SOLUTION DYNAMICS

SIMPLIFYING BUSINESS

INTERIM REPORT 2023

For the six months ended 31 December 2022

2023 Highlights

For the six months ended 31 December 2022

> Net profit after tax increased 20.9% to $2.46 million; EPS of 16.7 cents

> Revenues declined 2% (NZ gains, US mortgage-related volumes down)

> EBITDA increased 13.5% to $4.11 million

> Cash flow from operations increased to $3.41 million and net cash at 31 December 2022 was $7.13 million

> Interim dividend of 10.0 cents per share (up 1.0 cent) fully imputed

> Full year earnings guidance raised to $2.7 to $3.0 million

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Directors' and Chief Executive Officer's Report

Result Overview

Solution Dynamics Limited ("SDL" or "Company") produced an unaudited net profit after tax of $2.46 million for the FY2023 half year (1H FY2022 $2.03 million), a year-on-year increase of 20.9%. This is a further record half year profit for the Company and represents earnings per share of 16.69 cents.

As in 1H FY2022, the extent of year-on-year first half growth in FY2023 reflects a high concentration of large international customer jobs in the period, along with usual seasonal 1H strength in the New Zealand operations, plus several modest one-off gains. International activity declined year-on-year as new customers and generally growing volume levels were offset by lingering COVID effects and, more recently, by increasing interest rates. SDL's customers in the US mortgage market have seen a very significant reduction in communication volumes and that sector is largely responsible for the fall in international and software revenue. The scale and speed of the mortgage market decline masked the ongoing growth opportunities for SDL in international software, which remains the primary expected driver of growth. Gross margin in International grew despite lower revenue due to growth in higher margin clients and improved cost management.

Growth in NZ print and mail services was the main success story in the half, with new customer wins contributing to significantly improved domestic results following several years of weakness. While the overall NZ mail house market remains in structural decline, renewed sales activity, led by SDL's digital offerings and postage management solutions, have produced gains in market share and resulted in revenue growth. Production efficiencies in the New Zealand mail operation contributed to higher gross margin, despite inflationary wage increases.

Cash flow from operations was $3.41 million (1H FY2022 $3.34million) with cash flow from trading improving 14.3% to $3.09 million. The closing net cash position at 31 December was $7.13 million noting that the prior period balance (1H FY2022 $7.00 million) included approximately $1.2 million of cash representing pre-payments of postage by customers. The current cash position does not include any postage pre-payment amounts, so represents clear cash available to the Company of around 49 cents per share (noting that the intra-month low cash position will normally be lower than the month end figure). The Directors have declared a fully-imputed interim dividend of 10.0 cents per share (1H FY2022 9.0 cents).

Operational Commentary

Operating revenue declined 1.6% to $23.34 million with the international decline not fully offset by growth in New Zealand operations. Software & Technology revenue fell 8.2%, largely driven by the mortgage market slump in the US reducing revenues from this segment by around 55%. Although US mortgage rates have somewhat stabilised recently, a rebound in mortgage communication volumes is not expected in the near term. The UK is seeing steady recovery in volumes from previously COVID-affected customers. While SDL's new business gains in NZ are producing improved results, pressure on pricing and margins is likely to develop over 2023 because of significant increases in paper costs. Although most customer contracts have a pass through on paper costs, this is expected to exacerbate and accelerate the structural shift to digital communications particularly for transactional mail volumes.

For the first time in many years, SDL broadly increased pricing to NZ mail house customers in 1H, offsetting a range of cost pressures.

SG&A costs declined 1.1% year-on-year, despite a general wage increase across the Company of around 5%. Some savings accrued from several unfilled roles, and efficiencies have been gained in technology and network costs.

SDL's traditional digital print and document handling services market revenue in New Zealand grew 7.9% year-on-year to $2.31 million (1H FY2022 $2.14 million). Most of this growth is from new customers with a smaller contribution from the price increase that was implemented during the period and which will mainly assist the second half in FY2023. SDL is now the clear leader in the New Zealand "Councils" communication market and this lead was extended in the first half. Last year the Company restructured its New Zealand sales efforts and team, and this half year saw the benefits from that move, with further gains in market share possible given the solid pipeline. Email volumes in New Zealand were up around 9% year-on-year.

While most COVID-related work practices around health monitoring, segregated teams and controlled facility access have been maintained, there has been an increase in staff working in the office although the extent of this varies significantly across functions. During the half, SDL renewed the lease on its Auckland premises and also refurbished the ground floor office space (which had been unchanged since the building was first occupied in 2005). This has contributed to improved staff morale and helped with the process of partial return to the office.

International sales efforts have narrowed to focus on specific verticals (e.g. global NGOs such as charities) that do business globally (with cross border mail requirements), provide business process outsourcing to global enterprises, and also to the cybersecurity breach notification market. The Company recently won a cross-border print and mail contract (into a developing market) for a financial services company. The pipeline of 2H international opportunities, mainly in the US, should begin to mitigate the slump in mortgage-related volumes although more difficult macroeconomic conditions are lengthening sales cycle times and introducing greater uncertainty around closing pipeline. SDL's branding and website will be updated during 2H along with efforts to grow inbound leads to complement what is mainly an outbound direct sales channel strategy at present.

Software functionality improvements, including combining some existing products into a Digital Mail Centre (DMC), are progressing. This is enhancing the platform for better scalability and cost-effective customer onboarding.

Financial Performance

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased 13.5% to $4.11 million (1H HY2021 $3.62 million) on sales revenue that slightly declined by 1.6%.

Summary Financial Performance (all figures $000)	1H FY23	1H FY22 (a)	Yr-on-Yr $ change	Yr-on-Yr % change
Total Revenue	**23,344**	**23,718**	**-374**	**-1.6%**
Cost of Goods Sold (a)	14,322	15,129	-807	-5.3%
Gross Margin	**9,022**	**8,589**	**433**	**5.0%**
Gross Margin (%)	**38.6%**	**36.2%**		
Selling, General & Admin Costs (a)	4,911	4,968	-57	-1.1%
EBITDA	**4,111**	**3,621**	**490**	**13.5%**
EBITDA Margin (%)	**17.6%**	**15.3%**		
Depreciation	494	476	18	3.8%
Amortisation	55	97	-42	-43.3%
EBIT	**3,562**	**3,048**	**514**	**16.9%**
Net Interest	**26**	60	-34	-56.7%
Net Profit before Tax	**3,536**	**2,988**	**548**	**18.3%**
Taxation	**1,079**	956	123	12.9%
Net Profit after Tax	**2,457**	**2,032**	**425**	**20.9%**

(a) A reclassification has been made in the prior period (1H FY2022) of certain network communication costs totalling $0.43 million, from Selling, General & Admin to Cost of Goods Sold. This is solely a cost reallocation; there is no change to reported FY2022 EBITDA or Net Profit. Note this reclassification also only affects the FY2022 1H interim report; the full year FY2022 result includes the amended cost allocation.

The EBITDA gain is largely from improved Gross Margin, which was partly customer/sales mix benefit to Cost of Goods Sold, along with broadly flat Selling, General & Admin costs.

SDL's taxation rate in 1H FY2023 was 30.5% versus 32.0% in the prior period. The slightly lower tax rate was assisted by modest R&D tax credits.

Revenue Analysis (all figures $000)	1H FY23	1H FY22	Yr-on-Yr $ change	Yr-on-Yr % change
Software & Technology	17,125	18,645	-1,520	-8.2%
Digital Print & Document Handling	2,308	2,140	168	7.9%
Outsourced Services	3,911	2,933	978	33.3%
Total Revenue	**23,344**	**23,718**	**-374**	**-1.6%**

SDL's pipeline of opportunities in New Zealand, coupled with price increases implemented during 1H mean that 2H domestic revenue is likely to continue to show solid growth. Sales efforts and current pipeline in the US market in particular should generate additional revenue, including the recently won cross-border financial services print and mail contract. Pleasingly, the second largest US client has recently renewed its contract with SDL. As uncertainty in the global economy increases, larger customers' changes to contracts or changes in those customers' plans could materially alter the Company's revenue outlook.

Balance Sheet, Liquidity and Debt

SDL closed the half year with net cash on hand of $7.13 million, versus $7.00 million in 1H FY2022 (FY2022 included around $1.2 million of customer pre-paid postage balances). A bank overdraft facility of $0.2 million remains in place but is unused.

Capital expenditure was moderate at $0.24 million in the half, largely for a refurbishment to the fitout of the Albany offices (the offices had not been renovated since the Company first occupied the premises in 2005), along with minor items of print and computer equipment. Some of SDL's computer equipment is at or near end of life, meaning some functionality being moved to the cloud, but the remainder will require capital expenditure for replacement or upgrading.

Selected Balance Sheet and Cashflow Figures (all figures $000)	1H FY23	1H FY22	Yr-on-Yr $ change	Yr-on-Yr % change
Net Cash on Hand (net of debt)	7,129	6,998	131	1.9%
Non-current Assets (excl Right of Use)	1,677	1,665	12	0.7%
Right of Use Assets	3,032	826	2,206	267.1%
Net Other Liabilities (excl Right of Use)	-991	-2,065	1,074	-52.0%
Right of Use Liabilities	-3,079	-974	-2,105	216.1%
Net Assets	**7,768**	**6,450**	**1,318**	**20.4%**
Cashflow from Trading	3,092	2,705	387	14.3%
Movement in Working Capital	314	636	-322	-50.6%
Cash Inflow from Operations	**3,406**	**3,341**	**65**	**1.9%**

Book value (net assets) increased 20.4% to $7.77 million, largely the effect of strong first half earnings. The lease on SDL's Albany premises was renewed during 1H. Lease accounting (NZ IFRS 16) means that lease changes are capitalised through the balance sheet by creating a Right of Use asset and an offsetting Right of Use liability so the renewal had the effect of inflating both the asset and liability by approximately equal amounts. Working capital remains well managed.

Dividend

SDL has declared an interim dividend of 10.0 cents per share, an 11.1% increase on the prior year.

Earnings and Dividend per Share	1H FY23	1H FY22	Yr-on-Yr $ change	Yr-on-Yr % change
Shares on Issue (000)	14,719.8	14,639.8	80.0	0.5%
Earnings per share (cents)	16.69	13.88	2.81	20.3%
Dividend per share (cents)	**10.00**	**9.00**	**1.00**	**11.1%**
Dividend proportion Imputed	100.0%	100.0%	n.a.	n.a.
Payout ratio (on NPAT)	58.6%	61.9%	n.a.	n.a.

The dividend is fully imputed and the cash dividend amount represents a payout ratio of 58.6% of earnings per share. SDL has previously used NPATA as the basis for its payout ratio, however, given that the Amortisation charge (the second 'A') has significantly reduced, this is now less relevant. The Directors reiterate the full year payout ratio is expected to be in the 70-75% range.

While the Company has a strong net cash position, the Directors continue to maintain a preference for financial flexibility given the ongoing elevated level of global economic uncertainty. As noted in past reports, the extent of volatility in global markets and economies may provide SDL with the opportunity for cost-effective step-out or bolt-on acquisitions to broaden the Company's product offering or channels to market internationally. Possible acquisitions continue to be reviewed but none have progressed; any transaction must add shareholder value.

FY 2023 Outlook

SDL previously provided FY2023 earnings guidance of around $2.5 to $2.8 million, noting that a strong first half suggested a full year result towards the upper end of the range was possible.

A number of factors are likely to affect the second half, including ongoing gains in New Zealand operations (new business plus 1H price increases, less cost pressures), with ongoing weakness in US mortgage market communication volumes expected to be offset by international new business plus growth from existing clients. Sales costs will be added as the Company is hiring for sales efforts in the international NGO space, and for US enterprise sales efforts. Additionally, costs will be incurred for branding changes to the website and marketing collateral to better position SDL with the communications needs of global enterprise customers.

While the Company has an encouraging sales pipeline in New Zealand and the US, the full year outlook includes an element of assumption around new business success so delivering this, coupled with global macroeconomic concerns, represents a key risk factor to SDL's guidance outlook.

Based on the strong first half result and the above factors, SDL is increasing its FY2023 guidance to a range of $2.7 to $3.0 million. Significant volatility is possible around this guidance range.

Consolidated Financial Statements

Consolidated Statement of Profit or Loss (unaudited)

For the six months ended 31 December 2022

(NZ$ in thousands, except per share amounts)	6 months ended 31 Dec 2022	6 months ended 31 Dec 2021	Year ended 30 Jun 2022 AUDITED
Operating revenue	23,425	23,697	40,152
Other income	(81)	21	(25)
Total income	**23,344**	**23,718**	**40,127**
Expenses			
Employee costs	5,411	4,951	9,724
Research & development	-	330	788
Directors' fees & salaries	124	270	414
Print & other outsource expenses	3,550	2,658	5,362
Other expenses	10,148	11,888	19,320
Total Expenses	**19,233**	**20,097**	**35,608**
Earnings before interest, tax, depreciation & amortisation (EBITDA)	**4,111**	**3,621**	**4,519**
Depreciation	494	476	885
Amortisation of intangible assets (software)	55	97	168
Net Interest (income)	26	60	59
Profit before income tax	**3,536**	**2,988**	**3,407**
Income tax	1,079	956	844
Net profit after income tax	**2,457**	**2,032**	**2,563**
	Cents	Cents	Cents
Basic earnings per share	16.7	13.9	17.5
Diluted earnings per share	16.4	13.6	17.1

The accompanying notes on pages 19–25 form part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income (unaudited)

For the six months ended 31 December 2022

(NZ$ in thousands, except per share amounts)	6 months ended 31 Dec 2022	6 months ended 31 Dec 2021	Year ended 30 Jun 2022 AUDITED
Net operating profit after income tax	2,457	2,032	2,563
Exchange differences on translation of foreign operations	(50)	25	125
Total comprehensive income for the year	**2,407**	**2,057**	**2,688**

Consolidated Statement of Changes in Equity (unaudited)

For the six months ended 31 December 2022

(NZ$ in thousands)	Share Capital	Employee Share Plan	Currency Translation Reserve	Accum-ulated Losses	Total Equity
Balance 1 July 2021	5,413	31	(159)	(350)	4,935
Issue of shares to employees	-	44	-	-	44
Exercise of employee options	-	-	-	-	-
Transactions with owners	**-**	**44**	**-**	**-**	**44**
Dividend	-	-	-	(586)	(586)
Profit for the period after tax	-	-	-	2,032	2,032
Other comprehensive (loss) income	-	-	25	-	25
Total comprehensive income	**-**	**-**	**25**	**1,446**	**1,471**
Balance 31 December 2021	**5,413**	**75**	**(134)**	**1,096**	**6,450**
Issue of shares to employees	161	34		-	-
Lapsed (on resignation of member)	-	-	-	-	195
Exercise of employee options	-	-	-	-	-
Transactions with owners	**161**	**34**	**-**	**-**	**195**
Dividend	-	-	-	(1,904)	(1,904)
Profit for the year after tax	-	-	-	2,563	2,563
Other comprehensive (loss) income	-	-	125	-	125
Total comprehensive income	**-**	**-**	**125**	**658**	**783**
Balance 30 June 2022 (Audited)	**5,574**	**65**	**(34)**	**309**	**5,914**
Issue of shares to employees	-	36	-	-	36
Exercise of employee options	-	-	-	-	-
Transactions with owners	**-**	**36**	**-**	**-**	**36**
Dividend	-	-	-	(589)	(589)
Profit for the period after tax	-	-	-	2,457	2,457
Other comprehensive (loss) income	-	-	(50)	-	(50)
Total comprehensive income	**-**	**-**	**(50)**	**1,868**	**1,818**
Balance 31 December 2022	**5,574**	**101**	**(84)**	**2,177**	**7,768**

Consolidated Statement of Financial Position (unaudited)

As at 31 December 2022

(NZ$ in thousands)	As at 31 Dec 2022	As at 31 Dec 2021	As at 30 Jun 2022 AUDITED
Current Assets			
Cash and cash equivalents	7,129	6,998	5,009
Trade & other receivables	2,737	2,532	4,002
Inventories and work in progress	390	219	234
Deferred Tax benefit	207	186	207
Prepayments	389	795	419
Total Current Assets	**10,852**	**10,730**	**9,871**
Current Liabilities			
Trade creditors	1,268	1,005	2,046
Other current liabilities	2,312	3,951	2,417
Other non-financial liabilities	22	(5)	178
Employee benefit liabilities	1,112	846	823
Lease liability – current	677	748	666
Total Current Liabilities	**5,391**	**6,545**	**6,130**

Consolidated Statement of Financial Position continued (unaudited)

As at 31 December 2022

(NZ$ in thousands)	As at 31 Dec 2022	As at 31 Dec 2021	As at 30 Jun 2022 AUDITED
Working Capital	**5,461**	**4,185**	**3,741**
Non-Current Assets			
Capital works in progress	234	201	206
Property, plant & equipment	352	247	189
Right of use assets	3,032	826	3,447
Intangible assets	30	156	85
Goodwill	1,061	1,061	1,061
Total Non-Current Assets	**4,709**	**2,491**	**4,988**
Non-Current Liabilities			
Lease liability	2,402	226	2,815
Total Non-Current Liabilities	**2,402**	**226**	**2,815**
Net Assets	**7,768**	**6,450**	**5,914**
Equity			
Share capital	5,574	5,413	5,574
Employee share option plan	101	75	65
Foreign currency translation reserve	(84)	(134)	(34)
Accumulated profit/(loss)	2,177	1,096	309
Total Equity	**7,768**	**6,450**	**5,914**

For and on behalf of the Board

John McMahon.

John McMahon – Director (Chairman)
Date: 23 February 2023

Andy Preece – Director

Consolidated Statement of Cash Flows (unaudited)

For the six months ended 31 December 2022

(NZ$ in thousands)	6 months to 31 Dec 2022	6 months to 31 Dec 2021	Year to 30 Jun 2022 AUDITED
Cash Flow from Operating Activities			
Cash was provided from:			
Receipts from sales	26,015	27,774	42,810
Other revenue	(91)	21	(25)
	25,924	**27,795**	**42,785**
Cash was applied to:			
Payments to suppliers	17,195	18,573	28,532
Payments to employees	5,022	5,961	11,229
GST paid to Inland Revenue	301	(80)	45
	22,518	**24,454**	**39,806**
Net Cash Inflow from Operating Activities	**3,406**	**3,341**	**2,979**
Cash Flow from Investing Activities			
Cash was applied to:			
Purchase of right-of-use assets	-	-	2,861
Purchase of property, plant & equipment & capital works in progress	240	38	154
Purchase of software & intangible assets	-	-	-
	240	**38**	**3,015**
Net Cash (Outflow) from Investing Activities	**(240)**	**(38)**	**(3,015)**
Cash Flow from Financing Activities			
Cash was provided from:			
Finance lease additions	-	-	2,950
Issue of shares	-	-	161
	-	-	3,111

Consolidated Statement of Cash Flows continued (unaudited)

For the six months ended 31 December 2022

(NZ$ in thousands)	6 months to 31 Dec 2022	6 months to 31 Dec 2021	Year to 30 Jun 2022 AUDITED
Cash was applied to:			
Payment of dividends	589	586	1,904
Interest paid	26	60	59
Finance lease liabilities	430	372	816
	1,045	**1,018**	**2,779**
Net Cash (Outflow) from Financing Activities	**(1,045)**	**(1,018)**	**332**
Net change in cash and cash equivalents	2,120	2,285	296
Add cash & cash equivalents held at beginning of year	5,009	4,713	4,713
Finance Facility and Cash Balance at End of Year	**7,129**	**6,998**	**5,009**
Reconciliation of net deficit after income tax for the year with net cash inflow/ (outflow) from operating activities			
Net surplus after income tax	2,457	2,032	2,563
Interest expense (reclassified as financing activity)	26	60	59
Add non-cash items:			
Depreciation & amortisation of assets	549	573	1,053
Loss (Gain) on foreign exchange	91	(21)	25
Bad and doubtful debts	(16)	17	89
Other non-cash items	(15)	44	113
Cash Flow from Trading	3,092	2,705	3,902
Add movements in Working Capital	314	636	(923)
Net Cash Inflow from Operating Activities	**3,406**	**3,341**	**2,979**

Notes to the Consolidated Financial Statements (unaudited)

For the six months ended 31 December 2022

1. General Information and Basis of Preparation

The condensed interim consolidated financial statements (the interim financial statements) are for the six months ended 31 December 2022 and are presented in NZ$, which is the functional currency of the parent company. They have been prepared in accordance with New Zealand generally accepted accounting practice and comply with New Zealand Equivalent to International Accounting Standard 34 (NZ IAS 34) and IAS 34 "Interim Financial Reporting" (IAS 34). They do not include all of the information required in annual financial statements in accordance with IFRS's and should be read in conjunction with the consolidated financial statements for the year ended 30 June 2022.

Solution Dynamics Limited is the Group's ultimate parent company. It is a limited liability public company incorporated and domiciled in New Zealand and is listed with the New Zealand Stock Exchange on the NZX. The address of its registered office and principal place of business is 18 Canaveral Drive, Auckland, New Zealand.

The Group comprises Solution Dynamics Limited and its wholly owned subsidiaries Solution Dynamics (International) Limited (based in the United Kingdom), Solution Dynamics Incorporated (based in the United States of America) and Déjar International Limited (non-trading).

The Group offers a range of integrated solutions encompassing data management, electronic digital printing, web presentment and archiving, fulfilment, traditional print services, scanning, data entry and document management.

The interim financial statements for the six months ended 31 December 2022 and the related comparative interim period, are unaudited. Due to seasonal variability financial information from the audited financial statements for the immediately preceding financial year ending 30 June 2022 have also been included.

The unaudited interim financial statements for the Group for the six months ended 31 December 2022 were authorised for issue on 23 February 2023 in accordance with a resolution of the directors of the Company.

2. Significant Accounting Policies

These interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 30 June 2022.

Certain comparative information has been reclassified to conform with the current period's classification.

3. Estimates

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2022.

4. Segment Information

The Group operates in one business segment, the supply of customer communication solutions. These include a range of integrated document management products and services separated into three streams; Software & technology, Outsource Services and Digital Imaging & Output Services. Specific elements of these streams are as follows:

- **Software & Technology**, Solution Dynamics owns the intellectual property in five products;
    - > **Déjar**, an online digital archival and retrieval system sold stand-alone under licence agreements and also as a hosted service in New Zealand and Internationally.
    - > **Bremy**, Digital asset management, workflow and multichannel publishing software sold as a licenced product and also as a hosted service in New Zealand, Australia and the UK.

> **Composer**, "On-Demand" content creation software.

> **DéjarMail**, is a web browser-based desktop mail management solution which allows customers to route mail correspondence to SDL or any other service provider for printing and delivery.

> **Jupiter** is a hybrid mail application that was acquired through the purchase of the DigitalToPrint business. The application routes data received from clients for international distribution of communications to the destination country for print production and lodgement as local mail.

In addition to owning the intellectual property for the above products, Solution Dynamics provides programming, consulting and design services that help clients to distribute marketing and essential communications by mail and electronically. The provision of these services is covered under this category.

- **Digital Printing & Output Services** is solely New Zealand revenue and includes the printing of client's information digitally using high speed laser printers followed by output fulfilment, lodgement and distribution of those documents using a variety of machine and other processes.

- **Outsourced Services**, not all components of Solution Dynamics' services in New Zealand are produced internally. External elements such as domestic New Zealand post, freight, paper, and envelopes are sourced from external suppliers and included in this service stream. Solution Dynamics has long term arrangements with a number of key suppliers such as NZ Post for the provision of these services.

An overhead structure including sales, marketing and administration departments provides services for all of the above revenue streams.

There are no reconciling items in this note due to the management information provided to the Chief Operating Decision Maker being compiled using the same standards and accounting policies as those used to prepare the financial statements.

(NZ$ in thousands)	6 months to 31 December 2022		6 months to 31 December 2021		Year to 30 June 2022	
Software & Technology	17,125	73%	18,645	79%	29,803	74%
Digital Printing & Document Handling Services*	2,308	10%	2,140	9%	4,730*	12%
Outsourced services*	3,911	17%	2,933	12%	5,594*	14%
Total income	**23,344**	**100%**	**23,718**	**100%**	**40,127**	**100%**
Less cost of sales*	14,323	61%	15,129*	64%	26,186	65%
Gross margin	**9,022**	**39%**	**8,589**	**36%**	**13,941**	**35%**
Selling, general & administration*	4,911	21%	4,968	21%	9,422	23%
Earnings before interest, tax, depreciation & amortisation	**4,111**	**18%**	**3,621**	**15%**	**4,519**	**11%**
Depreciation	494	2%	476	2%	885	2%
Amortisation	55	0%	97	0%	168	0%
Interest	26	0%	60	0%	59	0%
Income tax	1,079	5%	956	4%	844	2%
Operating Profit after income tax	**2,457**	**11%**	**2,032**	**9%**	**2,563**	**6%**

(1) *The comparatives have been reclassified due to a change in segmental classification. Some Outsource Services are now classified as Digital Print & Document Handling Services. This impacts the comparatives (June 2022: $459k increase to Digital Print Revenue), with no significant impact to the other segment disclosures.

(2) *The comparatives have been reclassified due to a change in segmental classification whereby Selling, General & Admin Costs have been reclassified as Cost of Sales. (December 2021, $429k increase to cost of sales).

Segment Assets

Assets are not segmented between service streams.

Information about Top Five Customers

Included in revenues for the Group of $23.34 million (2021: $23.72 million) are service revenues of $15.34 million (2021: $15.48 million) which arose from sales of the top five customers in the group for the period.

SOLUTION DYNAMICS

Geographical Information

The Group has customers in New Zealand, Australia, United States of America, and Europe.

(NZ$ in thousands)	Revenue from external customers			Non-current assets		
	6 months to 31 Dec 2022	6 months to 31 Dec 2021	Year to 30 Jun 2022	As at 31 Dec 2022	As at 31 Dec 2021	As at 30 Jun 2022
New Zealand	7,448	6,548	13,131	4,699	2,480	4,975
Australia	260	195	438	-	-	-
United States of America	14,375	15,649	23,628	3	-	5
Europe	1,261	1,326	2,930	7	11	8
Total	**23,344**	**23,718**	**40,127**	**4,709**	**2,491**	**4,988**

5. Cash & Cash Equivalents

(NZ$ in thousands)	As at 31 Dec 2022	As at 31 Dec 2021	As at 30 Jun 2022
Cash and cash equivalents	7,129	6,998	5,009
Total Finance Facility and Cash	**7,129**	**6,998**	**5,009**

Solution Dynamics has an overdraft facility in place with the ANZ Bank at an interest rate of 10.60% p.a. (2021: 7.20%). This facility is to support the operational requirements of the Group, is interest only and is secured by first ranking security Agreement over the assets of the parent Solution Dynamics Limited.

At period end, the ANZ Bank has imposed no financial covenants to secure the existing facilities. The Group maintains a $200,000 overdraft facility that was unused at the reporting date (2021: $200,000). The Group continues to hold a net cash position with no bank debt (2021: $Nil).

At the end of the reporting period the Bank provided commercial guarantees totalling $65,000 (2021: $65,000) to the Group's suppliers.

6. Share Capital & Share-based Payments

Solution Dynamics Limited has 14,719,810 ordinary shares (2021: 14,639,810 ordinary shares) each fully paid.

The Group operates equity-settled, share-based compensation plans, under which employees provide services in exchange for non-transferable options. The value of the employee services rendered for the grant of non-transferable options is recognised as an expense over the vesting period, and the amount is determined by reference to the fair value of the options granted.

Number of shares Shares in 000s	As at 31 Dec 2022	As at 31 Dec 2021	As at 30 Jun 2022
Shares Issued and Fully Paid:			
- Beginning of the Period	14,720	14,640	14,720
- Share Issue (exercise of options)	-	-	
Shares Issued and Fully Paid	**14,720**	**14,640**	**14,720**
Employee Share Option Plan:			
- Beginning of the Period	373	360	360
- Granted	-	-	173
- Vested	240	-	(80)
- Lapsed (on resignation of staff member)	-	(80)	(80)
Shares Authorised for Share-based Payments	613	280	373
Total Shares Authorised at the end of the Period	**15,333**	**14,920**	**15,093**

The 240,000 options outstanding (2021: 280,000) were at a weighted average exercise price of $2.25 (2021: $2.35). 240,000 options are eligible to be exercised from October 2026, 200,000 options are eligible to be exercised from October 2025 with 173,000 options eligible to be exercised from February 2022.

7. Related Parties

Transactions between related parties include payments to shareholders, directors and their companies and senior executives, also being shareholders.

Related party transactions from 1 July 2022 to 31 December 2022 were as follows:

- Key management were paid $1,183,702 (as employees of Solution Dynamics Limited) during the period (2021: $1,036,791) and were owed $182,907, including annual leave, (2021: $129,637).
- Salaries paid to directors are disclosed in the Consolidated Statement of Profit or Loss.

8. Events after the Balance Date

At the board meeting of 23 February 2023, the directors resolved to pay a fully imputed interim dividend of 10.0 cents per share, amounting to $1,471,981 (2021: the directors approved the payment of a fully imputed interim dividend of 9.0 cents per share, amounting to $1,317,583). There were no other significant events after balance date.

Directory

Directors

John McMahon – Non-independent Chairman
Julian Beavis - Independent
Elmar Toime – Independent
Andy Preece – Independent
Lee Eglinton - Independent

Company Executives

Patrick Brand – CEO
Suzanne Watts – CFO & Company Secretary

Auditors

Grant Thornton New Zealand Audit Partnership
Grant Thornton House
152 Fanshawe Street, AUCKLAND

Bankers

ANZ National Bank Limited
9-11 Corinthian Drive, Albany
AUCKLAND

Legal Representative

Stephen Layburn
Commercial Barrister
Level 3, 175 Queen Street
AUCKLAND

Share Registry

Computershare Investor Services
Level 2, 159 Hurstmere Rd, Takapuna
AUCKLAND
Private Bag 92119
Auckland Mail Centre
AUCKLAND 1142

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