Data#3

# FY14 INTERIM RESULTS BRIEFING

*19th February 2014*

## DATA#3 LIMITED (DTL)

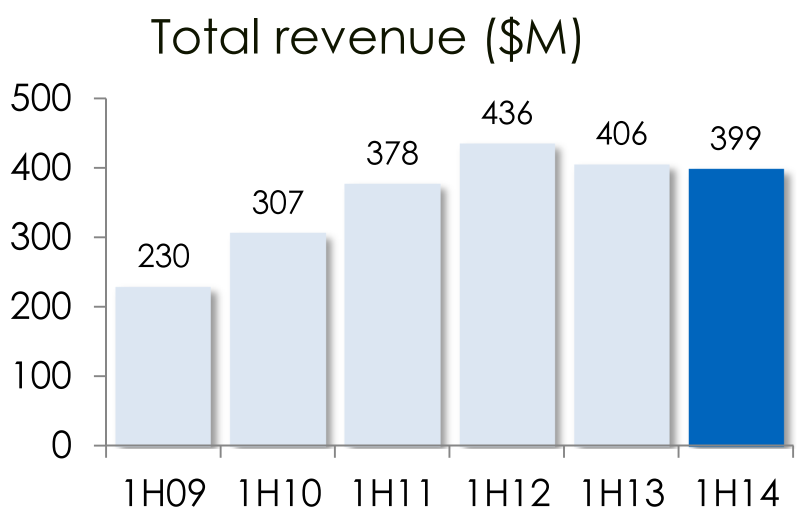
# INTERIM RESULT

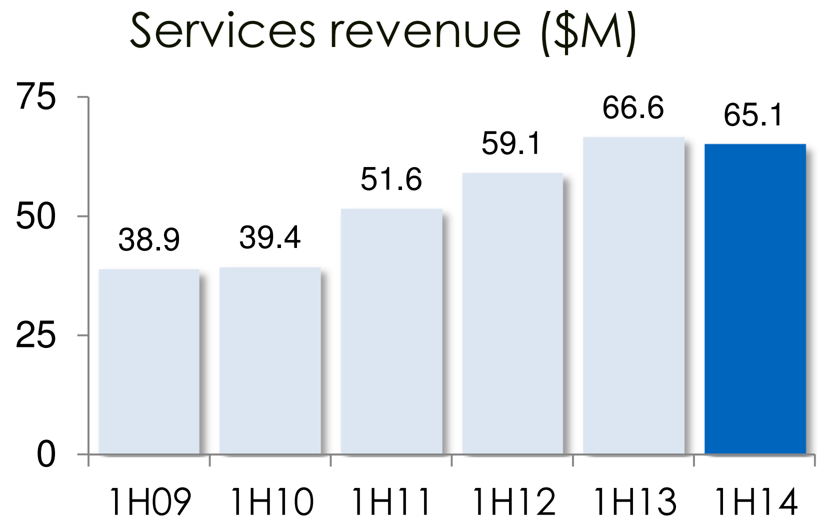
# PERFORMANCE REFLECTED MARKET CHALLENGES

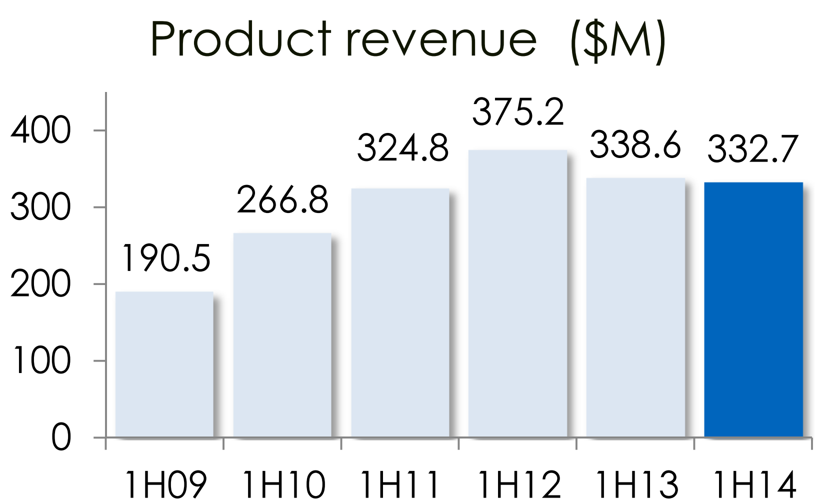
## FY14 first half (1H14) under plan & pcp

- Revenue declined 1.8% to $399.1M
- Gross profit margin declined from 15.2% to 14.4%
- Product gross profit declined 11.7% to $28.7M
- Services gross profit decreased 1.3% to $28.8M
- Staff costs increased 4.4% to $46.7M and operating expenses increased 3.5% to $8.3M
- NPBT and EPS declined 62% to $3.7M and 1.67 cents respectively, in line with guidance provided in December
- A fully franked dividend of 1.5 cents was declared

# REVENUE TRENDS

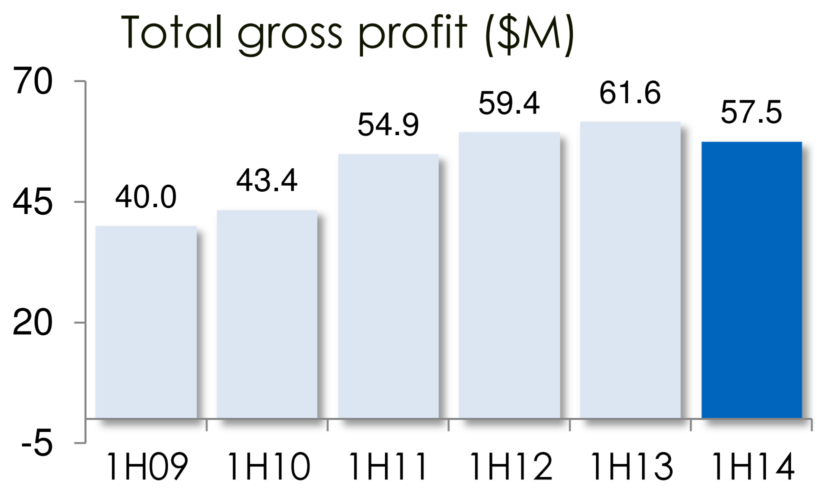


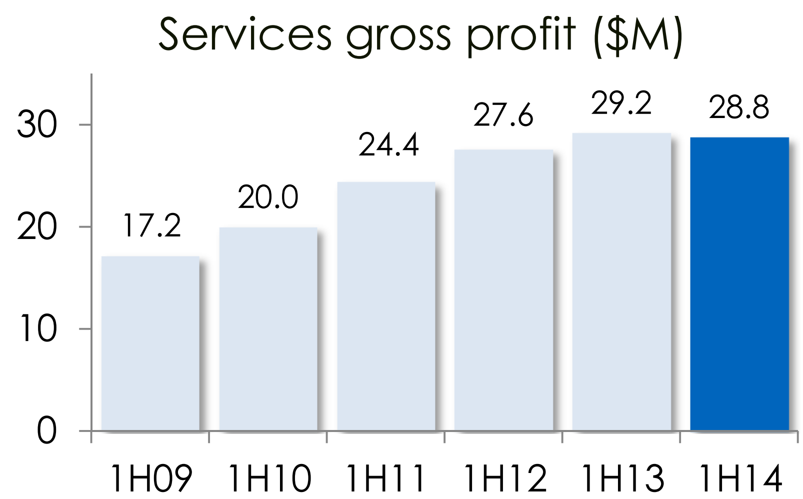



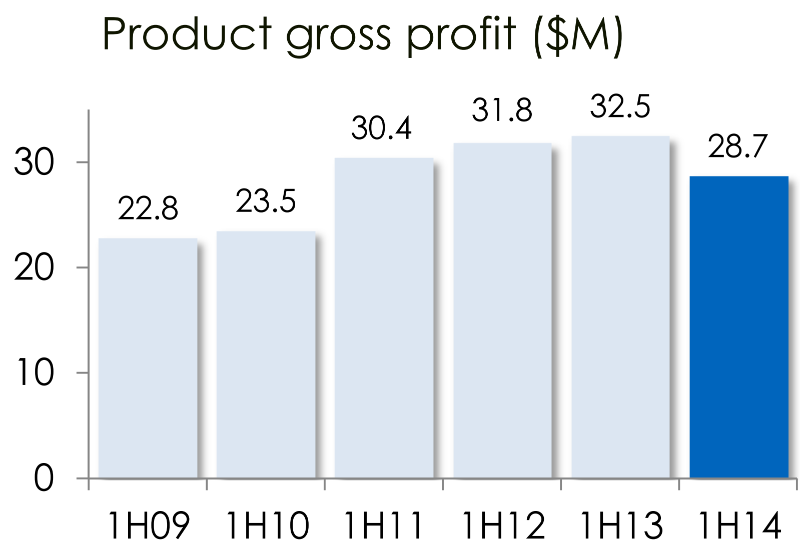




Services & product revenues down overall, but both up if the Fiona Stanley Hospital contract in 1H13 is excluded

# GROSS PROFIT TRENDS



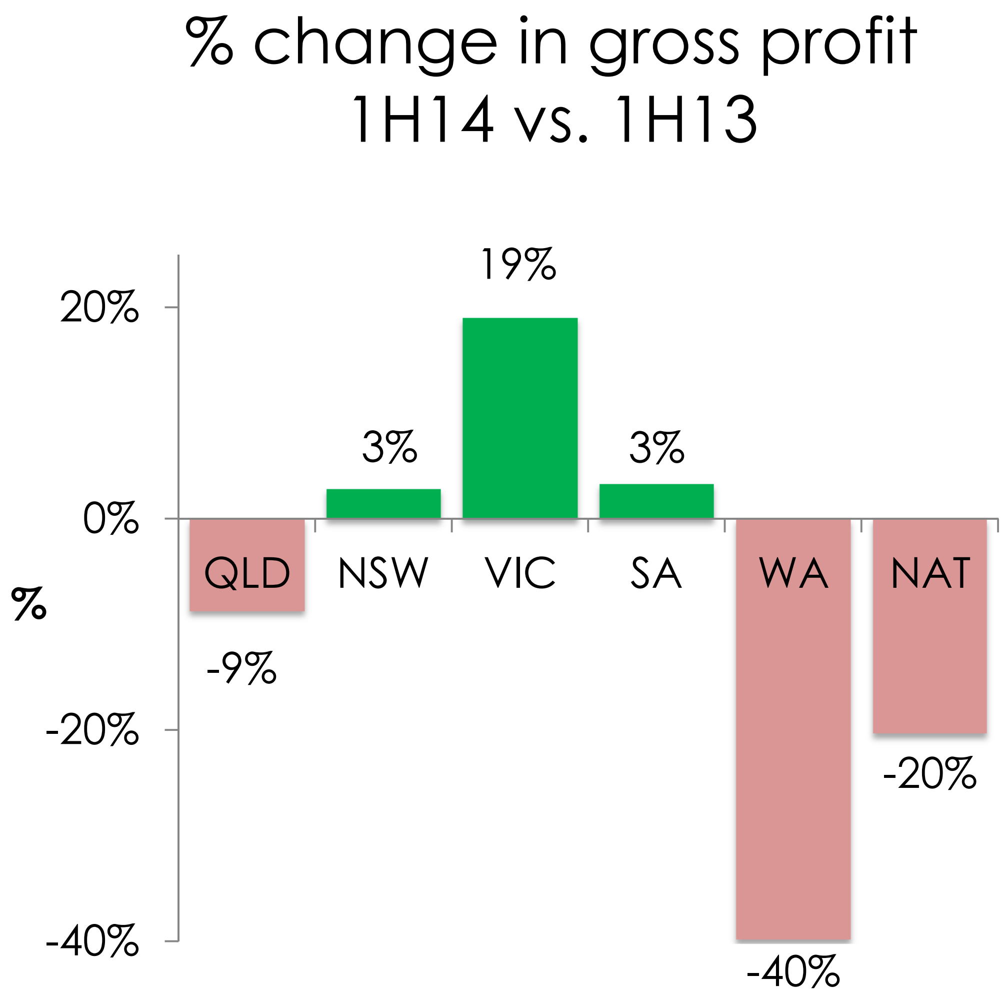




Services gross profit decreased slightly but gross margin % improved with a change in mix from 1H13

A competitive market and changes in some partner incentives drove product gross margin % and gross profit $ down relatively significantly

# REGIONAL MOVEMENT IN GP



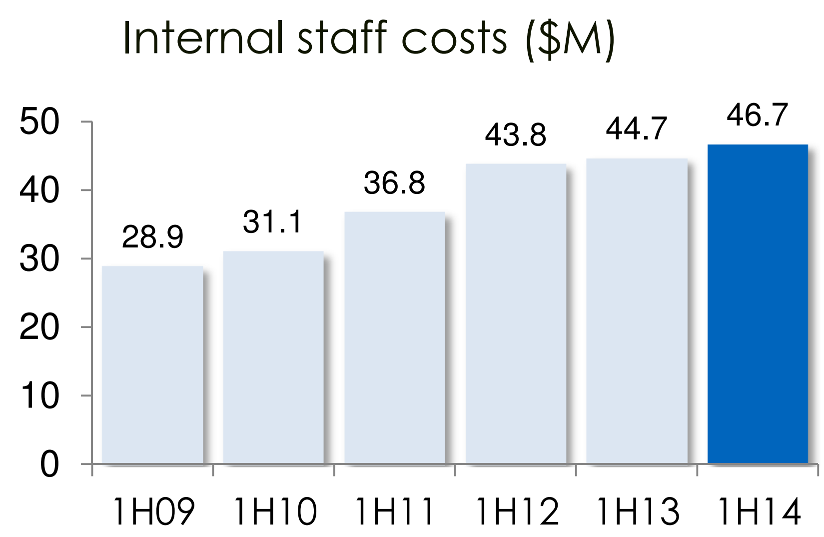

Continued delays in ramp up of Queensland Government IT investment and a subdued corporate sector saw QLD slow further, particularly in software sales

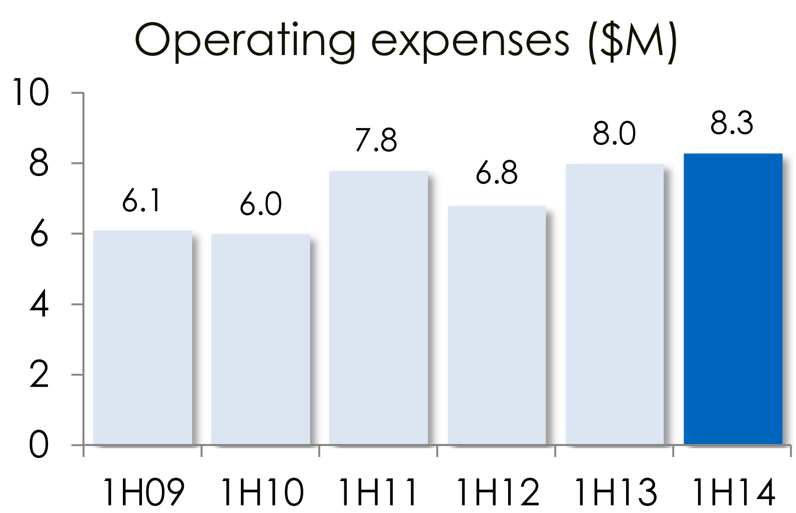
Very strong growth in VIC was underpinned by solid contribution from services

The decline in WA GP was expected given the PCP's benefit from the Fiona Stanley Hospital contract

The niche national services businesses declined as they struggled for traction with our sales business

# INTERNAL EXPENSE TRENDS

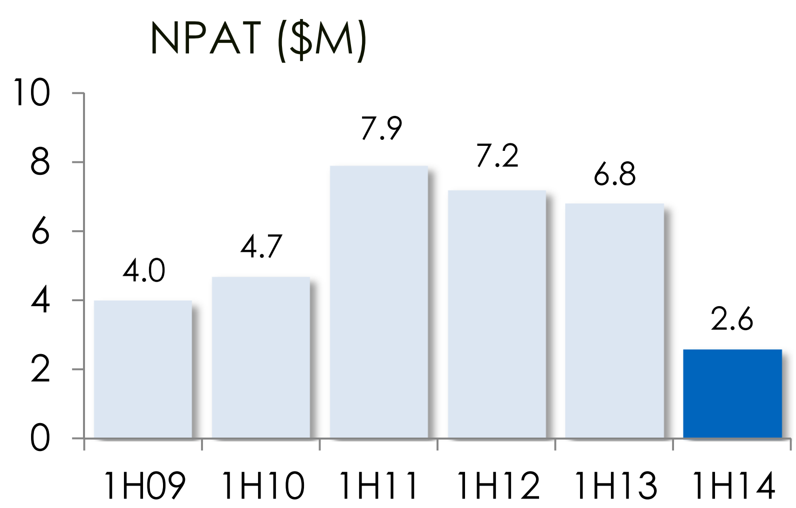


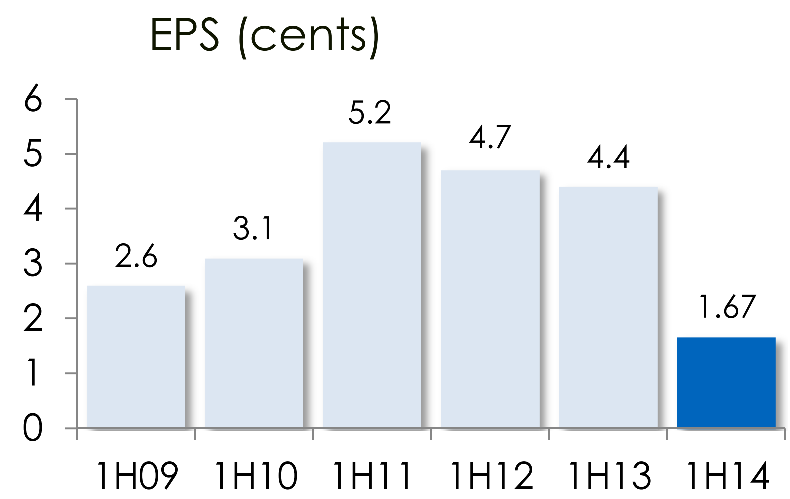



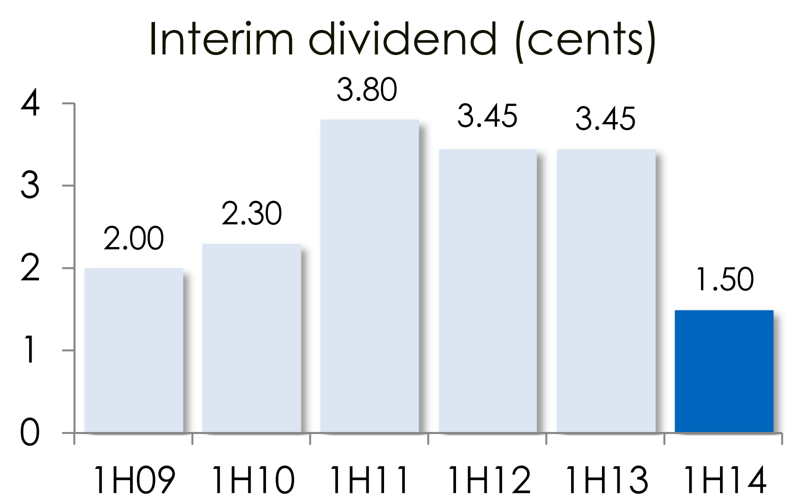

Internal staff costs up 4.4% due to increased cost of doing business and the need to retain capacity at competitive levels in all locations

Operating expenses up 3.5% due to additional rent, depreciation & amortisation costs for infrastructure, systems and property investments that provide leverage when growth returns

# PROFIT, EARNINGS & DIVIDEND TRENDS

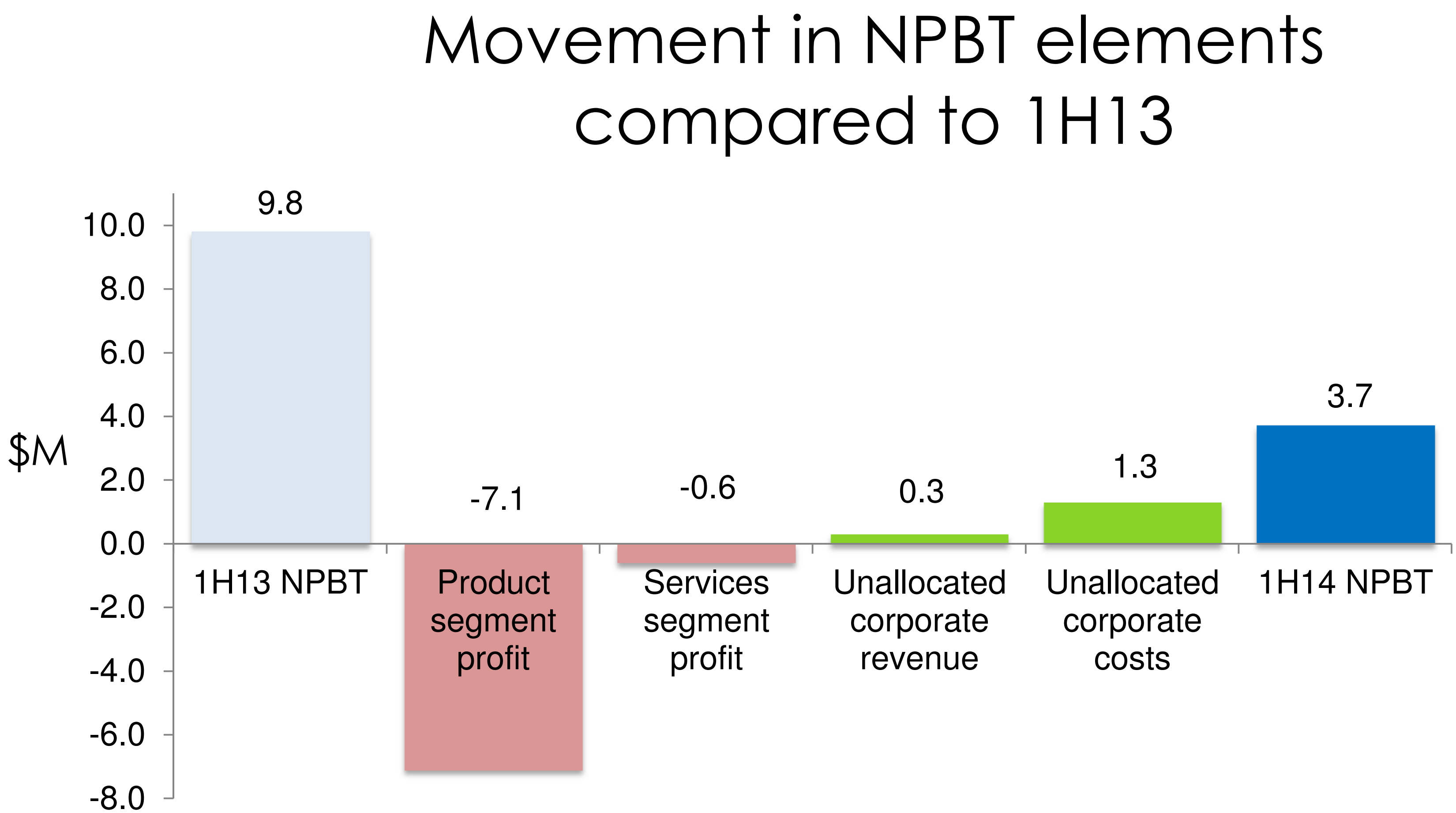



The impact of higher costs and lower gross profit resulted in net profit after tax decreasing by 62.3% to $2.6 million

# MOVEMENT IN NPBT OVER PCP



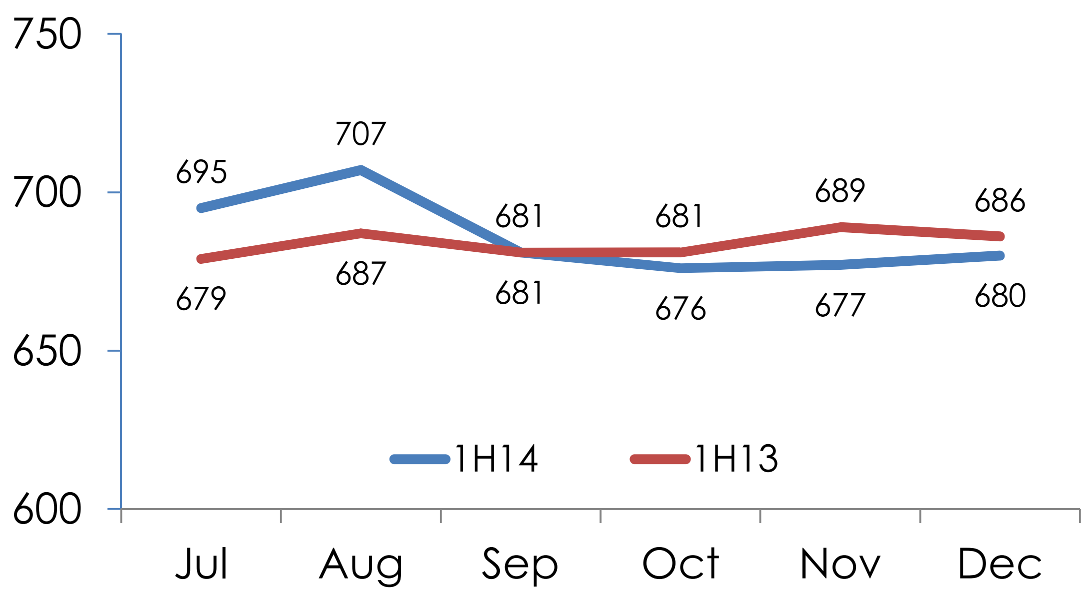
# 1H BALANCE SHEET AND CASHFLOW

- Strong balance sheet
- No material debt
- Cash flow ‘seasonality’ in line with trend
- Average daily 1H cash balance up from $50.4M to $60.2M

# PEOPLE NUMBERS & COSTS

## Internal people numbers

### Ended slightly below pcp



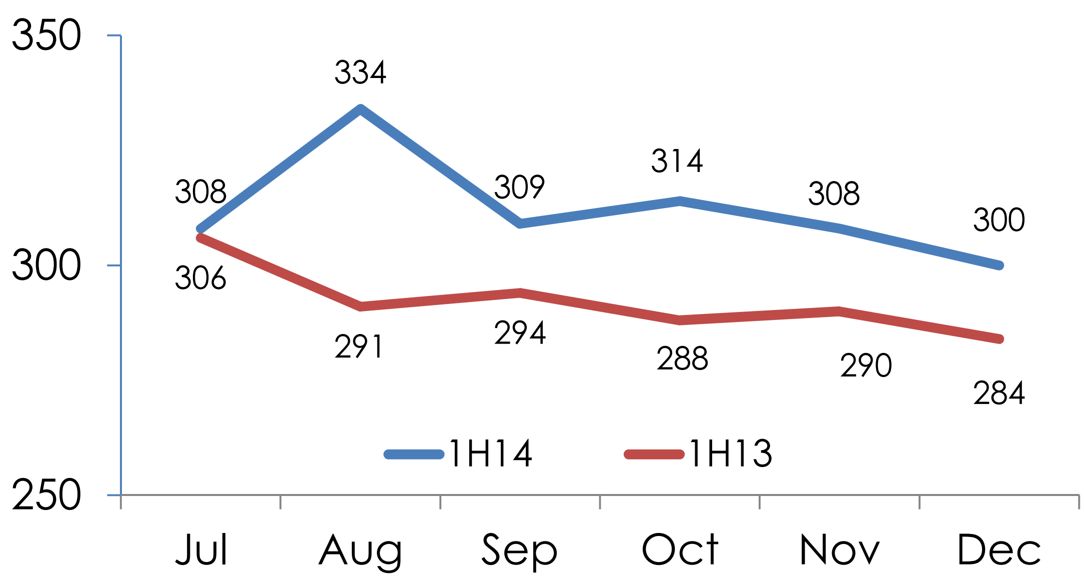

- 1H13 average headcount 684

- 1H14 average headcount 686
- Net reduction from restructure in September
- 1H cost/person increase of approximately 4%

# CONTRACTOR TRENDS

## People Solutions

Contractor numbers up 7%



# SIGNIFICANT CONTRACTS IN 1H FY14

# FULL OUTSOURCE & PROJECT DELIVERY

## Brisbane Airport Corporation

- Competitive tender
- 3 + 1 + 1 years
- Full outsource incl services desk, field support and remote management
- Extends to PMO and subcontract project delivery

*"excited by potential to improve service delivery and project support"*

# PURE IaaS

## McInnes Wilson Lawyers

- Competitive tender
- 3 year Platinum agreement for Data#3 IaaS
- Includes migration
- Moving from small in-house team to Data#3 services


*"transition going well"*

# SELECTIVE OUTSOURCE

## AstraZeneca - Pharmaceuticals

- Competitive tender
- Service Desk & Field Services agreement AUS/NZ
- 2 year agreement moving from in-house to Data#3 services
- Onshore management of global vendors


*"customer satisfaction over 90% after 6 months"*

# STAFF AUGMENTATION OUTSOURCE

## British American Tobacco

- Competitive tender
- Data#3 Hybrid IT staff augmentation
- 3 years – full management of 40+ IT team
- One supplier, fixed price, one invoice and cost savings


*"12% cost reduction with impressive soft benefits"*

# 1H FY14 SUMMARY

# 1H FY14 SUMMARY

## Summary

*"In a challenging market in which decisions remained difficult and competitive particularly for our core product and associated services businesses, we were not able to achieve our financial objectives. However with strong cash management and a strong balance sheet, the board was able to declare a fully franked dividend of 1.5 cents per share"*

# WHAT WE DO

# REALIGNMENT AND CONSOLIDATION

## July restructure

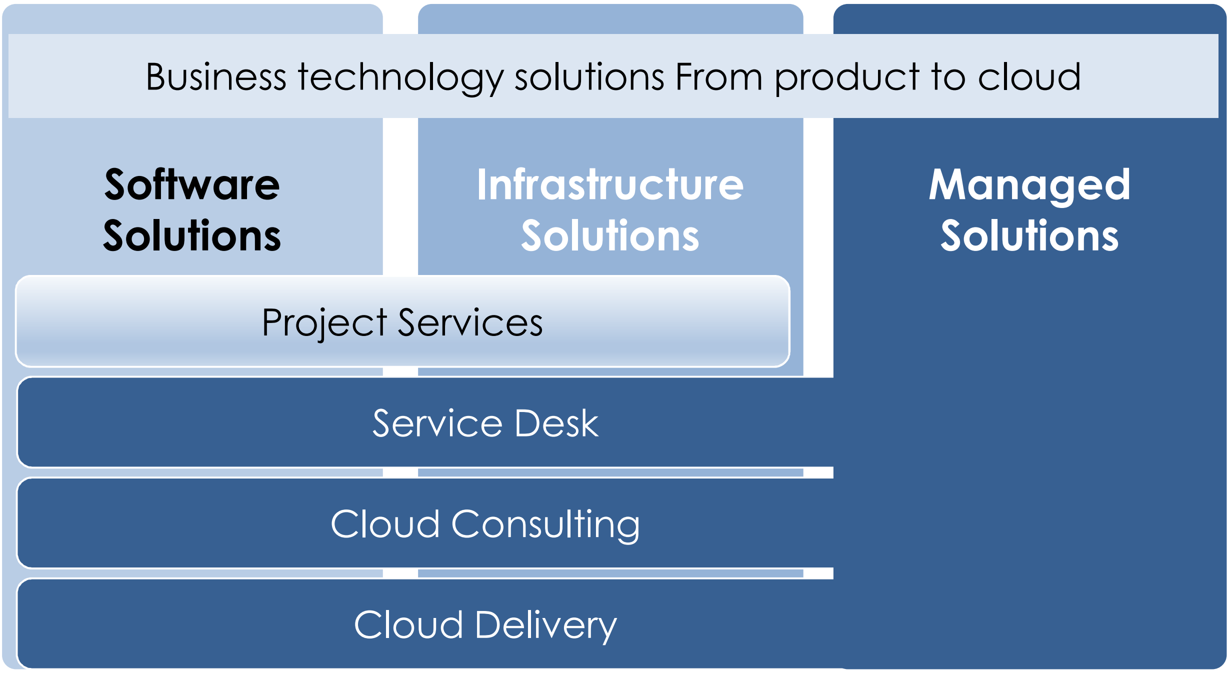
- Aligned around our customers' needs for HYBRID IT, a combination of on premise, outsourced and cloud
- Realigned the 5 areas of specialisation into 3
  - Software Solutions
  - Infrastructure Solutions
  - Managed Solutions
- Consolidated all 'back office' functions into 2 business
  - Shared Services
  - Corporate Services

# FY14 STRUCTURE

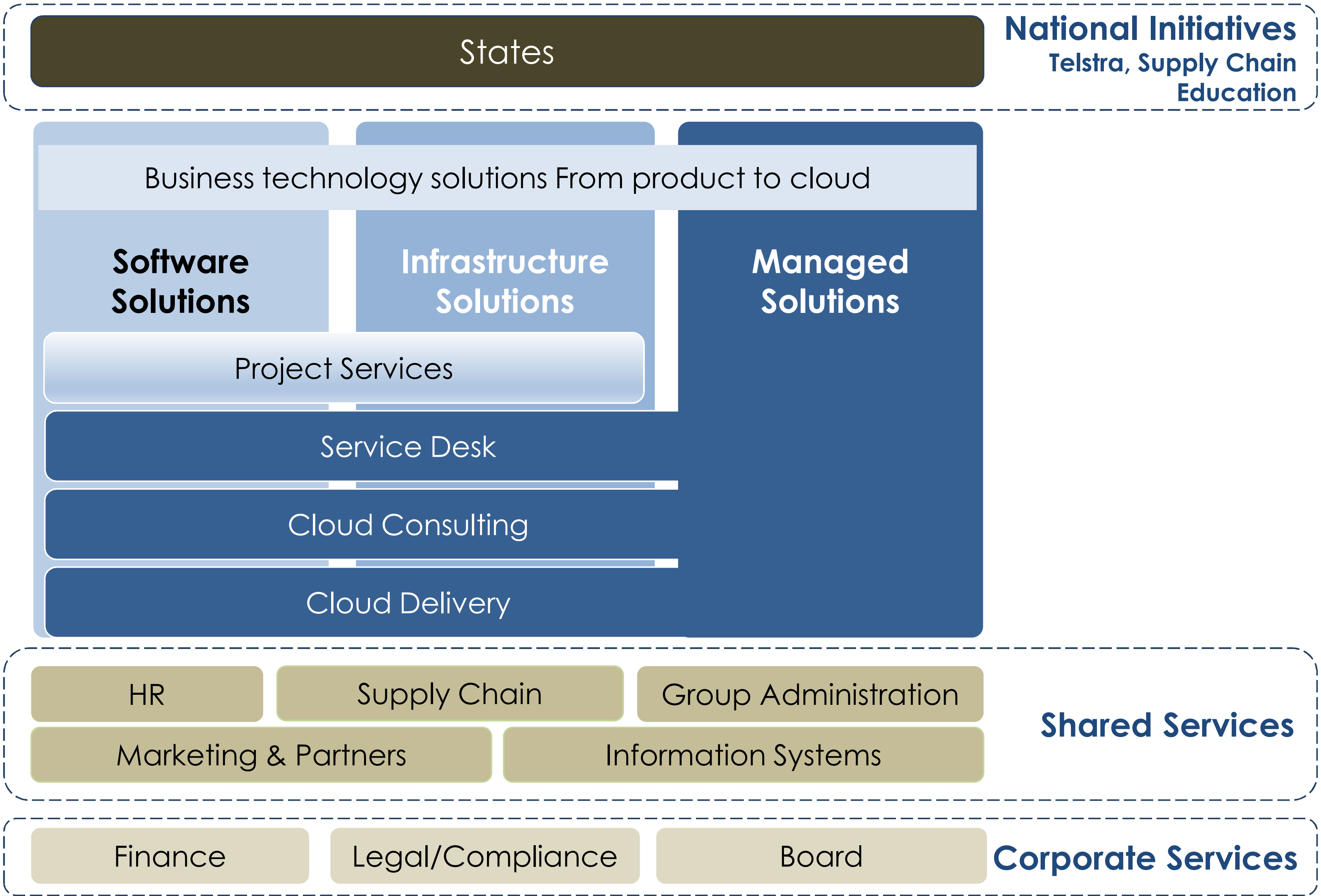
Business technology solutions from product to cloud

| Software Solutions | Infrastructure Solutions | Managed Solutions |
| --- | --- | --- |

# FY14 STRUCTURE



# FY14 STRUCTURE



# SHAREHOLDER PERSPECTIVE GOING FORWARD

# SHAREHOLDER PERSPECTIVE

## 4 questions ......

1. *Is DTL's FY14 plan still appropriate?*
2. *Has it been well executed?*
3. *In a market in transition, is DTL positioned to grow revenues, profit and dividends?*
4. *When can we expect this to happen?*

# SHAREHOLDER PERSPECTIVE

## *Is DTL's FY14 plan still appropriate?*

Assumptions

- Difficult macro-economic times
- Significant technology disruptors will drive Hybrid IT with emphasis on cloud
- Aggressive competition for the best people

Simplified structure

Enhance strategic positioning by extending our solutions into HYBRID IT & transformational services

Leverage our investments

Focus on sales performance and productivity

# SHAREHOLDER PERSPECTIVE

*Is DTL's FY14 plan still appropriate?*

*We are certain that it is.*

# SHAREHOLDER PERSPECTIVE

## *Has the plan been well executed?*

| | |
|---|---|
| Simplified structure | In place but impact underestimated and took time for sales momentum to build |
| Enhance strategic positioning by extending our solutions into HYBRID IT & transformational services | Additional operating expenditure required in aaS and sales capacity in 2H |
| Leverage our investments | Poor product market dulled supply chain leverage; aaS investment leveraged; premises & people investments have upside |
| Focus on sales performance and productivity | Not on track as December fell short of forecasts. Win ratios declined in competitive market |

# SHAREHOLDER PERSPECTIVE

*Has the plan been well executed?*

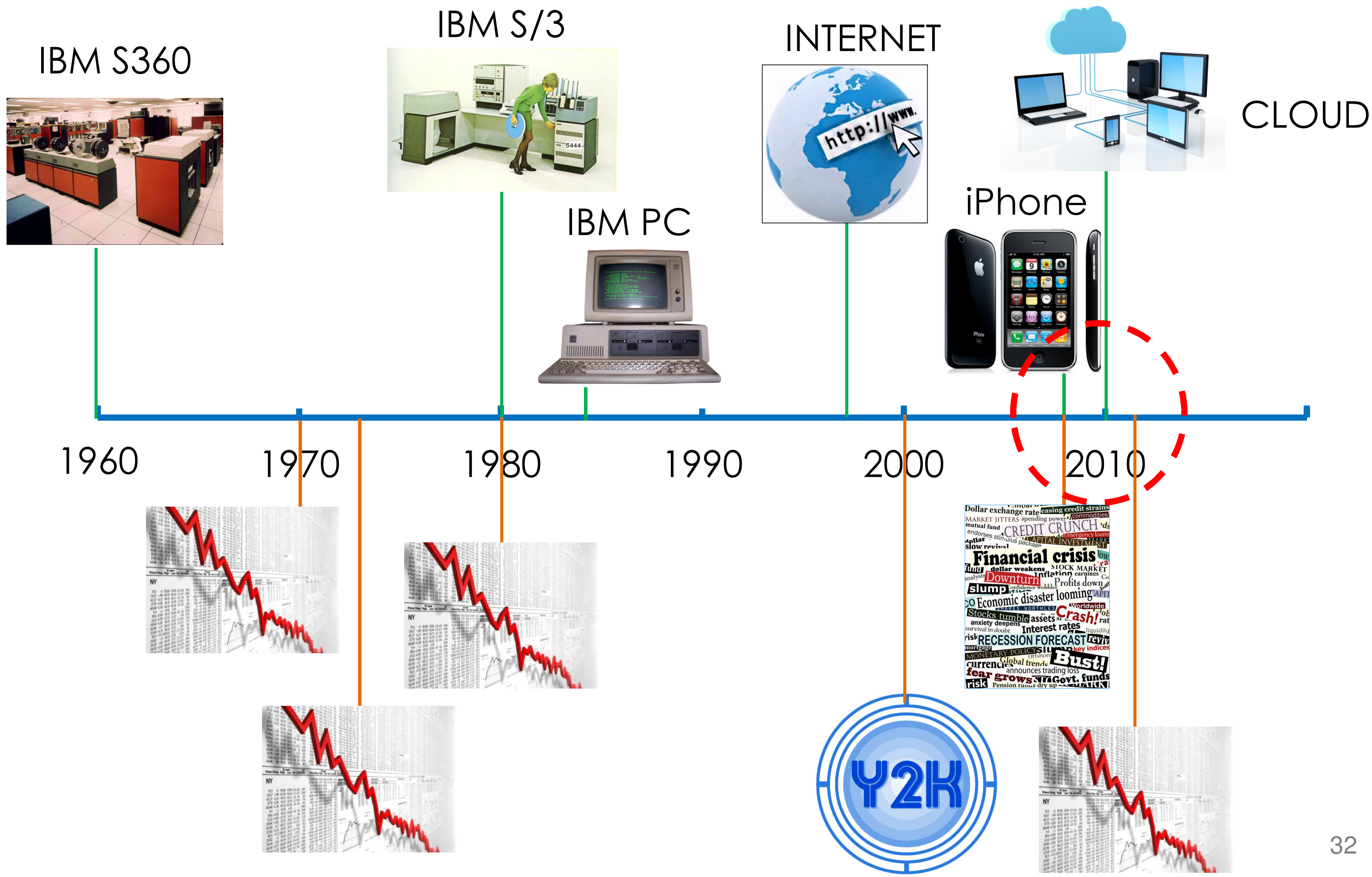
*While we underestimated the impact of the July restructure, particularly on sales performance, this is now past and our teams are fully engaged in the new areas of specialisation.*

# SHAREHOLDER PERSPECTIVE

*In a market in transition, is DTL positioned to grow revenues, profit and dividends?*

1. *A unique point in time*
2. *Three elements to the transition*
3. *Our response*
4. *The customer references that support this*

# A MARKET UNIQUELY IN TRANSITION



# THREE ELEMENTS TO THE TRANSITION

- IT commoditising
- IT consumption changing
- Risk shifting

# IMPLICATIONS OF THE TRANSITION

| IT commoditising | IT consumption changing | Risk shifting |
|---|---|---|
| Data centre desktop product and related services | HYBRID IT<br>From product to outsource to cloud | From implementation to adoption |
| Competitive and price sensitive | From Capex to Opex | New service types |
| Demands solution packaging & operational efficiency | Demands solution breadth, integration and financing | Demands investment and trusting relationships |

# OUR RESPONSE TO THE TRENDS

| IT commoditising | IT consumption changing | Risk shifting |
| --- | --- | --- |
| Sales efficiency<br><br>Investment in supply chain automation<br><br>‘Rapid’ service packaging<br><br>Investing in aaS | People augmentation<br><br>Maturing selective sourcing solutions<br><br>Investing in aaS<br><br>Finance partner | Niche adoption services in Consulting and Business Productivity<br><br>Investing in aaS |

# SUPPORTING REFERENCES

| IT commoditising | IT consumption changing | Risk shifting |
| --- | --- | --- |
|  Queensland Government, Bendigo Bank |   Brisbane Airport, Ipswich Queensland Australia | sparq SOLUTIONS, FUJI xerox |

# SHAREHOLDER PERSPECTIVE

*In a market in transition, is DTL positioned to grow revenues, profit and dividends?*

*We think we are and as our customers re-architect their IT strategies, we believe we're positioned strongly with offerings and references.*

# SHAREHOLDER PERSPECTIVE

*When can we expect this to happen?*

*We're seeing conditions improving which should translate in time to more positive sentiment toward investment.*

*This in turn will lead to more significant take-up in aaS and transformational services.*

# 2H FY14
# OUTLOOK

# 2H GUIDANCE

"With the shortfall in first half performance it will be very difficult for the company to achieve its original target to at least match FY13"

# 2H GUIDANCE

"However activity levels are very high and with pipeline building our original 2H FY14 target, while aggressive, is not beyond reach. We will keep shareholders advised as the second half progresses"

# Q & A

# APPENDIX 1 – FINANCIAL SUMMARY

| | 1H14 $'000 | 1H13 $'000 | % Change |
|---|---|---|---|
| Revenue by segment: | | | |
| Product | 332,747 | 338,647 | -1.7% |
| Services | 65,113 | 66,629 | -2.3% |
| Other revenue | 1,234 | 937 | +31.7% |
| Total revenue | 399,094 | 406,213 | -1.8% |
| | | | |
| Total gross profit | 57,469 | 61,646 | -6.8% |
| Total gross margin % | 14.4% | 15.2% | |
| Product gross profit | 28,669 | 32,471 | -11.7% |
| Product gross margin % | 8.6% | 9.6% | |
| Services gross profit | 28,800 | 29,175 | -1.3% |
| Services gross margin % | 44.2% | 43.8% | |
| | | | |
| Total expenses | 55,016 | 52,763 | +4.3% |
| EBITDA | 3,906 | 9,917 | -60.6% |
| EBIT | 2,632 | 9,046 | -70.9% |
| EBIT margin % | 0.7% | 2.2% | |
| NPBT | 3,687 | 9,820 | -62.5% |
| NPAT | 2,569 | 6,819 | -62.3% |
| | **1H14** | **1H13** | **% Change** |
| Earnings per share | 1.67 cents | 4.43 cents | -62.3% |
| Dividend per share | 1.50 cents | 3.45 cents | -56.5% |

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