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Solution Dynamics

Solution Dynamics Customer and Trading Update 11 December 2018

Solution Dynamics (SDL or Company) has reached agreement with a US-based multinational provider of marketing communication services to SMEs, which will see SDL's technology interfaced with that company's software packages supplied to vertical markets in the automotive, medical, spa & salon and veterinary sectors globally. The agreement will see SDL's international hybrid mail and composition platform functionality included for rollout progressively to around 70,000 SMEs globally, utilising SDL's network of 300+ print suppliers across more than 50 countries obtained with the DTP acquisition earlier in 2018. The initial annualised revenues are expected to be around NZ$2 million based on current requirements and implementation will commence during December.

SDL notes that it has recently lost a NZ contract (flow-wrap and digital print), with the loss to take effect during the second half of the financial year. The contract was awarded to the incumbent offset print provider, as part of a tender for the client's entire business.

SDL is expecting to undertake a trial print run in April/May 2019, utilising the Company's international hybrid mail platform, for a portion of the printing for a multinational organisation. If successful, it is likely that this will lead to a contract to manage the client's entire global print and mail distribution, plus some mail-related scanning. The parties are presently finalising the details and terms of the trial print run. A full contract for all the organisation's global mailings would increase SDL's annualised revenues by more than 50%, however, there is no contract currently in place and there is no certainty that SDL will be successful. A further update on this will be provided if commercial circumstances change or when the trial print run is complete.

Second half FY2019 revenue and earnings will also be boosted by a significant one-off software development for an existing, major European client.

As previously flagged, the first half reported net profit is expected to be well down on the prior year and the Directors now advise the result should be around $0.2 million. The Company has undertaken a restructuring of its NZ operations to significantly reduce costs in the face of a more difficult local print and mail volume environment, however, the ongoing growth in international software and technology revenues has seen additional resources added to IT development and support staff which will offset about two-thirds of savings in the print and mail house business. Subject to the SME-related contract starting as scheduled and SDL successfully obtaining and executing the trial print run for the multinational organisation, the Company now expects that earnings for FY2019 will be approximately 15% lower than the prior year (previous guidance was for reported earnings to decline 5-10%) although with a stronger second half than the prior year.

The Company plans to issue ESOP shares to two key members of the IT team (80,000 shares each). These will be on similar terms to prior ESOP issuance with the ESOP strike price to be set following the release of this announcement.

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