2021 Annual Meeting Address 27 October 2021

FY2021 Overview

Solution Dynamics ("SDL" or "Company") produced a year of further earnings and operational progress in FY2021. It was pleasing to report a record net profit after tax of $2.03m and a record dividend to shareholders of 11 cents per share (fully imputed).

The Company's offshore expansion gained traction with US growth the particular standout. However, COVID constrained our direct sales efforts, especially to the small-to-medium business ("SMB") market in North America, and we will review our go to market strategy for the SMB segment during 2022.

SDL's software platforms continue to win new business. The post-on-demand (POD) solution allows customers to route mail correspondence, traditionally handled by companies on an in-house basis, to the Company's print partners. The Jupiter platform links a range of customer communication origin points with SDL's global network of print production and fulfilment services. There is clear customer demand for these solutions. SDL has a near-term development programme to improve integration amongst its various platforms, as well as building additional functionality to facilitate onboarding and self-serve capability for the SMB market in particular.

Ongoing revenue growth, mostly in North America, is mainly from increasing business from existing customers plus the geographic rollout of activity with customers such as Pitney Bowes.

SDL maintains a conservative balance sheet with net cash and has only lease-related debt (predominantly for leases on premises and print equipment). SDL's net cash position provides financial capacity for acquisitions, most likely aimed at delivering product or geographic expansion. The Directors will only proceed cautiously, on the basis that any transaction is expected to be value adding for shareholders, and with manageable financial and operational risks.

Software & Technology

SDL's Software & Technology revenue grew to around 70% of total Company revenue in FY2021. In addition to the traditional legacy software sales approach of licence fee and annual maintenance revenue (which SDL now has little of), the Company operates two main Software revenue models.

The first is the standard software-as-a-service ("SaaS") model where SDL earns revenue from customer volume activity, usually on a charge per-communication for cloud-hosted software. As these are enterprise contracts there is no single fee structure; some contracts have minimum charges, while others have sliding scales where the per-communication charge reduces as volumes move through tiers. The SaaS model has the customer managing its own communications delivery operations (i.e. print/mail, email, txt).

The other main model is where SDL provides a total communications solution. In addition to the SaaS platform, this includes service delivery of the communications output which is typically print and mail, but can also include email and texts. These contracts typically provide a bundled price for each item of communication and there is no separation of the SaaS and service delivery components. For all international customers, SDL uses third party providers (print, logistics, postage) and consequently, the service delivery component has much lower gross margins than the SaaS component.

FY2021 Financial Metrics

As the key result metrics table below notes, revenue growth in FY2021 was 4.2%, well below growth in FY2020 as a result of the more difficult NZ market and the impact internationally of COVID on some customers and volumes related to developing markets.

The cost of servicing and supporting a geographically diverse range of international customers has required the Company to build staffing levels over the past several years, and FY2021 saw additional hires for support, DevOps and implementation. This was partially offset by some staffing changes in the domestic business late in the year. The current level of staffing now appears sufficient to support the existing customer base; further cost growth is likely to be largely driven by new customer activity or any broadening in the range of software solution platforms offered.

Key result metrics ($figures are '000)	FY21	FY20	Growth Y/Y	CAGR (5-yr)
Total Revenue	**35,445**	**34,030**	**4.2%**	**16.8%**
Digital Print & Outsourced	10,810	12,018	-10.1%	-1.9%
Software & Technology	24,635	22,012	11.9%	40.8%
Gross Profit	**13,491**	**13,459**	**0.2%**	**13.8%**
Gross Margin	38.1%	39.6%		
SG&A expenses	9,277	9,105	1.9%	11.5%
EBITDA [a]	**4,214**	**4,354**	**-3.2%**	**20.0%**
EBITDA Margin	11.9%	12.8%		
Net Profit after Tax	**2,034**	**1,866**	**9.0%**	**14.9%**
Earnings per share (cents)	13.89	12.75	9.0%	14.0%
Dividends per share (cents)	11.00	9.00	22.2%	15.9%

(a) EBITDA (i.e. Earnings before Interest, Taxation, Depreciation, Amortisation and Impairment) is a non-GAAP earnings figure that equity analysts tend to focus on for comparable company performance analysis. The Company considers that it is a useful financial indicator because it avoids the distortions caused by the differences in amortisation and impairment policies.

Note that the prior FY2020 result contained two material one-off items that produced a net gain after tax of $0.23 million. Deducting this from reported earnings produces a normalised profit (note this is a non-GAAP measure) of $1.63 million for FY2020, which the Directors believe provides a more accurate picture of how the Company's underlying operations performed that year.

Cashflow from trading was $2.37 million, broadly similar to the prior year, and the closing net cash balance was $4.71 million although this contains some prepayment of postage by international customers (around $1.20 million).

The Company's FY2021 dividends totalled 11.0 cents per share (fully imputed), up from 9.0 cents the prior year. SDL's policy is to pay dividends at 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.

Effects of COVID

SDL continued its COVID-safe practices throughout the year, with temperature checks on all workplace attendees and use of split production teams. Many of the Company's staff worked from home where practical.

The Company estimates that COVID was a drag on revenue of very approximately 10-12% in FY2021, from ongoing disruption to communication volumes in a range of regions.

COVID has undoubtedly caused the decline in transactional mail volumes to accelerate. The main effect from this on SDL's international expansion is to slow the rate of growth we would otherwise be achieving. In the domestic print and mail business COVID is exacerbating the problem of excess capacity and some industry rationalisation is needed, although SDL, with a low cost structure, seems well placed to compete.

Strategy and FY2022 Outlook

SDL reconfirms prior guidance for FY2022 of a reported net profit around $2.5 million. There is some risk to the New Zealand component of earnings from the ongoing COVID lockdown, however, North America is performing well.

The Company has channel partnering discussions underway to obtain reach into the SMB segment and several vertical markets, although these have yet to reach conclusion.

Risks from COVID mean the outlook for the short to medium term still remains volatile. Further COVID shocks may result in lower than expected customer volumes or customers delaying decisions and projects. Along with COVID, the possibility of macroeconomic shocks could also cause significant variation in earnings outcomes for FY2022. The inability of NZ staff to travel offshore increases execution risk and hampers direct sales efforts.

The CEO, Mr Nelson Siva, is continuing to receive treatment for a medical condition. The Directors are conscious of ensuring the Company has suitable senior management support and succession plans in place.

The Directors advise that profit in FY2022 is expected to be biased towards a stronger first half, which is likely to be around 75% of full year guidance.