



# BUSINESS OVERVIEW



- print and mailhouse is around 75% of revenue
  - laser digital imaging, enveloping, flowwrap, ancillary mail functions
  - circa 25 million mail lodgments annually with NZ Post
  - high revenue growth in low margin Outsourced Services; email erosion
  - software technology assists SDL gaining share amidst ongoing market decline
- software and technology is 25% of revenue; a secular growth story
  - document creation, archival & mailing; digital asset management, desktop mail
  - bulk of growth coming from UK
  - strong opportunity pipeline but channel distribution needs improving

| <b>Revenue Analysis</b><br><b>(all figures \$000)</b> | <b>FY17</b>   | <b>Growth</b><br><b>Y/Y (%)</b> | <b>FY16</b>   | <b>Growth</b><br><b>Y/Y (%)</b> | <b>FY15</b>   |
|---|---------------|---------------------------------|---------------|---------------------------------|---------------|
| Software & technology                                 | 5,066         | 13.9%                           | 4,448         | 26.9%                           | 3,505         |
| Digital print & document handling                     | 6,712         | 9.7%                            | 6,120         | 3.9%                            | 5,888         |
| Outsourced services                                   | 8,213         | 42.7%                           | 5,754         | 54.5%                           | 3,724         |
| <b>Total Revenue</b>                                  | <b>19,991</b> | <b>22.5%</b>                    | <b>16,322</b> | <b>24.4%</b>                    | <b>13,117</b> |

# FY2017 RESULT



| Summary Financial Performance<br>(all figures \$000) | FY17         | Growth<br>Y/Y (%) | FY16         | Growth<br>Y/Y (%) | FY15         |
|--|--------------|-------------------|--------------|-------------------|--------------|
| Total revenue  | 19,991       | 22.5%             | 16,322       | 24.4%             | 13,117       |
| Cost of Goods Sold                                   | 12,274       | 32.8%             | 9,239        | 26.2%             | 7,323        |
| <b>Gross Margin</b>                                  | <b>7,717</b> | <b>9.0%</b>       | <b>7,083</b> | <b>22.2%</b>      | <b>5,794</b> |
| Gross Margin (%)                                     | 38.6%        | -11.0%            | 43.4%        | -1.8%             | 44.2%        |
| Selling, General & Admin Costs                       | 5,630        | 4.5%              | 5,388        | 15.1%             | 4,680        |
| <b>EBITDA</b>  | <b>2,087</b> | <b>23.1%</b>      | <b>1,695</b> | <b>52.2%</b>      | <b>1,114</b> |
| EBITDA Margin  | 10.4%        |                   | 10.4%        |                   | 8.5%         |
| Depreciation   | 208          |                   | 252          |                   | 202          |
| Amortisation   | 78           |                   | 14           |                   | 96           |
| <b>EBIT</b>  | <b>1,801</b> | <b>26.0%</b>      | <b>1,429</b> | <b>75.1%</b>      | <b>816</b>   |
| Net Interest   | -1           |                   | -10          |                   | -10          |
| Tax  | 492          |                   | 423          |                   | 19           |
| Tax rate   | 27.3%        |                   | 29.4%        |                   | 2.3%         |
| <b>Net Profit after Tax</b>                          | <b>1,310</b> | <b>28.9%</b>      | <b>1,016</b> | <b>25.9%</b>      | <b>807</b>   |

# SOFTWARE AND TECHNOLOGY

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- SDL software and technology remains a multi-year secular growth story
- UK dental
  - invoices/statements penetration rising, but more slowly than expected
  - Bremy promotional activity; early stage and should grow strongly
- UK vets started during FY2017; strong growth expected
- DéjarMail now in two large UK mail houses
- Asia potentially a large opportunity
  - cultural and language hurdles mean slow, complex sales cycles
- we expect Déjar archival is probably now ex-growth
- SME opportunity for DéjarMail + Bremy
  - new (to SDL) channels to market needed for success in SME segment
  - needs simplified, “shrink-ready” products, integrated into other SME applications

# CAPITAL STRUCTURE

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- NZAX listed, 14.1 million shares on issue
  - market cap circa \$32 million, with net cash on hand around \$2 million
  - note off balance sheet financial leverage: all print equipment is leased
  - 580k ESOP options outstanding and mostly now exercisable
- dividend policy: pay out 70-75% of earnings
  - capped at 75% by NZTE market development funding agreement
- SDL is a relatively “capital light” business, albeit leased print equipment
  - working capital negative to neutral so little to no cash flow pressure from growth
  - minimal “stay in business” capex, mainly IT infrastructure and document handling
  - some software development capitalized, preference to expense is possible
- capacity to debt fund growth
  - cash on hand plus bank will leverage EBITDA

# STRATEGY AND GROWTH OPTIONS

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- ongoing local print/mailhouse growth
  - DéjarMail opportunities drive local print/mail volume
  - excess print capacity and highly competitive; volumes switching to email
- software and technology growth
  - DéjarMail is a sizeable and secular growth opportunity
  - increased sales (and support) resource added in last six months
  - UK/Europe have low technology penetration in the traditional print sector
- Asian software opportunities
  - very early stage, slow sales cycles, little likely in FY2019
- acquisition capacity
  - very conscious of acquisition risk (overpaying, failure to extract benefits)
  - prefer bolt-ons with strong cost-out synergy
  - will look at step-outs (product extensions, new IP, market expansion)



- FY2018 earnings growth forecast around 15%
- growth constraints:
  - volume decline and loss of archival from one large client
  - additional support and sales costs in UK/Europe added in FY2017 H2
  - ongoing switch to digital distribution a constant headwind for print volumes
- growth areas:
  - UK software growth from dental and vet practices and other DéjarMail clients
  - pipeline of UK and European software opportunities
- still a new business forecast “gap” to cover (as usual)
- any acquisitions would be immediately accretive to earnings
  - reiterate that SDL will remain very acquisition disciplined
- the usual risk suspects:
  - competitive market, ongoing margin pressure, concentrated local customer base

# SOLUTION DYNAMICS

*optimised customer communications*



Solution  
Dynamics