



## **Release to Australian Securities Exchange**

**13 November 2014**

### **AGM 2014 Presentations**

Redflex is pleased to release the Chairman's Address and the Chief Executive Officer's Presentation that will be made at the Annual General Meeting being held today at 1:00pm in the Conference Centre at the offices of Computershare Investor Services, 452 Johnson Street, Abbotsford.

For further information:

Marilyn Stephens  
Company Secretary  
Redflex Holdings Limited  
[marilyn.stephens@redflex.com.au](mailto:marilyn.stephens@redflex.com.au)  
+61 3 9674 1712

## CHAIRMAN'S ADDRESS

I am pleased to report that Redflex continues to move forward, however there remains much work to be done. FY14 represented an important transition period as we focused on stabilising our North American business. In addition, the Board and management have focused attention on a number of forward-looking initiatives, completing significant work to position Redflex to enter FY15 with a clearly defined growth strategy and a leaner cost structure more appropriate for the business.

During the last financial year, Redflex delivered results in line with its April guidance: EBITDA of \$25.5 million and a net operating loss before tax of \$3.8 million. Cash flow from operations – an important component of value – was just under \$30 million.

For FY15, as stated in our annual report, the Company is forecasting an approximate break-even result before tax. This improvement is expected to be comprised of a trading loss in the first half of the year followed by a recovery in the second half.

To be clear, our performance is not where we want it to be. But I do believe that we are heading in the right direction in important ways.

Paul Clark, our recently-appointed CEO, will discuss operational results and the priorities that the board has established for the management team. So you are aware, Paul's and the management team's incentives are tied directly to success across these priorities. In addition, to further enhance alignment of interests, we have instituted meaningful minimum equity ownership requirements for both the board and senior management.

I will focus my comments today on four areas:

1. Moving beyond the investigation;
2. Company strategy;
3. CEO appointment; and,
4. Board revitalization

### Moving Beyond the Investigation

As previously announced, in April 2013 Redflex concluded and disclosed the findings of an internal investigation of potential misconduct related to its dealings with a number of cities throughout the U.S.

Since that time Redflex has taken important steps to earn back the credibility we need to maintain and grow the Redflex business, and has done what any responsible company would do...

- Implemented aggressive remediation steps, which included necessary changes across the leadership of the company;
- Cooperated fully with all relevant authorities;
- Continued to compete in the market while being fully transparent with our customers; and
- Invested in compliance tools and processes important to mitigate as best as possible material risks to our business.

Finally, as much as we'd like to close this sobering chapter of the company's history, Redflex still faces a potential legal risk as a result of the investigative findings. We don't know the timing or potential actions of various authorities, and cannot quantify the potential exposure at this time, but we will update you as, and when, appropriate.

I think the key takeaway is that we are making solid though difficult progress to move forward and I am proud of the work our team has done.

### Company strategy

The Board and management recognize the importance of driving profitable growth in order to create shareholder value.

In terms of our existing photo enforcement business, we compete today in a market estimated to include nearly 70,000 photo enforcement cameras, approximately 40% of which reside in the UK and Europe, a significant percentage of which use vintage and outdated technology. North America (particularly the US), where the bulk of our asset base, EBITDA and cash flow resides, continues to be a low/no-growth market made more challenging by public pushback against photo enforcement despite demonstrated and significant safety benefits. Outside of North America, the market is more dynamic and our pipeline more robust.

Over the next five years, demand for approximately 35,000 cameras is expected to be driven by 15,000 replacement and 20,000 new camera installations. While we have made considerable progress within this context, the speed and momentum of our change must increase. Our Group CEO will speak to this shortly.

In pursuing growth in adjacent ITS markets, our efforts are focused upon pursuing only those acquisition opportunities that are "on-target" strategically and provide the prospect of being meaningfully accretive to value. We have been working with a global investment bank, assessed more than 80 companies operating primarily throughout Australia, North America and the UK and Europe, identified nearly two dozen prospects and moved through exploratory discussions where appropriate.

Like you, we would like these efforts to advance quickly. We are moving forward, but we must remain disciplined and progress requires a willing partner at an acceptable valuation for both parties.

### CEO Appointment

Paul Clark joined the Redflex board earlier this year and has gained significant insight into the business working through key strategic and operating reviews since. After a lengthy search we are grateful that Paul accepted our invitation to become CEO of the Redflex Group, particularly within the context of continued uncertainty regarding the resolution of some potentially significant issues for the company. You will hear shortly from Paul about the priority initiatives management has embraced to drive shareholder value. I trust that you will agree we were fortunate to have attracted a seasoned executive with Paul's operating, turnaround and achievement-oriented credentials.

### Board Revitalization

To strengthen the board, Redflex welcomed five new non-executive directors during FY14: Terence Winters, who was appointed by shareholders at last year's AGM, Paul Clark, John Murphy, Herman Schwarz and myself. Each new director brings to Redflex significant business, strategic, financial and operational experience. And all directors have taken on a heavy load in addition to the many oversight and compliance matters that require attention. To put this in context, the board met 26 times during FY14, not including countless subcommittee meetings dealing with strategy and corporate development.

The volume, pace and magnitude of work embraced by this board is unparalleled in my nearly 30 years of experience and work with dozens of other companies.

Given the challenges that we face, including the ultimate resolution of our legal matters in the United States, the uncertainties present in our markets and the exciting opportunities developing for Redflex, we place a meaningful premium on consistency and continuity in the board room with the goal of helping Redflex to move beyond its period of instability and to emerge a more vital business.

John, Herman and I join Mike McConnell as the nominees for re-election as directors this year. I hope each of us will receive your support to continue on in service to the company. I would like to thank Rob Debernardi, who communicated his intention to resign from the board at last year's AGM, and Bert Moyer, who resigned earlier this year for personal reasons, for their help and invaluable contributions.

Finally, Bob DeVincenzi, who joined Redflex just before the 2013 crisis, has been tireless and instrumental in helping the company to navigate quite challenging circumstances, to hone its business strategy and to maintain operating progress. As part of our push to reconfigure the board in light of current realities, and as earlier communicated, Bob has agreed to step down from the board in mid-January 2015. Please join me in thanking Bob for his meaningful contributions throughout the past 24 months and for helping to ensure a smooth transition as we move forward with Paul's leadership and ambitious roster of work to be done.

## In Conclusion

Let me ask you to consider the unprecedented amount of change that Redflex has faced. Over just the past three years, this company has seen seven directors leave the organization, has had three chairmen and is on its third Group CEO. Seven directors. Three chairmen. Three CEOs. Over three years.

The board and management are taking proactive steps to move Redflex forward, to unify and coalesce around those priorities most important to creating value and de-risking the business. We are dedicated to upholding the highest ethical standards and will continue to work to rebuild the trust and confidence of those we serve. Despite continued headwinds, as you will hear shortly from management, we believe Redflex is well positioned to deliver improved results this financial year though the path will likely not be smooth. We have a clear strategic roadmap. The company is favourably positioned to consider both compelling reinvestment and appropriate inorganic growth, and if neither evolves, to consider other means of returning value to shareholders. Our governance is strong and interests aligned.

While we cannot change the past, shareholders have a choice today. Your vote matters. And I hope you will join me in sending a strong message of support for the men and women of Redflex that are working tirelessly to help move the company forward.

***With that, it is my pleasure to introduce our Global CEO, Mr. Paul Clark.***



# Redflex Annual General Meeting 2014



Group Chief Executive Officer  
Redflex Holdings Limited

**PAUL CLARK**



For the year ended 30th June 2014 we recorded an operating loss after tax of \$1.2 million compared to a profit after tax of \$7.3 million in 2013.

The primary causes of the loss were:-

- The non-renewal of the Chicago contract which reduced revenue by \$9.7 million
- Losses in the Student Guardian business \$4.3 million
- Ongoing Legal and associated costs relating to the Chicago investigation \$2.4 million
- Settlement costs for the New Jersey Class action and the California wage dispute \$1.5 million
- Investment Bank, Strategy and CEO Search fees \$1.5 million



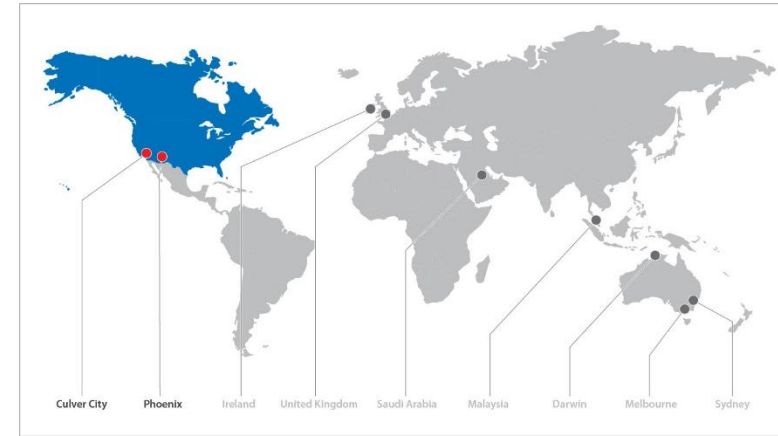
The company also generated \$25.5 million of EBITDA for FY 2014. Despite these losses, the company still generated \$29.9 million of cash flow for the year.



Second in the *photo enforcement market*

First in the emerging *school bus photo enforcement market*

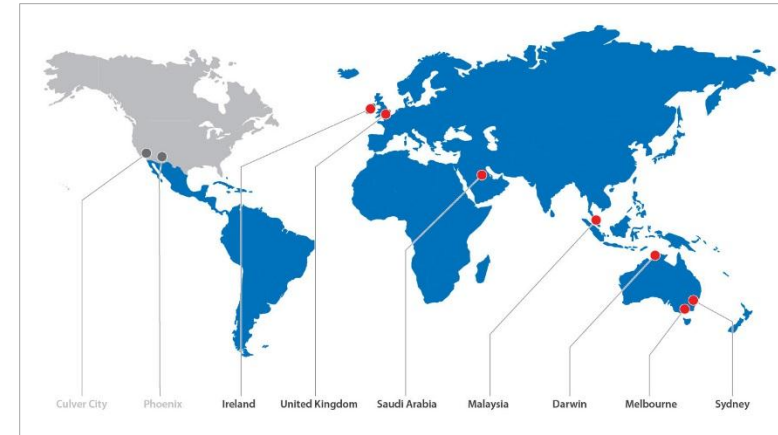
- Generates 68% of our revenue.
- Operates at a loss due to the significant litigation costs associated with the Chicago investigation, the delayed start of the Student Guardian business, margin compression and contract terminations.
- Significant competition in a mature market which thrives on negative publicity and where we are seeing margin erosion to maintain renewals.
- Negative community reaction driving contract terminations (not new contracts), legislation changes, lower enforcement levels and multiple class actions.





# The Rest of the World

- Exposure to both mature and emerging markets.
- A combination of wholly owned and joint venture businesses which range from equipment sales to BOOM to end to end solutions including back office processing.
- Secured new contracts in New South Wales (\$9 million p.a.) for mobile cameras and in the UK for variable speed enforcement cameras.
- Continue to tender for opportunities.



# What are the key risks we face?

- We are too heavily dependent on a mature US photo enforcement market that is extremely competitive and facing increasing political and consumer resentment;
- We operate in a number of extremely competitive mature markets where price based competition is driving margin erosion,
- the rest of the world business has project based income which results in revenue volatility,
- litigation risk through both the Chicago investigation and various class actions has the potential to reduce our revenue, increase our costs and impair our reputation.



# What are our objectives?

- We want to be number 1 or 2 in our chosen markets (geography/industry) to build sustainable margins and invest in maintaining competitive advantage.
- We want increased revenue growth. We need scale, diversity and certainty of income to offset our high fixed cost base.
- We want to become more efficient and reduce our costs.
- Our return on capital needs to improve.
- Redflex needs to be de-risked. Revenue volatility, geographic and product concentration risks, class actions, federal investigations, different technology platforms all create a high risk business.
- To move into the non-Photo Enforcement market, organically or inorganically.
- Transform the Rest of the World business into an annuity stream business.



# What are we good at?

- Core Photo Enforcement technology solution development (hardware and software)
- Back Office processing
- End to end service
- Strong customer relationships (especially government)
- High levels of service



# What is our strategy?

- Significantly grow and diversify our revenue base by moving into new geographies and into adjacent markets.
- Continue to reduce our cost base by becoming more efficient and through scale.
- Improve our contract and margin management to provide greater insights to our customers and to improve our profitability.
- Build more annuity stream income by creating end to end customer solutions.

