2024 Annual Meeting Address 24 October 2024

FY2024 Overview

The past financial year saw Solution Dynamics ("SDL" or "Company") navigate challenges that included a difficult macroeconomic environment globally, postal market pressures, and the Company's largest customer issuing an RFP covering services provided by SDL. Despite these headwinds, the Company produced its second highest ever net profit result of $2.8 million, testimony and thanks to the efforts of all staff across the group.

The Company's revenue declined slightly, down 4.6% to $38.7 million. SDL's New Zealand operations made significant progress, gaining share in a declining local print and mail market and continuing to pick up new work from a range of local councils and commercial contracts. These wins continue the strong sales progress from FY2023 and will provide assistance as the new customers contribute more fully in FY2025 in addition to further new business gains.

International operations generated only modest new business, with SDL placing significant focus on key existing client retention. Ongoing weakness from the US mortgage market, the result of high interest rates, continued to negatively impact results, along with the timing of a large order around year end that moved into FY2025, plus somewhat lower customer volumes from the weakening global economy. These factors combined to result in a 12.0% reduction SDL's Software & Technology revenue to $25.1 million.

The RFP process from the Company's largest customer remains ongoing, albeit with no formal communication received in recent months. During FY2024, SDL implemented a global distributed print and distribution model that enabled material cost savings for the customer. SDL continues to be awarded ongoing work based around the customer's usual communications programmes.

Labour market cost pressure from COVID progressively abated over FY2024 and the general labour market now appears quite soft. Several areas of operation were targeted for restructuring during the year, aimed at improving efficiency and productivity. In the short run, this incurred costs along with a lag while new staff came up to speed with SDL's systems and processes.

SDL closed the year with net cash on hand at $7.95 million (approximately 54 cents per share). The Directors continue to maintain a preference for acquisition opportunities, most likely aimed at delivering product or geographic expansion and remain conscious that any transaction must add value shareholders, with manageable financial and operational risks.

SDL's International Growth Fund co-funding grant from NZ Trade & Enterprise from late H1 FY2023 continued to operate during FY2024. It runs for three years (to late calendar 2025) and reimburses 50% of US market development costs to a maximum of $0.6 million.

A constraint of the grant is that SDL distributions (dividends and any capital returns) are capped at 50% for the term of the agreement.

The Directors are very aware that the NZTE constraint has restricted shareholder payouts and – subject to no capex or acquisition requirements – intend to review SDL's capital structure during 2025 and consider all options to enhance shareholder returns.

FY2024 Financial Results

Despite the economic and postal market headwinds, SDL generated its second highest ever net profit after tax of $2.8 million, down 18%, with dividends to shareholders totalling 9.5 cents per share (fully imputed).

Key result metrics ($figures are '000)	FY24	FY23	Growth Y/Y	CAGR (5-yr)
Total Revenue	**38,668**	**40,553**	**-4.6%**	**9.0%**
Digital Print & Outsourced	13,175	11,959	10.2%	-4.2%
Software & Technology	25,077	28,485	-12.0%	24.6%
Gross Profit	**14,844**	**16,154**	**-8.1%**	**11.8%**
Gross Margin	38.4%	39.6%		
SG&A expenses	10,009	10,442	-4.1%	10.1%
EBITDA [(a)]	**4,835**	**5,712**	**-15.4%**	**15.8%**
EBITDA Margin	12.5%	14.1%		
Net Profit after Tax	**2,819**	**3,425**	**-17.7%**	**39.9%**
Earnings per share (cents)	19.15	23.27	-17.6%	39.7%
Dividends per share (cents)	9.50	11.50	-17.4%	18.9%

(a) EBITDA (i.e. Earnings before Interest, Taxation, Depreciation, Amortisation and Impairment) is a non-GAAP earnings figure that equity analysts may 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 capital structure, amortisation and impairment policies.

The Company's revenue declined 4.6% to $38.7 million. While some cost pressures continued, SDL was able to manage staffing levels and implement a modest price increase across its New Zealand customer base. SG&A costs were tightly managed during the year.

SDL upgraded several internal systems during the year, including finalisation of new accounting/ERP and CRM systems, and largely concluding the implementation of a new print job management system. These should provide improved operating and sales efficiencies.

We commented last year that success never runs in a straight line. Ongoing pressure in postal markets general, coupled with macroeconomic headwinds mean the Company continues to have its work cut out to generate growth. The entire company is aligned to deliver results with both staff changes and product development supporting growth initiatives.

Business Strategy Evolution and Building AI into SDL's Platform

SDL aims to continue its transformation into a global business through enabling global customer communications as a service, to unlock significant customer cost savings while improving client engagement. This global strategy focuses on key verticals with large-scale, global communications needs such as global charities like World Vision and global CCM platform providers such as Pitney Bowes.

Global customer communications technology delivered as a managed service is at the heart of what SDL does. SDL has largely unified it software products into a "Platform" called DMC (Digital Mail Centre) which leverages a digital workflow approach to ensure the right message gets delivered through the right channel and from the right location. This provides customers with an end-to-end solution covering digital and printed communications through one platform DMC allows SDL's sales efforts to lead with "digital transformation" and mobile first communications which continues to assist with new business wins.

Leading with digital transformation is not just an international strategy but a key differentiator in the New Zealand market. The traditional print and mail house market is expected to continue its structural decline and likely to consolidate (or participants may exit) so it was particularly pleasing to see the New Zealand business generate growth in a shrinking market. The focus on new business, driven by new talent and leading with "digital transformation" has paid off and continues to progress. SDL's software business and strong financial position means the Company is well positioned in the NZ market as a supplier of choice.

During the second half of FY2024, SDL began enhancing its digital solutions by integrating artificial intelligence (AI) into its customer communications platform. The emerging landscape for AI powered customer communications solutions is attractive but very broad. The best product/market fit for SDL initially is in the language translation space, given the needs of our government and global charities customers. We recently launched GenComm AI™, an AI-powered global customer communications cloud and managed services offering, that integrates "best of breed" AI solutions with SDL's powerful cloud platform. This enables governments, charities, and businesses to quickly, efficiently, and effectively communicate with citizens, sponsors, and customers in their preferred languages.

Governments at all levels face increasing pressure to ensure communications are accessible to constituents with Limited English Proficiency (LEP). Beyond regulatory compliance, communicating with customers in their preferred language can reduce the cost of delays in payment, follow-up notices, and call center support. Global charities need to quickly communicate with supporters in many different languages which causes significant delays and expense. Increasingly, organisations recognise language accessibility as a customer experience (CX) initiative. GenComm AI™ makes it easy for organisations to connect with their customers in their preferred language, while reducing the typical cost of manual translations by up to 80%.

AI represents an exciting new chapter in the transformation of SDL to a modern global software technology and managed services business. Digitising the language translation process is a new space for the Company but plays to SDL's strengths in managing data, documents, and complex managed services projects at scale. AI will quickly become table stakes in customer communications software. There may be first mover advantages but this will likely drive further consolidation in the industry. Our customers, employees, and investors will view us as a more modern software technology provider pivoting to growth markets. The business impact is difficult to predict at this point although our business position is strong and we are moving quickly to launch, learn, and iterate.

NBIO (Non-binding indicative offer) Approach

Post FY2024 balance date, on 8 September, SDL received an NBIO from a subsidiary of NZX-listed Being AI Limited (BAI).

The Directors reviewed the terms of the proposed transaction outlined in the NBIO which was described as involving:

- either a partial or full takeover by BAI, and
- options for SDL shareholders to either take a combination of cash and BAI shares (relative proportions of cash and BAI shares were not specified) or all BAI shares.

The description of the proposed transaction indicated that there would not be an option for SDL shareholders to exit their entire holdings in SDL for cash consideration only, nor did it provide any indication of BAI's future intentions for SDL should it obtain a controlling interest without full takeover.

The NBIO remains an incomplete proposal and can only be seen as highly conditional. In the absence of sufficient detail to form an opinion that the proposed transaction was in the best interests of all SDL shareholders, the Board declined BAI's request for access to confidential due diligence information.

SDL further noted that any partial takeover offer proposal would likely face the hurdle that it would neither provide all of SDL's shareholders with the opportunity to exit their holdings nor any certainty as to the exact proportion of their holdings that may be able to be sold if any such partial takeover offer proceeded and was successful (because of the likelihood of scaling).

BAI stated that further detail will be provided in the event that a formal takeover notice is provided to SDL. No further communication or takeover offer has been received from BAI since the initial approach. SDL's Directors will consider and respond to any further approach or formal takeover offer in accordance with their directors' duties and obligations under the Takeovers Code.

FY2025 Outlook

The new business momentum in New Zealand from FY2024 should see SDL deliver additional domestic revenue in FY2025, albeit the overall decline in print and mail house activity continues unabated. Driving growth beyond New Zealand remains the top priority and GenComm AI provides new differentiating capabilities. The Company recently restructured its sales staff in North America and is investing in local sales and marketing that can better leverage GenComm AI growth opportunities. SDL is in the process of folding in the staff of a Direct Marketing Services company based in the New York City area to provide enhanced local sales and marketing for GenComm. An experienced Enterprise sales executive has been hired in Australia and software presales resources will be added in the US and Australia. The Company will continue to add sales resources as we prove GenComm AI product/market fit. While SDL is investing in sales enablement during FY2025, enterprise sales cycles can typically take at least 6-12 months, so little meaningful revenue impact from GenComm AI is likely until FY2026.

As previously advised, SDL remains unable to provide full year FY2025 earnings guidance while the outcome of the RFP from its largest customer remains outstanding.

For the first quarter of FY2025, SDL has trading broadly in line with internal expectations and marginally ahead of the prior year. Forward orders suggest the first half FY2025 result is now expected to be largely unaffected by the RFP tender and the Company expects earnings in the range of $2.2 to $2.6 million.

In addition to the large-customer specific risk, SDL cautions that significant volatility in results is possible and a number of factors, especially macroeconomic headwinds and material postal market declines, are outside the Company's control.