2022 Annual Meeting Address 27 October 2022

Nelson Siva: In memoriam

Before starting on the meeting proper, I'd like to say a few words about SDL's long-term CEO, Nelson Siva, who passed away in November 2021. There's an old adage in business, and it has a high degree of truth, that "culture trumps strategy". We were incredibly fortunate with Nelson to have someone who was extremely good at both. He was the main architect of our successful technology platform and international expansion strategies. He was also the driver and maintainer of our culture; he fostered a positive, "can do" approach to interacting with our customers which saw SDL solving, what in some cases, were extremely complex communications problems. He always had a smile on his face, but he also demanded, and achieved, performance right across the organisation. Our deepest condolences to Tracey and all Nelson's family. He was a friend to many in the company, and to many of our investors. He's gone, but definitely not forgotten.

FY2022 Overview

Talking about Nelson is a segue into the biggest change for Solution Dynamics ("SDL" or "Company") during FY2022. That was the transition to Patrick Brand as the new CEO. While Pat had worked for SDL running our international operations for several years, this transition was not without risk as New Zealand's border were closed at the time. Pat was unable to come here until around six months after being appointed. However, the process was smooth and seamless and enormous thanks to all SDL staff for their efforts during the change of CEO and also over what was a very challenging year.

The second half of FY2022 saw a refreshed focus on new business activity, especially in New Zealand, following staff changes and a restructure of the sales team. This began to have a positive effect late in the financial year, although the benefits will flow progressively over FY2023. New business wins in New Zealand have continued in early FY2023, and internationally the Company is targeting growth in several key vertical markets.

International volumes were broadly up, with strong gains in the cybersecurity breach notice sector partly offset by significant weakness in US mortgage-related communications as interest rates rose significantly and depressed housing finance activity. Volumes in the UK rose as expected, up around 40% as that economy emerged from COVID constraints. The recent weakness in the British pound, inflationary cost pressures and the general state of the UK economy are concerning but so far have had a relatively minor impact.

Across all markets, the headwind from physical communications converting to digital continues. This is being exacerbated by postal organisations globally introducing significant increases in postage rates to offset the revenue erosion they are suffering from falling volumes. SDL expects this trend to continue, with ongoing sizeable increases in postage rates likely in the markets the Company operates in, including New Zealand. SDL continues to focus on helping our customers better manage their postage spend, reducing the reliance on print revenue and capturing more value from software.

SDL's COVID monitoring and safety policies have evolved, but are still aimed at ensuring the Company's staff remain safe. Although many staff have been infected, COVID has not affected operations to date. The focus is to bring employees back to work in the office to support SDL's culture and improve collaboration, although the extent of back-to-office varies widely by function. The hidden effect has been from an increase in the length of sales cycles due to the inability to travel for much of the year, constraining meeting sales prospects face-to-face. Hopefully this issue is largely over as travel and face-to-face sales meetings have resumed. Additionally, COVID remains a factor in the shortage of skills across the technology sector, exacerbating staff cost pressures. Supply chain disruptions, along with a weaker NZ dollar, are affecting the cost (and timely availability) of paper and envelopes. For the most part these are pass-through costs (sometimes with a lag) and SDL has some forward orders in place to mitigate the cost pressure.

International expansion in FY2022 mainly focused on fully implementing our solutions to large enterprise clients and growing these clients with new applications. SDL's platforms are deeply integrated into our largest clients' systems and increasingly essential to their businesses. Customer demands have required investment in local country support, particularly in the US. This hiring is being carefully scaled to the business opportunity. In FY2023, the new customer pipeline internationally is growing in the cyber security breach notice space and SDL recently hired a dedicated sales resource for the Global Charities market.

SDL closed the year with net cash on hand at $5.0 million, which is after repayment of customer postage prepayments of around $1.25 million. The Directors intend to maintain a prudent approach to balance sheet management and are conscious that a period of more difficult economic times may provide acquisition opportunities, most likely aimed at delivering product or geographic expansion. The Directors will proceed cautiously, conscious that any transaction must be value adding for shareholders, with manageable financial and operational risks.

FY2022 Financial Results

Despite a range of challenges in a disrupted and difficult year, SDL made further earnings and operational progress, with a record net profit after tax of $2.56 million, up 26%, and record dividends to shareholders totalling 13 cents per share (fully imputed).

Key result metrics ($figures are '000)	FY22	FY21	Growth Y/Y	CAGR (5-yr)
Total Revenue	**40,127**	**35,445**	**13.2%**	**15.0%**
Digital Print & Outsourced	10,324	10,810	-4.5%	-7.1%
Software & Technology	29,803	24,635	21.0%	42.5%
Gross Profit	**13,941**	**13,491**	**3.3%**	**12.6%**
Gross Margin	34.7%	38.1%		
SG&A expenses	9,422	9,277	1.6%	10.8%
EBITDA [(a)]	**4,519**	**4,214**	**7.2%**	**16.7%**
EBITDA Margin	11.3%	11.9%		
Net Profit after Tax	**2,563**	**2,034**	**26.0%**	**14.4%**
Earnings per share (cents)	17.41	13.89	25.3%	13.3%
Dividends per share (cents)	13.00	11.00	18.2%	14.0%

(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 $40.1 million, up 13.2%. This growth in revenue and earnings was mainly from ongoing expansion of international business, predominantly in the US. Software & Technology revenue grew 21% overall, but was up around 30% internationally, from a combination of new customers and expansion of activity amongst existing customers. The New Zealand business continued to feel pressure from the ongoing structural decline in print volumes and pricing pressure, but it nevertheless remains sustainably profitable. As previously noted, a refocus on New Zealand sales activity in the second half of FY2022 has delivered new business wins and this momentum continues to build in FY2023.

Cost pressures, lower margins from a large New Zealand customer, along with change in revenue mix (lower FX gains and grant income) partially offset the solid revenue growth and held Gross Profit to a 3.3% gain on the prior year. SG&A costs were well controlled given inflationary pressures in some parts of the business, rising 1.6% on the prior year. EBITDA grew 7.2% to $4.52 million.

The "quality" of SDL's earnings improved in FY2022 versus the prior FY2021 result. FY2021 earnings benefitted from two one-off items (realised foreign exchange gain and NZ Trade & Enterprise market development grant assistance) totalling $1.14 million pre-tax. Neither of these one-off gains recurred in FY2022.

The long-term trends continue their positive trajectory, and SDL is extremely proud to have delivered record revenue, profit, and dividends in FY22. 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 FY2023, but the Board, CEO and all staff are aligned and focused on continuing to deliver results.

Strategy

SDL's strategy is to continue on the path of progressing our transformation from a New Zealand organisation that does business internationally, into a global business. The 2018 acquisition of Digital to Print (DTP) in the US was the foundational underpinning for our international growth strategy. It has become clear that the Company's differentiating value outside of New Zealand is in enabling global customer communications on an on-demand basis, which unlocks significant cost savings while improving client engagement.

To succeed as a relatively small business operating against some big competitors requires careful selection of the segments and applications where we can win and make money. SDL's global technology and know-how enabled key wins with World Vision, Pitney Bowes and a major player in the cybersecurity breach notice space. Future sales focus is on the global charities and cybersecurity spaces where we can leveraging existing, large reference accounts, building expertise in global postage management, and leading with software.

In New Zealand, the mail-house business and software businesses are complementary. Leading with software and helping clients save money on postage is not just an international strategy but a key differentiator in the New Zealand market. We are winning new business in New Zealand based on a strong software capability, backed up by the Company's traditional strength as a mail house. The mail house market will continue to decline and consolidate, increasing supplier and business continuity risks for all. SDL's software business and strong financial position is uniquely positioned in the NZ market as a supplier of choice. We are committed to providing our New Zealand customers with the total omni-channel solution for print and digital communications.

Customer Communications on Demand

Technology is at the heart of what SDL do. This simple picture (see slide 12 of attached presentation) is what the Company calls the Customer Communications on Demand cloud. It represents the integration of SDL's component software solutions and global distributed print network to achieve the goal of reducing cost while improving client engagement. Customers are looking for an end-to-end solution that operates seamlessly. We have made substantial progress and are currently deploying key components of the "cloud" into the New Zealand market.

Case study: World Vision International

World Vision International (WVI) is a case study for a sense for the customer value SDL can provide. WVI wanted to simplify the complexity of managing sponsor communications in 54 countries. By reducing complexity, we were able to make major savings in postage and printing cost. This also freed up thousands of hours of time that was better spent on their mission.

Over time SDL was able to not only simplify, but substantially improve the quality of sponsor communications, which leads to better sponsor engagement. The Company now manages communications to 2.5 million sponsors, connecting them better with over 3 million children. Moving forward SDL's solutions will drive more digital engagement that is tightly integrated with the print. SDL is proud of its strong partnership with World Vision and being able to assist their mission.

Strategy and FY2023 Outlook

While SDL has regained momentum quite strongly in the New Zealand market, that isn't a strategy capable of delivering "step change" growth. Having built a software communications platform, the Company has genuine global opportunities to expand. However, SDL is a small organisation, especially internationally, and needs to find leverage points, hence the strategy of utilising channel partners into the small-to-medium sized business markets. The Company is direct selling into a small number of key verticals such as global charities and cybersecurity breach notices where there is domain knowledge from servicing existing customers.

Part of SDL's transition to a global business is shifting some of the resources, especially technology support, to be closer to customers. The Company must be able to provide real-time, in-market customer response, and this is seeing the move to a "follow the sun" support model across multiple time zones.

SDL is well ahead of budget for the first quarter of FY2023, although a sizeable portion of this upside is one-off or timing related. The New Zealand side of the business is ahead of new business targets, while North America is lagging. The Company has seen some foreign exchange headwinds and is aware of postal organisations with significant price hikes planned for postage. Assuming these various trends broadly continue, and existing customer volumes are as expected, then SDL's revised guidance for FY2023 is raised from around $2.5 million, to a range of $2.5 million to $2.8 million.

An additional key risk is that the rapid rise in global interest rates does not yet appear to be finished. Central banks are urgently trying to get ahead of burgeoning inflation, leading to the real prospect of synchronised global economic downturn, including a real probability of recession. While some of the COVID pressures have eased, and it has become easier to meet customers and prospects, supply chain delays and cost pressures have not yet meaningfully abated.

As in FY2022, the profit in FY2023 is expected to be biased towards a much stronger first half.