



23 September 2019

ARQ GROUP LTD (ASX: ARQ)
Trading Update, CEO Transition, and Strategic Review

Arq Group Limited (**Arq Group**) is advising the market of a change to its full year guidance following a marked deterioration in trading conditions for its Enterprise division. Arq Group is also announcing that it has appointed Macquarie Capital (Australia) Limited to undertake a strategic review to explore all avenues for shareholder value creation.

Revised Guidance

Market conditions in the Company's Enterprise division have softened markedly and it has become clear that forecast revenue growth for the second half of 2019 will not be achieved. Cost reduction initiatives will be insufficient to offset the revenue shortfall.

As a result, Group underlying EBITDA is expected to be in the range of \$16.8m to \$19.3m (compared to previous guidance for the Group of \$27.0m to \$30.5m).

Enterprise Division

The guidance provided in June 2019 anticipated growth from existing and new accounts and unfortunately this is tracking below expectations. In addition, a number of existing customers are reviewing their expenditure, during which time they are pausing existing work or deferring the commencement of new work. These headwinds coincide with an increasing focus on costs across a range of sectors including banking and finance, aviation and telecommunications.

As a result, revenue in the Enterprise division in the second half of 2019 is expected to be flat when compared to the first half.

Margins in the Enterprise division have been adversely affected by an overhead structure that is appropriate for a larger business. Since late June approximately \$1.2m of overhead costs (on an annualised basis) have been removed. An additional \$1.1m of annualised costs are expected to be removed over the remainder of this year. These cost measures will make a small positive contribution to underlying EBITDA in 2019 and will contribute to a stronger performance in 2020.

As a result, underlying EBITDA for the Enterprise division for the 2019 financial year is now expected to be in the range of \$1m to \$2.5m (compared to previous guidance for the Enterprise division of \$12m to \$14.5m).

SMB Division

The SMB division is trading in line with previous forecasts of between \$9.7M and \$10.7M of Core underlying EBITDA for the 2019 year. The sustained recovery in sales of high ARPU digital marketing services has continued over July and August and September is on track to be another strong month. The compounding impact of this sustained growth in subscription revenue will deliver a return to top line growth in digital marketing services.



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Strategic Review

Recently, the Company has received informal and preliminary approaches from parties interested in discussing value creating opportunities relating to both the Enterprise division and the SMB division. In light of this, the Company has appointed Macquarie Capital (Australia) Limited to undertake a strategic review, exploring all avenues for maximising shareholder value.

CEO to Step Down

As the strategic review may culminate in the sale of parts of the Company, leaving a smaller, less complex business, our CEO, Martin Mercer and the Board have agreed that he will be leaving the business in a transitioned and orderly process. Mr Mercer has resigned as a director of the Company effective immediately and the search for a new CEO is underway.

Tristan Sternson has been appointed as Interim CEO whilst the search is in process. Tristan is founder and Managing Director of Infoready and has been with Arq since the acquisition of the business in April 2016. With previous roles at PWC, Accenture and IBM, Tristan has strong professional services experience in the Enterprise market.

In commenting on Mr Mercer's departure, Arq Group Chair, Mr Andrew Reitzer, noted that "over almost six years, Martin has led a major re-shaping of the Company. We have grown from a team of approximately 250 people selling domains and hosting services to a team of approximately 750 people supporting businesses of all sizes in their digital transformation. On behalf of the board, I thank Martin for his leadership and wish him all the best."

For any queries, please contact Mr Andrew Reitzer:

Mr Andrew Reitzer
Chair

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About Arq Group

Arq Group, previously Melbourne IT Group, is Australia's leading digital solutions partner.

Arq Group is the dynamic space for smart thinkers. Creating unforgettable experiences, solving complex challenges, and providing seamless, end-to-end solutions – from design thinking to customer solutions, leading mobile, cloud and analytical insights, digital marketing to web design - Arq Group powers the growth of businesses, big and small.

Founded in 1996, Arq Group has evolved from the leading Australian domains and hosting business to a leading digital services partner. Today, the company builds and manages innovative channels to market for many of the country's largest enterprises, whilst simultaneously supporting half a million small businesses throughout their online journey.



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