35%
NPAT	11.5	8.2	Up 40%
NPAT (underlying)	13.1	9.6	Up 37%
EPS (cents)	9.3	7.5	Up 24%
EPS (cents, underlying)	10.7	8.7	Up 23%
Dividend (cents, ff)	7	5	Up 40%

** Underlying EBIT, NPAT and EPS results each include an add-back of a non-cash cost of \$1.6 million, comprised of amortisation costs associated with customer contracts acquired in the relevant period (in accordance with Australian Accounting Standards)*

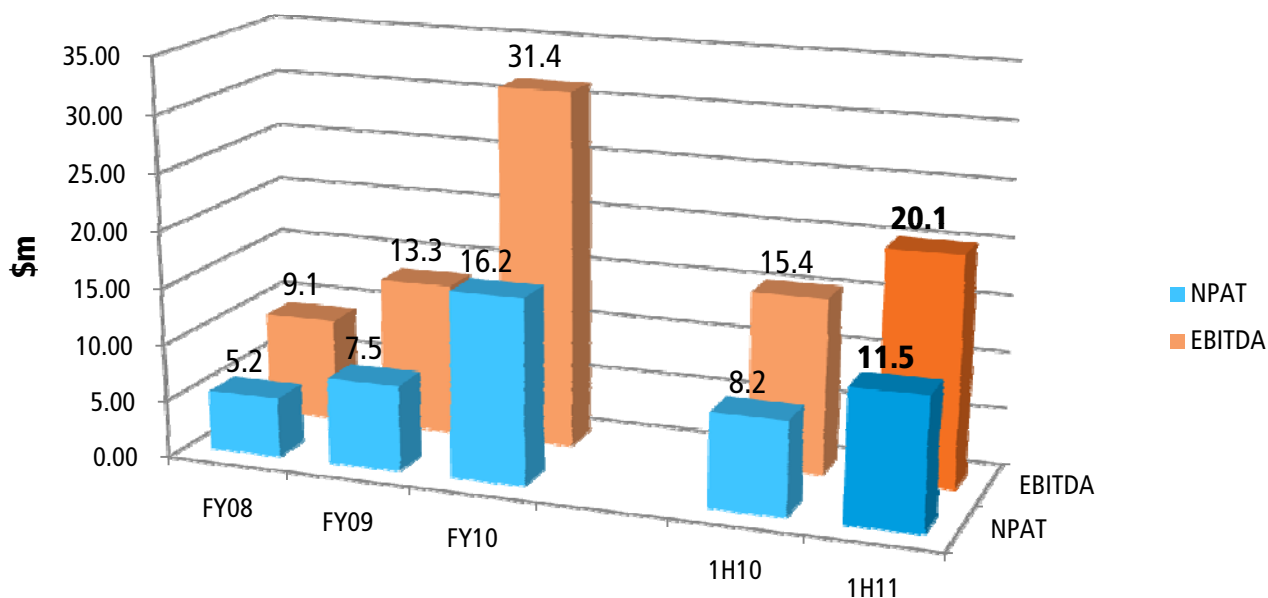


Revenue: Strong organic growth



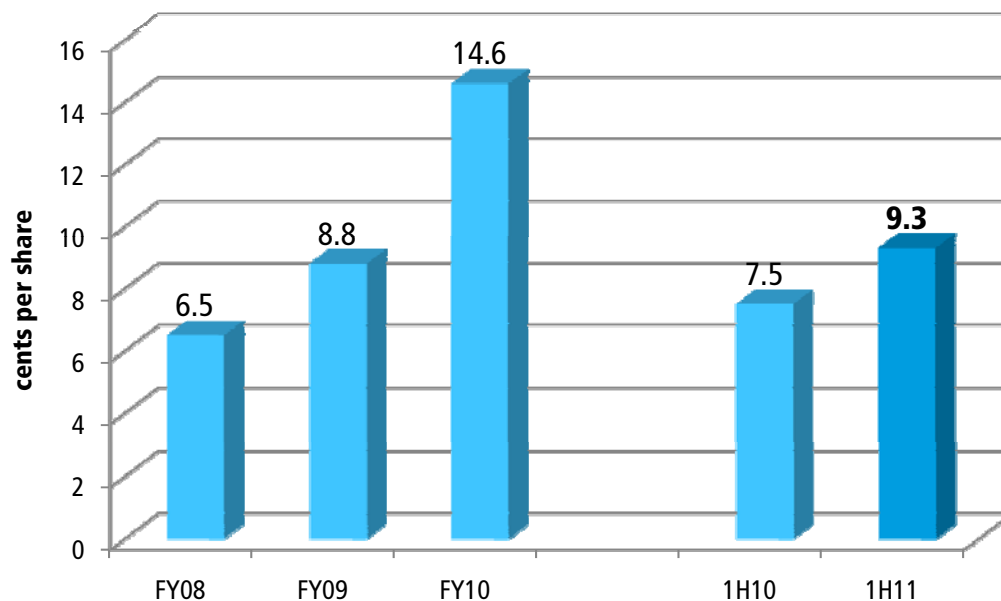
- Consolidated revenue up 15%
- 70% of revenue growth organic

NPAT & EBITDA: New highs



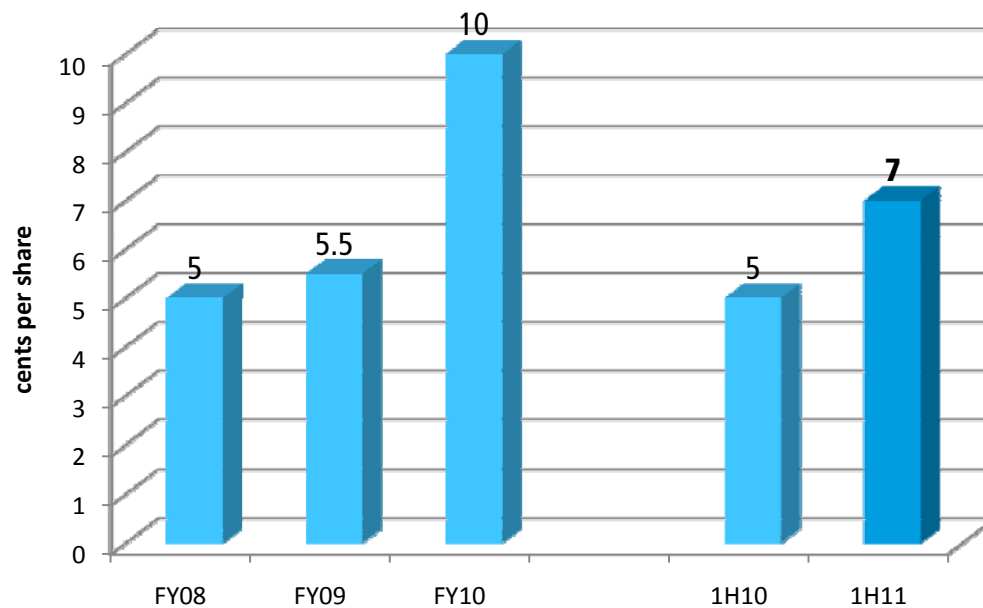
- NPAT increased 40%
- EBITDA increased 31%

Earnings Per Share up 24%



- ❑ Strong EPS growth notwithstanding issue of approx 11% new MTU shares since previous period

Dividend Per Share up 40%



- Strong earnings and cash-flow improvement drive substantial dividend increase

Balance sheet

<i>\$m</i>	31 Dec '10	31 Dec '09
Cash at bank	19.54	5.47
Total assets	171.98	142.95
Total liabilities	87.88	64.44
Net assets	84.10	54.30
Net tangible assets	7.25	(21.77)
Net cash	5.53	(9.57)

- ❑ Strong balance sheet with positive net cash position
@ end of period

Guidance FY2011: NPAT up 40%

<i>\$m</i>	2010(a)	2011(f)	% Change (midpoint)
Revenue	406.11	425 – 445	7%
EBITDA	31.41	41.0 – 42.5	33%
NPAT	16.16	22.0 – 23.5	41%
NPAT (underlying*)	18.54	25.2 – 26.7	40%
EPS	14.57c	18.1 – 19.4c	29%
EPS (underlying*)	16.7c	20.7 – 22.0c	28%

** Underlying NPAT and EPS guidance each include an add-back of a non-cash cost of \$2.38 million, comprised of amortisation costs associated with customer contracts acquired in the relevant period (in accordance with Australian Accounting Standards)*

Key Investment Metrics (@ 25 Feb '11)

No. of Shares	122,855,336
Share Price	(\$3.54 @ 25 Feb '11)
Market Capitalisation	\$435 million
Dividend Policy	70% NPAT
FY10 Dividend	10.0c
Div Yield (based on FY11 Guidance)	3.66%
PE Ratio (based on FY11 Guidance)	19.1x
PE Ratio (underlying)	16.8x
Substantial Institutional Shareholders	Hunter Hall
	Pengana Capital
	Cornish Group

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Acquisitions

Acquisitions in the 6 months to 31 Dec '10

		
Date acquired	4 Aug 2010	3 Nov 2010
Consideration	\$3.7 m	30% share of M2NZ
Revenue (annualised)	\$13m	\$5m (M2NZ combined)
Rationale	SMB focus in line with M2 core strategy	Growth of NZ business
Purchase Multiple	2x EBITDA	N/A

- ❑ 8 strategic acquisitions completed in the 4 years 2007 – 2011
- ❑ Further “bolt-on” acquisitions being actively considered

Acquisitions after end of period

		Austar mobile assets
Date acquired	1 Feb 2011	22 Feb 2011
Consideration	\$24.5m	\$2m
Revenue (annualised)	\$70m	\$10m
Rationale	SMB focus in line with M2 strategy	Bolt-on customer base acquisition
Purchase Multiple	3x EBITDA	1.5x EBITDA

- ❑ Two acquisitions were completed after balance date: Clear Telecoms, M2's largest transaction since the acquisition of Commander; and the mobile assets of AUSTAR, a bolt-on of mobile customers

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Win more customers!



- ❑ Australia-wide dealer channel (as above). 500+ people representing M2 core brands (blue = Commander dealers; pink = People Telecom dealers)
- ❑ Intensive development program introduced to further equip dealer channels to procure more customers, including structured sales training, lead generation etc

Other priorities for H211

- ❑ Progress engagement with NBN, both directly (NBNC0) and through existing wholesale supply relationships.
- ❑ Build upon strong progress in customer Net Promoter Score results via advancing team learning, development & training
- ❑ Complete development and preparation for initial deployment ("Phase 1") of new Business Support System (BSS)
- ❑ Continue to drive operating efficiencies and scale economies
- ❑ Advance discussions/negotiations with additional complementary acquisition targets

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Thank You

