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23 November 2017

ASX Announcement

CSG Annual General Meeting – Addresses from the Chairman and Managing Director & CEO

Speech by Stephen Anstice, Chairman

Good afternoon and welcome to the 2017 Annual General Meeting for CSG Limited. I am Stephen Anstice, Chairman of CSG.

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

As we continued our transition from a print services company to a Technology as a Subscription provider, FY2017 was a year with mixed results for CSG. Julie-Ann will elaborate on the challenges in respect to maintaining consistency in our traditional print business and the confidence we gained in our strategy through strong organic growth in technology subscription seats, proving both the market opportunity and CSG's ability to execute in the technology space.

In February of this year, Mark Phillips stepped down as a Non-Executive Director. I would like to take this opportunity to thank Mark for his significant contribution to the Board during his tenure and we wish him well for the future. We were pleased to announce the appointment of a new Non-Executive Director, Bernie Campbell, in September of this year. Bernie brings a wealth of experience in asset financing and his skills and experience will complement the existing skills on the CSG Board as we execute on our Technology as a Subscription strategy.

I will now pass you over to Julie-Ann Kerin, to further expand on the exciting strategic initiatives underway and to provide an update on the recent performance of the business in FY2018.

Speech by Julie-Ann Kerin, Managing Director & CEO

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

Before I provide comment on the FY2017 financial and operational performance, I want to first reflect on the transformational journey that our Company has been on. In July 2015, the restraint from the sale of our technology business that prevented us from competing in the technology sector ceased and CSG set out to build an innovative technology business. At that time, 100% of the Company's earnings were derived from print services. By FY2017, approximately 17% of our total revenue was derived from new, technology solutions and we are expecting to increase this to approximately 25% of total revenue by the end of FY2018.

Financial performance

In FY2017, the business delivered revenue of $244.5 million, representing a decline of 1%. Underlying EBITDA was $30.3 million representing a 21% decline and underlying NPAT declined by 24% to $19.4 million. The financial results for the year were negatively impacted by lower than expected revenue in our Enterprise Solutions business due to a shortfall in transactional equipment revenue.

We also reported a 2% growth in our lease receivables book to $266.3 million.

During the first half of FY2017 we returned $5.2m (approximately 1.6 cents per share) to shareholders in the form of a share buyback.

We also announced a non cash charge for impairment of $55 million. The impairment related to the carrying value of the goodwill associated with print assets in Australia and New Zealand acquired by the Company prior to 2011.

FY2017 operational performance

Although the financial results for the year were disappointing, we have made significant progress against our strategic and operational objectives as we execute on our strategy. In FY2017, CSG had strong growth in technology with subscription seats growing organically by 104% to approximately 27,300.

Revenue from Business Solutions was flat year-on-year driven by lower than expected sales heads during the year and sales productivity. Increasing the number and quality of sales people has been a key priority for the business in FY2018.

The Enterprise Solutions business had revenue growth of 3% relative to the prior corresponding period. Despite lower than expected revenue in the print sector, we continued to gain momentum in the technology sector with a number of Communications as a Subscription contract wins. Enterprise Solutions also added two new Virtual Contact Centre customers and three managed print contract wins.

The Finance Solutions business continued to perform in line with expectations to close lease receivables at $266.3 million. We continued to see a 95% conversion rate to CSG Finance products.

During FY2017, CSG also completed the restructure of the New Zealand business and parts of the Australia business. The restructure resulted in approximately $1.2 million of associated cost savings in FY2017, with annualised cost savings of $4.4 million from FY2018 onwards.

Strategic initiatives

During FY2017, CSG executed on a number of strategic initiatives that will help us deliver on our technology strategy. In a significant development for the Company, CSG amended its shareholder and distribution agreements with Konica Minolta Inc. in New Zealand in June 2017. These amendments allowed us to re-name the business in New Zealand and re-brand as CSG (previously Konica Minolta). Following the change, CSG is able to operate as a non-exclusive distributor of Konica Minolta products in New Zealand, allowing our sales force to go to market uninhibited by trading under the brand of a print manufacturer.

During the year, CSG completed two acquisitions in the managed IT space – R&G Technologies (a Brisbane based IT managed service company) and pcMedia Technologies (an IT managed services business focussed on the New Zealand education sector).

In FY2017, the Company entered into a partnership with Officeworks to provide technology subscription bundles to its customer base in Australia. CSG has also entered into a partnership with Bank of New Zealand which allows us to become a member of its Business Essentials Program to recommend our offerings to its Small to Medium Enterprise customers.

CSG has also signed an agreement with HP to sell print and technology products across Australia and New Zealand.

People

During the year, CSG completed a restructure of its management team. We made a number of key hires during the year including our Chief Financial Officer, General Counsel & Company Secretary and a Group Treasurer & General Manager of Finance Solutions.

In order to accelerate our growth in technology, CSG has brought on significant new capability into our senior management team. During the first half of this year, we have welcomed a new Chief Sales Officer who has joined us from IBM where he was most recently Managing Director of its digital, cloud and mobile business solutions across ANZ. We have also added a General Manager of Marketing who has a strong focus on supporting our sales activities and a General Manager of Service Delivery who will be responsible for managing service and deployment activities.

FY2018 trading update

We continue to progress against our strategic objectives in FY2018 as we focus on growing the adoption of our Technology as a Subscription solutions and we have experienced some good customer acquisition during the half.

The new executive team commenced at various times in the first quarter of FY2018 and have been getting up to speed with the people, product offerings and customers. It is expected that we will realise the benefits of this new team in 2H FY2018 as they gain momentum and bring their experience and skills to bear at CSG.

As always, the months of November and December are significant sales months for CSG and we have a solid pipeline which we are currently focussed on closing leading up to Christmas.

Shareholders should expect that our revenue and earnings will be more geared toward 2H FY2018 than in previous years as a result of the restructure of our sales and executive team and the continued transformation of the business into the technology sector.

FY2018 outlook & guidance

Our priorities for FY2018 are in line with our previously stated objectives and are focussed on accelerating growth in our technology business:

- Cross-sell Technology as a Subscription bundles to our existing SME customer base which has a total addressable opportunity of approximately 300,000 subscription seats;
- Focus the Enterprise Solutions team on converting our IT managed services pipeline and reduce focus on transactional print revenue;
- Support our channel partners, including Officeworks and BNZ, with the roll-out of Technology as a Subscription bundles to their customers;
- Continue to focus on stock management and distribution with the objective to reduce CSG's inventory balance and improve our working capital position;
- Grow seats through the pcMedia Technologies acquisition to become the primary Microsoft Cloud Solutions provider to the education sector in New Zealand;
- Re-brand our business in New Zealand from Konica Minolta to CSG;
- Develop our partnership with HP across ANZ; and
- Seek new channels to white label CSG's Technology as a Subscription solutions under a formal channel program.

For the FY2018 financial year, the Company re-iterates the following guidance provided at the release of the FY2017 financial results:

- Revenue growth of approximately 10%;
- EBITDA (before LTIP expense) to be approximately $30 million;
- High value[1] technology subscription seats of more than 24,000 up from 16,000, representing growth of over 50%;
- Low value[2] technology subscription seats of 16,000 up from 11,300, representing growth of over 45%;
- Pre-tax underlying cash flow conversion of > 100%; and
- Capital expenditure of $7.5 million reflecting increased investment in platforms to accelerate technology growth.

Thank you ladies and gentlemen.

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Further Information:

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[1] High value technology subscription seats refers to IT managed services seats incorporating multiple licences per seat relating to cloud communications, Microsoft Office, storage and other services. In FY2018, CSG anticipates an average recurring revenue per seat per month of ~$115.
[2] Low value technology subscription seats refers to IT managed services seats with a single licence per seat e.g. Microsoft Office. In FY2018, CSG anticipates an average recurring revenue per seat per month of ~$5.