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17 November 2016

ASX Announcement

AGM – ADDRESSES FROM CHAIRMAN AND MANAGING DIRECTOR

CSG Annual General Meeting
17 November 2016

Speech by Stephen Anstice – Chairman

Before I invite CSG's Managing Director, Julie-Ann Kerin to address you, I would like to provide some introductory comments.

As captured in this year's results announcement and Annual Report, CSG produced a solid result in 2016. The highlight of the year was CSG's successful launch of its full suite of global best-of-breed Technology as a Subscription solutions and our 'One Partner. One Bill, One Cloud' proposition for Small to Medium Enterprises (SMEs). These results could not have been achieved without a lot of hard work by the entire CSG team. I would like to recognise the contributions made by all my fellow Directors, our CEO and her senior management team, together with all our valued employees for their effort and commitment to CSG being a growing provider of technology services in Australia and New Zealand.

I will now pass you over to Managing Director, Julie-Ann Kerin, to provide some further insights into the recent performance of the business and to expand on some exciting growth initiatives. Further to our announcement this morning in relation to the FY2017 trading update, Julie-Ann will also be providing an updated earnings outlook for FY2017.

Speech by Julie-Ann Kerin – Managing Director & CEO

Opening

Thank you for the introduction Stephen and I would like to welcome you all here today.

The 2016 financial year was a successful year for CSG and I am delighted with the progress we have made towards our strategic objectives. We are pleased with the continued transition of CSG into an innovative technology managed services business. In FY16 we saw significant growth in the delivery of Technology as a Subscription solutions to both our Business and Enterprise Solutions customers.

The financial results were pleasing with all business divisions achieving growth, with particularly strong performance in technology sales across Business Solutions and Enterprise Solutions.

More than you expect.

Financial achievements

For the full year, we had revenue of $246.6 million, which represented a growth of 10% on the previous corresponding period. Underlying EBITDA grew by 14% to $38.1 million. Underlying NPAT was up 20% to $25.6 million.

We also reported a 24% growth in our lease receivables book to $261 million.

FY2016 Operational performance

In FY2016, we successfully executed our strategy to transform CSG into a Technology as a Subscription provider, with 34% of equipment revenue in Business Solutions Australia derived from technology sales. Across the group, technology equipment revenue grew to 20% of total equipment revenue. We continued to sell technology products and services to our existing customer base, adding 307 new customers with an average equipment deal size of $62,000. Once again, Business Solutions Australia demonstrated the capability of the Master Agent channel to successfully sell a diversified product suite to the small and medium enterprise customer.

A key highlight of our success in technology sales for the year was the growth in our Display as a Service offering. This drove large transactions across retail, health care and the real estate vertical markets.

FY2016 was the first year that CSG re-entered the enterprise managed IT services space. The Enterprise Solutions division in Australia achieved revenue growth of 30% (pcp) through the addition of new Managed Print customers, including a major University and further growth in Queensland education.

Enterprise Solutions won its first Communications as a Service contract in Australia with a global financial services company with a Total Contract Value of $2.5m over 5 years. Enterprise Solutions also had success selling our Display as a Service offering, partnering with OneView Healthcare for display solutions at a major Australian hospital.

In September 2015, we completed the acquisition of CodeBlue, a New Zealand-based Managed Services business. In May 2016, we acquired PrintSync, a Western Australian-based Canon print solutions business with five offices in the region. The PrintSync acquisition will add approximately 1,200 customers to our Western Australian business and will allow us to sell the compelling range of CSG technology products into this customer base. In line with our previously stated strategy, we will continue to look for bolt-on acquisitions which add either a complementary customer base or capability to our business.

People

We recognise that our people and their diversity are critical to our success. The results we have achieved over the last few years are testament to the high quality staff at CSG across Australia and New Zealand and the contributions that they make to our business, every day.

Once again in FY2016, we issued $1,000 worth of shares to every employee participating in the Staff Share Incentive Plan. We are pleased with the uptake in the Staff Share Incentive Plan, which is seen to be a key driver in aligning staff performance to the business objectives.

FY2017 Trading update

Business Solutions continues to grow annuity Technology as a Subscription revenue in line with our stated strategy. We have had a soft start to 1H FY2017 performance as a result of lower than expected underlying EBITDA margin and restructuring our regional management to better align with our go-to-market model for our expanded product suite. CSG has now launched a Direct Sales channel in Brisbane and Melbourne, with the Sydney team to launch in early 2H FY2017.

Enterprise Solutions is growing in line with expectations with two new contract wins in 1H FY2017, including a new University customer. The business also continues to grow Communications as a Subscription sales.

Finance Solutions is performing in line with expectations. CSG has increased the leasing facility limit in Australia by $60 million to $180 million and has extended the facility duration with a maturity date of April 2021.

Revised FY2017 outlook and further guidance for 1H FY2017

As announced to the market this morning, CSG has upgraded its trading outlook for FY2017:

- Revenue guidance remains at greater than $300 million (22%growth on PCP)
- Forecast underlying EBITDA (excluding LTIP expense and start-up losses related to the launch of the Direct Sales channel) to be in the range of $38 to $42 million (previously $44 to $48 million);
- Launch of Direct Sales Channel in Business Solutions to result in a start-up losses of $3.0m. The Direct Sales Channel is expected to break even in 2018;
- Capital expenditure is expected to remain in line with previous guidance of between $6.0 - $6.5m;
- Pre-tax cashflow conversion is expected to be greater than 90%; and
- Return a minimum of 9 cents per share to shareholders, by way of a dividend and or buy back of shares.

In addition to the guidance provided for FY2017, CSG provides the following further guidance in relation to 1H FY2017:

- Forecast revenue of greater than $135 million. This represents ~16% growth on 1H FY2016; and
- Forecast underlying EBITDA (excluding LTIP expense and start-up losses related to the launch of the Direct Sales channel) to be in the range of $14-$16m.

CSG expects the underlying EBITDA margin to rebound in 2H FY2017 to deliver on the guidance range of approximately 12.5% to 14.0% for the full year.

Conclusion

Despite a soft start to 1H FY2017, we remain confident in the long term growth opportunity for CSG as well look to capitalise on our unique value proposition and first mover advantage.

There is still some way to go but we are committed to delivering significant growth over the medium to long term.

Thank you ladies and gentlemen.

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