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euNetworks Reports First Quarter 2014 Results

For the quarter ended 31 March 2014:

- Strong sales and installations performance, leading to recurring revenue growth in the quarter
- Continued improvement in gross profit, adjusted EBITDA and proxy cash flow
- Based on strong trading performance, euNetworks anticipates revenue growth at or marginally above market growth in 2014

London, UNITED KINGDOM – 8 May 2014 – euNetworks Group Limited (SGX: 5VT.SI), a unique Western European provider of bandwidth infrastructure services, announced results for the three months ended 31 March 2014. The Group reported a strong sales performance for the quarter, making the last two quarters the most consistent period of sales success in the company's history. Installations of services in Q1 2014 reflected this sales success, delivering the highest sustained period of new installations to date. This translated into recurring revenue growth, supporting the Group's growth plans for 2014.

(€k)	Q1 2014	Q1 2013	% change	Q4 2013	% change
New Sales	782.6	485.7	61	607.1	29
Installations	640.3	579.8	10	650.9	(2)
Monthly Incremental Service Revenue	155.1	260.1	(40)	153.8	1

(€m)	Q1 2014	Q1 2013	% change	Q4 2013	% change
Total Revenue	25.4	24.8	2	24.0	6
Recurring Revenue	*24.5*	*24.8*	*(1)*	*24.0*	*2*
Gross Profit	18.7	18.0	4	17.7	6
Gross Profit Margin %	73.5%	72.4%	2	74.4%	(1)
Adjusted EBITDA(1)	6.5	5.7	14	7.4 (3)	(12)
Capital Expenditure	6.8	3.6	(89)	10.7	(36)
Proxy Cash Flow(2)	(0.3)	2.1	NA	(3.3)	91

1. Adjusted EBITDA means EBITDA before the deduction of share option expense.
2. Proxy cash flow is calculated as Adjusted EBITDA less capital expenditure.
3. Q4 2013 includes €0.9m one off benefit from a reduction in provisions for the costs of returning properties to their original condition at the end of the lease terms.

Recurring revenue was €24.5m in Q1 2014, in line with Q1 2013 and improving from Q4 2013. With a one-time sale of €0.9m in Q1 2014, total revenue was €25.4m, growing 2% from Q1 2013 and 6% from Q4 2013.

Within euNetworks' revenue composition, Network services revenue grew 8% from Q1 2013 reflecting a growth rate higher than the expected market growth rate of 3-5%, (Analyst estimates) which indicates an increase in market share. Colocation revenues declined 20% in the same period, reflecting the large disconnections covered in previous releases. This also reflects euNetworks' continued successful commercial focus on Dark Fibre, Wavelengths, Ethernet and the euTrade service portfolio.

Gross profit was €18.7m in Q1 2014, up 4% from Q1 2013 and increasing 6% from Q4 2013. Excluding the €0.7m gross profit on the one-time sale, gross profit was in line with Q1 2013. This is a function of the loss of Colocation, which represented gross profit of €2.9m in the quarter. Net of this, core Network gross profit growth was €15.8m. Gross margin reached 73.5% in the quarter, up from 72.4% in Q1 2013. The Company expects this trend to continue given the focus on selling on-net high bandwidth services. Average gross margin on new sales was 93% in Q1 2014.

Adjusted EBITDA was €6.5m in Q1 2014, increasing 14% from Q1 2013. Excluding a one-off benefit of €0.9m incurred in Q4 2013, Adjusted EBITDA in Q1 2014 was in line with Q4 2013.

Capital expenditure was €6.8m in Q1 2014, 36% lower than in Q4 2013. This followed higher spend on network development projects in that period for which a portion of Q1 2014's sales success can be attributed. Capital expenditure was 89% higher in the quarter compared to Q1 2013.

Proxy cash flow was €(0.3)m in Q1 2014, down from €2.1m in Q1 2013 but improving from €(3.3)m in Q4 2013.

"The last two quarters have represented a strong improvement in the trading performance of the company," said Brady Rafuse, Chief Executive Officer of euNetworks. "We believe we have a value proposition that our customers appreciate, with a service performance that is industry leading. Our strong sales performance and sustained installation of services through the quarter have driven growth and we are confident these trends will continue into Q2 2014 and beyond."

"We wish to give our stakeholders greater visibility into how the business is performing and will perform in the future," said Rafuse. "To do this we are now also reporting the lead metrics we use to manage our business and providing forward looking guidance for the balance of 2014. From Q2 2014 we will also commence conference calls with stakeholders to cover our results and outlook."

Further review and discussion of the performance of the Group for Q1 2014 is set out on the following pages.

Operational improvements

euNetworks implemented a target account sales strategy in Q2 2013 to accelerate revenue growth. The company has a sales team dedicated to developing deep relationships with target customers, and through this, improving the service they receive and growing euNetworks' share of their total bandwidth spend. Strategic relationships and partnerships are being formed in certain verticals to drive longer term growth initiatives. Network development projects undertaken are aligned to the growth opportunities identified from this approach. The announcement on 6 March 2014 covering euNetworks' strategic relationship with Equinix Germany in Frankfurt and the associated investment in the company's Frankfurt Wavelength platform is one such example of this.

euNetworks also has a sales team who are charged with managing the large base of important customers outside of the target accounts. This team is focused on ensuring the company's core products are easily available to these customers and through this, growing revenue while managing the migration of customer's bandwidth services from non-focus products such as IP VPN. These are euNetworks' portfolio customers.

Since implementing this sales strategy, euNetworks has seen a strong uplift in sales performance which is a key leading metric for the business.

Lead measures of financial performance

Lead measures are indicators of the Group's future financial performance. These begin with the sale of new or replacement services to customers, or sales performance. New sales lead to the installation of services to customers and drive monthly incremental service revenue (MISR), with this dependent on cycle time – from customer contract sign to installation of the service. Cycle time varies based on whether the service is being installed at a site or data centre that is already on-net to euNetworks, or requires third party leased connectivity or construction to complete delivery. MISR is also impacted by the value of service disconnections and any price decreases associated with contract renewals made in the month with customers. This is the Group's churn in recurring revenue.

Sales performance

euNetworks has seen strong performance in average monthly sales in recent quarters. New sales in Q1 2014 were €782.6k, with only 4.3% of these then cancelled prior to delivery. Installations in Q1 2014, indicating the conversion of sales to billing incremental recurring revenue, were €640.3k, up 10% from Q1 2013 and down 2% from Q4 2013.

Churn

euNetworks has reported churn for a number of quarters, but the methodology used has not been in line with the industry and has overstated the impact this has had on the business. Historically euNetworks has reported churn by including service disconnections that are being replaced by new services as well as disconnections without replacement services and price decreases. The industry standard is not to include disconnections that are replaced by new services as churn.

Using this prior reported methodology, churn improved from 2.3% in Q4 2013 to 2.2% in Q1 2014. Reporting in accordance with the industry standard, churn in Q4 2013 averaged 1.0% of recurring revenue and remained flat at 1.0% in Q1 2014.

Monthly incremental service revenue (MISR)

Fundamentally MISR is the lead indicator for growth in monthly recurring revenue (MRR) for the business. Following the Group's sales performance over recent months, installations in the quarter, disconnections, price increases and decreases, euNetworks added €155k of monthly recurring revenue in Q1 2014. All else held equal, this will translate to a €1.5m increase in recurring revenue in 2014. It is important to note that MISR is not a direct corollary to reported revenue as it does not reflect the timing of each service starting or being disconnected or service credits, but remains a fundamental indicator of future performance.

Product, geography and customer mix

In Q1 2014 77% of new sales were for Dark Fibre, Metro and Long Haul Wavelengths, euTrade and Ethernet. This is slightly less than euNetworks would expect over time as there were significant Colocation sales in the period. The Group anticipates Dark Fibre, Metro and Long Haul Wavelengths, euTrade and Ethernet to represent >85% of sales on a going forward basis, with gross margins as experienced in Q1 2014 sales. Revenue growth in Q1 2014 was predominantly from Fibre, Wavelengths and the euTrade service portfolio, including those sales resulting from network investments made in Q4 2013.

The proportion of revenue generated by each operating geography has been stable over time, with continued growth from the United Kingdom and stable revenue from the Netherlands (excluding the known Colocation disconnection in Q2 2013) and Ireland. Germany is the largest contributor to recurring revenue, although overall, growth has been impacted by churn post the acquisition of LambdaNet.

euNetworks' segment view of its customer base is aligned with its target and portfolio account sales method in place today. While these segments are relatively settled given operating markets and footprint (Q1 2014: Wholesale 42% of MRR, Channel 22% of MRR, Finance 18%, Industry 7%, Online 5%, Media 4%), euNetworks anticipates that these will evolve further during 2014.

Creating value

euNetworks invests capital to create value, measured in revenue and EBITDA growth. The company continues to build out its European network and focus on short paybacks and good returns on investment when making capital allocation decisions. Growth capital expenditure (success based) and network development capital expenditure typically make up over 75% of capital spend each quarter.

Types of capital expenditure

category	description	typical payback
Growth	Capital expenditure that enables services for one or more customers and could also develop the network further	< 12 months
Network Development	Capital expenditure supporting deeper network coverage or expansion to drive opportunity. This is more speculative investment than Growth, but is based on qualified demand from the existing customer base and also market trends e.g. London metro expansion, London to Stockholm ULL optimisation	24-48 months project dependent
Maintenance & Capitalised labour	Capital expenditure required to maintain current operations. Capitalised labour accounts for the proportion of people's time spent working on capital projects.	Not applicable

Capital expenditure was €6.8m in Q1 2014, up from €3.6m in Q1 2013 and down from €10.7m in Q4 2013. Network development projects drove up capital expenditure in Q4 2013, with 46% of the allocation in the quarter. In Q1 2014, with these projects largely complete, network development was 24% of total capital spent. Growth capital was 53% in Q1 2014, up from 44% in Q4 2013.

Measuring value
When euNetworks allocates capital for growth, the payback target is less than half of the contract period. Such contracts typically run for 1-2 years. They target a payback of less than 6 months for the majority of these projects, with an IRR of greater than 30% and a **money multiple** of greater than 1. Money multiple (MoM) is the return from money invested (the net present value divided by the capital expenditure) and assumes a 10% cost of capital. A money multiple of greater than 1 is good. Through 2013, euNetworks averaged between 4-6 months payback on capital for incremental committed sales and this payback was 7 months in Q1 2014. The money multiple on the capital spend associated with the top 10 incremental committed sales in the period was 1.3.

For network development capital, euNetworks targets an IRR of greater than 30%. IRR is used as a metric for larger projects with a series of predicted cash flows. The company also consider NPV and a payback period targeting less than 48 months return for typical larger projects. The exceptions to this are 'unique' projects such as FTTx, where cash flows are highly predictable and so longer paybacks are acceptable.

Capital structure and value

Equity and Debt
euNetworks has undertaken a number of corporate activities associated with its listing on the SGX over the course of the last 12 months. These include the 2013 Convertible Bond maturing and conversion, the completion of a 50:1 share consolidation in May 2013 and also a share buyback in October 2013.

In 2013 euNetworks also secured a debt funding facility with Barclays Private Capital Partners. This facility was €45m, including €30m commitment to be used primarily for incremental growth and share buybacks. €15m of this initial term loan was drawn down, of which €4.6m was used for the share buyback.

In December 2013 Ares Capital Management purchased the Group's debt facilities from Barclays Private Capital Partners.

Value
euNetworks' strong sales performance and financial growth demonstrate value is being created from core assets. euNetworks' shares trade at low volumes, and at an EBITDA multiple below comparable companies. This highlights the potential for future value creation as euNetworks executes its strategy.

Forward looking guidance

With average customer contracts lasting one to two years and based on contracts in hand, euNetworks considers that it can achieve revenue growth at or marginally above total European bandwidth market growth, expected to be 3%-5% in FY2014. As euNetworks continues to scale, they expect to see gross profit grow at a slightly greater rate than revenue, and recurring Adjusted EBITDA grow at a slightly greater rate than gross profit. These improvements will derive from euNetworks' continued focus on high gross margin sales and cost management, which was evident in the last financial year and in the Q1 2014 results.

About euNetworks

euNetworks Group Limited (SGX: 5VT:SI) is a bandwidth infrastructure provider, owning and operating 13 fibre based metropolitan networks across Europe connected with a high capacity intercity backbone covering 38 cities in 9 countries. The Company offers a portfolio of metropolitan and long haul services including Colocation, Dark Fibre, Metro Wavelengths, Wavelengths, Ethernet, and Internet. Enterprise and carrier customers benefit from euNetworks' unique inventory of fibre and duct based assets that are tailored to fulfil their high bandwidth needs.

euNetworks Group Limited is headquartered in London and publicly listed on the Singapore Stock Exchange. For further information please visit www.eunetworks.com.

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