## 2023 Annual Meeting Address 19 October 2023

### FY2023 Overview

FY2023 was the first full financial year with Patrick Brand as Solution Dynamic's (SDL) CEO and produced a further record financial result. It was also the first financial year since COVID with no border closures. The effects from COVID were still apparent in some parts of the the business during FY2023, notably in international operations and the impact of physical mail volumes broadly as postal organisations globally continued to significantly hike postage rates. Postage cost pressure plays to SDL "digital transformation" sales strategy, although the gross profit SDL earns on a digital communication is significantly lower than on a comparable print communication.

A renewed focus on new business activity in New Zealand late in FY2022, following staff changes and a restructured sales team, delivered solid domestic growth over FY2023 despite very challenging conditions for the overall print and mailhouse market. These wins in New Zealand continued across FY2023, especially in the local authority sector where SDL has gained market share. International operations were more difficult, with SDL no longer participating in lower margin, commoditised activity. International sales have refocused on segments where the Company has competitive advantage, such as cross-border mail or domain knowledge such as in the global charity sector.

International revenue was modestly down, especially from ongoing weakness in US mortgage-related communications as higher interest rates further depressed housing finance activity, although this now seems to be finding a base, albeit at historically low volume levels. Volumes in the UK continued to steadily recover over the year but remain below pre-COVID levels.

The Company renovated its Auckland premises in H1 FY2023 and this assisted in improved return-to-office staff levels. COVID did not affect operations in FY2023. While the pandemic was a factor in skill and salary pressure across the technology sector over the last couple of years, this pressure had largely abated by financial year end.

SDL closed the year with net cash on hand at $6.6 million (approximately 45 cents per share). The Directors continue to maintain a preference for acquisition opportunities, most likely aimed at delivering product or geographic expansion and remain conscious that any transaction must add value to shareholders, with manageable financial and operational risks.

SDL secured an International Growth Fund co-funding grant from NZ Trade & Enterprise late in H1 FY2023. This runs for three years and will reimburse 50% of US market development costs to a maximum of $0.6 million. A condition of the grant is that SDL's dividend payout is capped at 50% (the cap includes distributions such as share buybacks) for the term of the agreement.

## FY2023 Financial Results

Despite ongoing headwinds in international activity, SDL generated a record net profit after tax of $3.4 million, up 34%, and dividends to shareholders totalling 11.5 cents per share (fully imputed).

| Key result metrics ($figures are '000) | FY23 | FY22 | Growth Y/Y | CAGR (5-yr) |
|---|---|---|---|---|
| **Total Revenue** | **40,385** | **40,127** | **0.6%** | **12.2%** |
| Digital Print & Outsourced | 11,958 | 10,324 | 15.8% | -23.3% |
| Software & Technology | 28,427 | 29,803 | -4.6% | 36.3% |
| **Gross Profit** | **15,986** | **13,941** | **14.7%** | **13.7%** |
| Gross Margin | 39.6% | 34.7% | | |
| SG&A expenses | 10,274 | 9,422 | 9.0% | 10.8% |
| **EBITDA** [(a)] | **5,712** | **4,519** | **26.4%** | **20.2%** |
| EBITDA Margin | 14.1% | 11.3% | | |
| **Net Profit after Tax** | **3,425** | **2,563** | **33.6%** | **20.8%** |
| Earnings per share (cents) | 23.23 | 17.41 | 33.4% | 20.5% |
| Dividends per share (cents) | 11.50 | 13.00 | -11.5% | 8.9% |

(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.

The Company also delivered record revenue of $40.4 million, up 0.6%. International revenue saw a drop off in low margin activity such as cyber security notices, which had become increasingly commoditised. This was partly replaced by higher margin international professional services and SaaS revenue.

While cost pressures continued, especially staff costs, SDL was able to manage staffing levels and also implement a general price increase across its New Zealand customer base. The price rise, along with improved revenue mix saw solid improvement in Gross Margin. SG&A costs were reasonably well controlled given inflationary pressures. EBITDA grew 26% to $5.7 million.

In addition to minor assistance from the NZTE grant, the FY2023 result was assisted by a modest R&D tax credit gain.

The long-term financial result trends continued their positive trajectory and SDL is pleased to have delivered record revenue, and profit in FY2023. Success never runs in a straight line and the global macroeconomic environment is highly uncertain. Strong macroeconomic headwinds mean the Company has its work cut out in FY2024, but the Board, CEO and all staff are aligned and focused on continuing to deliver results.

## Business Strategy

SDL's strategy remains unchanged; to progressively transform into a global business. The 2018 acquisition of Digital to Print (DTP) in the US was the foundational underpinning for our international growth strategy. FY2023 confirmed that the Company's differentiating value outside of New Zealand is enabling global customer communications as a service, unlocking significant customer cost savings while improving client engagement. SDL's international customers using our global platform are more profitable for the Company, while customers with a single country solution are generally less profitable and more at risk of insourcing or switching providers. The favourable mix shift to global customers was a key factor in FY2023's significant profit growth, but did increase customer concentration risk. The focus is to reduce this concentration risk by driving new global business.

This global strategy is driving a focus on key verticals with large-scale, global communications needs. This includes global charities and NGOs like World Vision, and most recently L'Arche, and global CCM platform providers such as Pitney Bowes. Global business process outsourcers have been added as a key vertical market based on a new contract with EY. SDL continues to refine the segments and applications where the Company believes it can win. The current international sales focus is on the global charity sector, plus global print and postage management which is complex and a "pain point" for organisations that undertake cross border mail.

Leading with digital transformation is not just an international strategy but a key differentiator in the New Zealand market where NZ Post has implemented several large (20% to 30% annually) increases in retail postage rates. The mail house market is expected to continue its decline and likely to consolidate (or some participants may exit) so it was particularly pleasing to see the New Zealand business generate growth in a declining market. The focus on new business driven by new talent and leading with "digital transformation" has paid off and continues to progress. SDL's software business and strong financial position is well positioned in the NZ market as a supplier of choice. SDL omni-channel solutions are supporting our customers total print and digital communications needs.

The Company has redesigned its website to better communicate its strategy and benefits it can offer, especially to key target market sectors.

## Go-to-Market Strategy

Direct face-to-face business to business selling has changed and SDL is increasingly leveraging digital transformation in our go-to-market channels. Prospects and partner channels commonly rely on the web to identify and qualify potential suppliers and partners. SDL recently updated its website to better aligned to the Company's strategy and target vertical markets, and is driving digital marketing campaigns both inbound and outbound, with some early wins. Traditional tradeshows remain an important way of reaching targeted audiences and SDL is exhibiting at tradeshows like NetHope, an NGO focused technology conference. Increasing awareness and building trust and confidence in the key target verticals is foundational to our strategy going forward. Although this has increased our sales and marketing costs, it is an important long-term investment.

### Global Customer Communications as a Service

Global customer communications technology delivered as a managed service is at the heart of what SDL does. Progress has continued to unify the Company's software products into a Global Customer Communications Hub. The integration of the "Hub", SDL's global postal management expertise and global service delivery network constitute the Company's Global Customer Communications Platform. The SDL "Platform" called DMC (Digital Mail Centre) leverages a digital workflow approach to ensure the right message gets delivered through the right channel and from the right location.

Customers are looking for end-to-end solutions covering digital and printed communications through one platform that operates seamlessly. New capabilities recently added include "Intelligent QR codes" to drive print customers to the web to view personalized content such as child sponsorship videos for an NGO customer. User experience improvements include single sign on across SDL and client applications. DMC was recently launched into the New Zealand market, leading with "digital transformation" and mobile first communications – this has driven new business wins with large councils and local government authorities.

### Case study: EY (formerly Ernst and Young)

EY is a case study on the value SDL provides in global distributed print in the "Know Your Customer" (KYC) market. KYC is an important regulatory requirement for most financial services firms, to reduce the risk of money laundering. Firms are required to validate customer information regularly and EY is providing KYC services to their marquee global financial services clients.

SDL and EY are rolling out a KYC solution starting in India and moving to North America and Europe. For example, by printing in India versus in the UK, postage and logistics costs have been reduced by over 80% for EY and their client. EY has also determined that response rates for KYC communications are higher for mail versus digital channels due to identity theft concerns. The SDL/EY partnership is pursuing futher opportunities to expand.

## FY2024 Outlook

New business momentum in New Zealand should deliver additional revenue in FY2024. However, this will only provide incremental gains for the Company and international sales success will be required to deliver meaningful growth from this point. The Company's international strategy is to utilise channel partners into the small-to-medium sized business markets and has refocused direct sales into a small number of key verticals such as global charities and large users of cross-border print and mail.

As previously advised to investors, SDL remains unable to provide FY2024 earnings guidance. The Company largest customer, a global charity, has indicated it intends to RFP tender its global communications programme work in early 2024, work that is currently provided by SDL. The customer has stated it is very satisfied with SDL's service quality and that the RFP is part of the customer's periodic review of its large contracts. This customer is very material to SDL's financial results and every effort will be undertaken to ensure the business is retained, although an RFP process will inevitably carry significant risk for the Company.

The rise in global interest rates has continued in recent months and it is difficult to see how this will not lead to further global economic slowdown.

SDL is trading broadly in line with internal expectations for the first quarter of FY2024.  The first half FY2024 result will be unaffected by the RFP tender and the Company expects earnings in the range of $2.0 to $2.3 million.