



13 November 2019



## ARQ GROUP LTD (ASX: ARQ)

### Strategic Review and Revised Guidance

Arq Group Limited (**Arq** or **the Group**) is providing an update on the strategic review and its revised guidance for full year 2019.

#### Strategic Review Update

Arq announced on 24 September 2019 and 16 October 2019 that, in response to inbound interest from a number of parties to acquire the Enterprise and SMB divisions, the Board of Arq determined to test the market for the sale of each of these divisions.

Preparations for the sale of either or both of the Enterprise and SMB divisions are progressing. Arq has, among other things, appointed due diligence advisers, distributed marketing materials to interested parties and signed a number of parties to non disclosure agreements.

Arq advises that it has been in discussions with its lenders regarding the breach of the net leverage ratio under its loan facilities. The lenders have been supportive in working through this situation and have waived the financial covenant breach on the basis of certain conditions and amendments to the loan facilities. This waiver will assist Arq to work through the strategic review, current performance issues and potential sales. The sale of one or both of the divisions would require the consent of the lenders. If the review results in a sale of one of the divisions, the application of the proceeds must be approved by the lenders. Arq intends that, subject to such approval, if the review results in a sale of one of the divisions, proceeds will be primarily applied to reduce debt.

#### Revised guidance for full year 2019

Arq's SMB division continues to perform in line with previous guidance of between \$9.7m and \$10.7m of Core underlying EBITDA for the 2019 year. Revenue for SMB is expected to be between \$65.0m and \$70.0m over the same period.<sup>1</sup>

Market conditions in the Company's Enterprise division remain challenging. A number of client opportunities expected to contribute to revenue in the final quarter of 2019 have been delayed, with a resultant strengthening of the sales pipe into 2020.

As a result, FY19 underlying EBITDA for the Enterprise division is expected to be in the range of a loss of \$1.0m to \$2.0m (compared to previous guidance of positive underlying EBITDA of \$1.0m to \$2.5m). Group underlying EBITDA is expected to be in the range of \$13.8m to \$15.8m (compared to previous guidance for the Group of \$16.8m to \$19.3m). As a result of the change in performance, Arq is conducting a review of the carrying value of the intangible assets associated with the Enterprise division and any impairment will be reflected in the FY19 results.

Arq currently expects the 2020 financial year to benefit from a strengthening of the Enterprise sales pipeline and the full year impact of cost reductions that have been identified as part of the review. A number of these cost activities have already been realised.

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**ENDS.**

1. SMB Direct. SMB Indirect excluded due to sale of TPP reseller (completed July 2019) and indication from remaining single customer who has indicated that they will materially reduce spend as previously disclosed.



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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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