



## 2016 Annual Meeting: Chairman's Address

### FY2016 Financial Result

The financial result for FY2016 was a net profit after tax of \$1,016,000 a 26% increase from the prior financial year and the highest profit Solution Dynamics has ever recorded. Note that in FY2016, Solution Dynamics paid tax for the full year, unlike FY2015 when there was only a modest tax liability. The growth in the net profit before tax for FY2016 of \$1,439,000 was 74% on the prior year. There are several features of the result worth highlighting. This profit was earned with only modest one-off software licenses; our technology growth is increasingly from Software as a Service (SaaS) revenues meaning profitability is increasingly robust and this also provides the basis for further growth, subject to no major client loss. Secondly, our revenues in the UK are now beginning to ramp up and rose 303% to \$1,428,000 in FY2016.

Thirdly, the Company's net cash on hand continues to grow and is now around \$1.42 million. Shareholders should keep in mind that most of our printing and related equipment is financed under operating leases and consequently we do carry more financial leverage than is apparent from the balance sheet.

On the negative side, the sales cycles for larger customers are proving to be longer than anticipated, although the first large print run was successfully processed on our high-speed, continuous laser in October. The first new customer to utilise this machine is expected to start partial operation later this year and be fully onboard by early calendar 2017.

The final aspect of the result is Solution Dynamics' dividends, which totalled 5.25 cents per share for FY2016. This is the first time the Company has paid full year dividends with both an interim and final dividend. 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 having sufficient imputation credits to fully impute any dividend. The dividend payout ratio is capped at 75% under an agreement with NZ Trade and Enterprise under which NZTE is funding a portion of Solution Dynamics' UK market development expenses.

### Strategy and Market Review

The Company's focus remains firmly on organic revenue growth as the optimal means of continuing to add shareholder value. This has required modest capital expenditure on print-related equipment plus additional spending on software development during the financial year just complete, although capital expenditures are expected to be modest in FY2017. Organic revenue growth is coming from two sources. The first is ongoing market share gains in the New Zealand print and mail market, partially offset by the steady and inexorable switch from print to electronic distribution. The second is the growth in software services, whether development activity or the provision of Solution Dynamics' software through SaaS to new clients or expanded use by existing clients. Growth in



software SaaS revenues is especially pleasing and the UK market in particular represents a sizeable opportunity for the Company.

The print and mail industry as a whole remains in steady decline and the Company is not immune to this industry trend. We need to win some new business each year just to maintain our physical print and mail volumes. We believe our competitive edge is in how we bring our 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. New client wins we have achieved tend to validate this view, but declining physical volumes are seeing ongoing price and margin pressure as incumbent operators are increasingly prepared to drop their print prices to retain business.

Our achievements in FY2016 have mainly consisted of bedding down and seeing the early ramp up of DéjarMail in a large software supplier to the UK dental and veterinary practice markets, coupled with broader software sales efforts into the UK market. This resulted in another larger customer added late in the financial year and the process of progressively onboarding that customer is presently underway and will ramp up over FY2017. Both of these customers are likely to provide several years of growth and go some way to providing a critical mass of software revenue in the UK market.

Additionally, the company gained a couple of new print customers in late FY2016 and early FY2017, although this will be partly offset by reduced volumes from one large customer which is rationalising the size of mailings to its customers.

The UK market for the Company's software solutions deserves particular mention. Establishing the initial foothold via distribution through a dental and veterinary software supplier has already delivered significant growth and provided additional unrelated new business. Coupled with industry contacts, particularly from our director, Mr Elmar Toime, Solution Dynamics has an exceptionally strong pipeline of opportunity that appears increasingly likely to deliver further, and material, upside over the next few years. The Company is presently addressing how best to resource sales and operational requirements to take full advantage of these opportunities and it is entirely conceivable that there may be a deliberate choice to ramp up short term costs in the UK although no decision has yet been taken and any effect from these choices is unlikely to have much effect on FY2017 results.

**2017 Outlook**

Trading for the first three months is ahead of budget. Nevertheless, meeting our full year targets still requires an element of new business wins and achieving the expected rate of ramp up by new clients to meet our earnings expectations. The positive start to FY2017 does give a greater degree of comfort around our forecast for earnings growth of around 25%.

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