



26 October 2017

2017 Annual Meeting: Chairman's Address

FY2017 Financial Result

The financial result for FY2017 was a net profit after tax of \$1.31 million a 29% increase from the prior financial year and the highest profit Solution Dynamics has ever recorded. Revenue was up 22.5% to \$20.0 million for the year, also a record, although the bulk of this growth was from lower margin outsourced services and postage revenue. Solution Dynamics' profit was earned with only modest one-off software licenses; our technology growth is increasingly from Software as a Service (SaaS) revenues and we expect this trend of growing SaaS revenues to continue. The Company's revenues in the UK and Europe are continuing to ramp up and gained 107% to \$2.9 million.

Solution Dynamics' net cash on hand continues to grow and was \$2.08 million at balance date. This is equivalent to almost 15 cents per share. However, shareholders should keep in mind that much of our printing and related equipment is financed under operating leases and consequently the Company carries more financial leverage than is apparent from the balance sheet.

The Company had a couple of negatives during the year. Firstly, we are generally continuing to find sales cycles for larger customers to be longer than anticipated, especially for larger domestic print and mail house opportunities and growth in this area has been lower than initially expected. Also, as mentioned in the annual report, one of our larger mail house customers changed its ERP system and as a result now produces and archives its invoices in house, in addition to reducing the average number of pages in its invoice mailings. This reduction in pages printed and loss of archival revenue constrained FY2017 profit growth and will cause a further residual drag on FY2018 profitability. Shareholders should also keep in mind that the steady erosion of print to electronic communications means that – on average – Solution Dynamics' print and mail volumes drop by around five percent each year, meaning the Company needs to gain some market share just to stand still. While there is benefit from processing the customer's electronic communication, the absolute dollar margins earned are much lower for electronic than for print and mail.

On the positive side the first new customer under our DMS arrangement with Fuji Xerox started to utilise our high-speed continuous print machine during the year. And a UK customer utilising a number of our software products was onboarded and is beginning to show strong growth, albeit still from a low base.

Solution Dynamics' dividends totalled 6.75 cents per share, fully imputed, for FY2017, up 1.5 cents or about 29% on the prior year. The Board reiterates its policy to pay dividends of around 70-75% of earnings, subject to no abnormal internal requirements for unusual capital expenditure items or acquisitions, as well as being able to fully impute any dividend. Capital expenditure for FY2017 was around \$200,000 which was mainly for IT hardware for backup and redundancy purposes plus a licence for specialised print formatting software.

Strategy and Market Review

The Company's strategy remains primarily on organic revenue growth as the optimal means of continuing to add shareholder value. We believe our competitive edge is in how we bring our



The basic building block of good communication is the feeling that every human is unique and of value.



software technology together with print to provide combined digital and paper solutions for our clients' communication needs. Most organisations are seeking ways to improve their customer interactions and therefore see the need for technology solutions as part of their overall communications requirements. Nevertheless, in addition to organic growth, there are opportunities for either bolt on acquisitions locally, or acquisitions that expand the Company's technology base. Given Solution Dynamics' strong balance sheet, the directors have examined a number of acquisition opportunities over the year and will continue to do so. Some of these opportunities remain works in progress.

We continue to make inroads into the UK and European markets with the Company's software solutions. During FY2017 the Company added additional sales and support resources in the UK to service that market and Europe. This was as a deliberate choice that resulted in a ramp up of costs to provide local support and demonstrate our commitment to existing and prospective customers. These additional costs had little impact on the FY2017 result, however, we will incur the full annualised cost in FY2018. The Directors believe the scale of opportunities is sufficiently large to warrant this additional overhead and in our view, the existing pipeline of opportunities fully justifies this decision, although I caution there is an inevitable lag between incurring the costs and gaining and ramping up new revenues.

2018 Outlook

In terms of Solution Dynamics' outlook for FY2018, we have previously provided guidance for expected growth in profit of around 15%. We are maintaining that guidance although note that trading for the first three months of the current financial year is behind budget. During July we noticed some slowdown in the level of domestic discretionary mail and development activity, which has historically been a reasonably consistent and regular revenue stream. While it always has some degree of month-to-month volatility, this slowdown has persisted to date. It is not clear whether the cause has been a degree of pre-election caution, or is indicative of a broader weakening in economic activity. Offsetting this, the Company has a solid pipeline of new business opportunities in train and the risk bias for our full year result outturn is likely to reflect whether the weakness in domestic discretionary spending persists versus the success and speed with which new customer revenues ramp up. A further update to the Company's full year outlook will be provided at the interim result early in 2018.

For further information, please contact:

John McMahon
Chairman
+61-(0)410-411 806

Nelson Siva
Managing Director
+64-(0)21-415 027