Data#3 Limited
2014 AGM - Chairman's Address
21 November 2014

Ladies and gentlemen,

Good morning. I'm delighted to welcome you to to the 2014 Annual General Meeting of Data#3 Limited again being held in the company's Brisbane corporate office at 67 High Street Toowong.

The opening video is one we produced as part of our communication to customers on how Data#3 can help them transition their on-premise applications and infrastructure into outsourced and cloud solutions. I hope you found it informative. It's one of a set that represents the investments we've made on your behalf to ensure Data#3 remains relevant to customers and a leader in IT solutions delivery.

If you're interested, you can find these videos at Data#3's YouTube site https://www.youtube.com/user/Data3Limited

The annual report issued with the notice of today's meeting presents the 2014 financial year results and the financial position as at 30 June 2014.

The 2014 financial year saw continuation of the challenging operating conditions we experienced in 2013. Pleasingly, even with this and a highly competitive market with relatively flat investment in technology, Data#3 was still able to grow top line revenues by 8% to $833.6 million. This demonstrates the continuing relevance of our offerings to ever-changing customer needs, the value of our extensive market coverage, and our ability to gain share.

However, on-premise provisioning of software and hardware where Data#3 has been very successful for many years is commoditising, and the transition of revenue to the new consumption models associated with outsourcing and cloud requires continuing investment and has yet to build scale. In this transition, margins have continued to come under pressure. Costs have also been relatively higher to handle a large number of smaller transactions, a competitive environment for the best people, and maintain competitive capacity in all locations, and this has impacted earnings which declined on a per share basis from 7.88 cents for FY2013 to 4.89 cents for FY2014 - a 38% decrease.

In commenting on the revenue growth that's been achieved, a key driver for this was the continued dedication and team efforts of the company's management and staff. I would like to take this opportunity to thank everyone at Data#3 for the tremendous effort put in over the past 12 months.

As a result of the reduced profitability, Data#3 paid fully franked total dividends of 4.5 cents per share for the 2014 financial year, a 35.7% reduction from the amounts paid for both the 2012 and 2013 financial years. Reflecting the strength of the company's balance sheet, this actually represents an increased pay-out ratio of around 92% of 2014 after tax profit.

The company's Managing Director, John Grant will discuss the environment in which Data#3 is operating and the full year result in more detail shortly.

A key strength of Data#3 business model is the continuing excellent performance in key areas of receivables collections and cash management. During the year the company continued to operate essentially debt-free. As previously announced, since the end of the financial year, specific commitments have been entered into in respect of the Discovery Technology and Business Aspect acquisitions which may result in future drawdowns against existing funding facilities.

Given the backdrop of continuing uncertainty and a market in transition, our overall financial objective for the current year is to improve on the performance of the 2014 financial year, and thus to restore growth in profitability and earnings. These recent acquisitions are expected to contribute further to this planned improvement and together with longer term strategic plans, further strengthen the company's performance beyond FY2015.

The senior leadership team has built this year's plan to achieve this objective. The 2015 plan also focuses on:

- Transitioning the solutions we offer from primarily product centric to increasingly service centric, and enhancing these with new service lines and partnerships that add revenue and profit
- Continuing to invest in our people such that they remain high performing, innovative, skilful, more productive and confident of their future
- Directing our sales focus to both the IT group and the end user within our customers, and
- Continuing the focus on cost optimisation and continuous improvement.

The geographic base of the business includes operations in Brisbane, Sydney, Canberra, Melbourne, Adelaide Perth and Hobart, and distribution centres and data centre facilities in Brisbane, Sydney and Melbourne.

The company's share price performance over the past year has reflected the reduced level of profitability. With shareholder value over the year decreasing, your board and management are fully aware of the disappointment felt by shareholders. We are focused on implementing a strategic plan that is aimed at restoring growth in profitability and dividends. If the company can deliver its operational targets, we expect to see improved shareholder returns.

The remuneration report which is included in the annual report will be put to the meeting for adoption. Within Data#3, as in previous years, targets to produce acceptable total returns to shareholders have been established and the management team's remuneration is structured in line with these targets. I am sure that shareholders know that remuneration needs to be set to attract, reward and retain. Our management and staff are regularly targeted by competitors in the highly competitive market for IT talent. We are very conscious of the balance that must exist between expense levels and attracting and retaining key people – they ultimately make the difference.

We measure remuneration every year against industry benchmarks to ensure it is set competitively and the board believes that both the levels and structure of remuneration are in line with the market and appropriate to produce the results we are targeting.

I recommend the remuneration report for adoption at today's meeting.

Another item for your consideration on today's agenda is the reappointment of Ian Johnston to the board. Ian has had a long association with Data#3 since the company's ASX listing in 1997, and was appointed as an independent non-executive director in 2007. More information regarding his qualifications and experience is included in the company's annual report. I am delighted that Ian is standing for re-election and his fellow board members strongly endorse this resolution.

The final item for your consideration is the adoption of the proposed new constitution. The existing constitution was adopted in 1999 and since that time there have been a number of changes to the legislation governing corporations. The proposed new constitution reflects amendments to the Corporations Act and ASX Listing Rules since the existing constitution was adopted, as well as reflecting technological changes and the current practices of the company.

A key focus of the board is succession planning. In April this year, Mark Esler, one of the original shareholders at the time of listing, retired after 30 years at Data#3 and 18 years as a senior member of the management team. Mark's involvement over many years contributed greatly to the success of Data#3 and to the strength of its position in the IT market. We wish him well in retirement.

Another original shareholder is our Managing Director John Grant. John has been central to the success of Data#3 for 34 years, 18 of them as Managing Director. His leadership during that time has been outstanding. As set out in the remuneration report and well flagged in previous communications to shareholders, John's current service agreement will complete on 31 December 2015 at which time he will stand down as Managing Director.

A key element of John's service agreement is to present to the board a plan for his succession – one that ensures that the transition to a new leader occurs effectively and with the minimum disruption by 31 December 2015. Over the past year the board has been working with John and other members of the senior leadership team to formulate and implement this succession plan. This has been completed and the board has accepted John's recommendation that Laurence Baynham be appointed to the position of Chief Executive Officer, effective immediately. Congratulations Laurence.

As many of you will know, Laurence has served in various roles during his 20 years as a member of the Data#3 team and is currently Group General Manager, a position he has held for 10 years. Laurence's appointment as Chief Executive Officer and his experience with Data#3 clearly shows the quality of our management team, and the board is delighted to have been able to appoint someone of his calibre from within the company and ensure a smooth transition.

Through to December 2015, John will have responsibility for transitioning all current operational responsibilities and relationships to Laurence, helping and supporting him where required; certain strategic projects where the board sees his leadership as appropriate; and managing Data#3's acquisition interests.

As Chief Executive Officer, Laurence will be responsible for all day to day operational and planning responsibilities. The company has entered into a service agreement with Laurence to reflect this new role which is expected to continue the transition of Data#3 into the evolving IT market driven by new and emerging technologies, and to restoring growth in profitability to further strengthen the company's financial position and returns to shareholders.

Following John's completion of his role as Managing Director, he will maintain a strong involvement with the company as a supportive shareholder and through his positions as Chairman of the board of Discovery Technology and a member of the advisory board of Business Aspect. After a suitable period the board and John may consider his appointment as a non-executive director.

I am sure that all shareholders will agree that John deserves the highest accolades for his long period of dedication to the success and growth of Data#3 and will look forward to a successful transition to Laurence and to John's continuing association with the company.

I will now ask John to the microphone to address operational aspects of the company's 2014 performance and the outlook for the current period.

At the completion of his address I will invite your comments and questions regarding the annual report, the remuneration report and further information that we have released today.

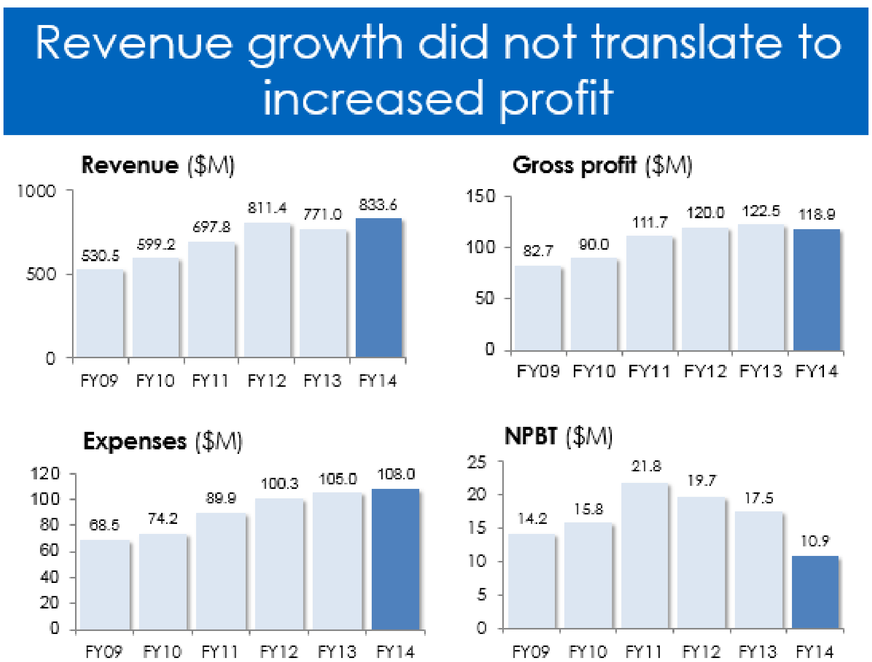
Thank you for your continuing interest in the company and your attendance at this 2014 Annual General Meeting.

Richard Anderson
Chairman
Data#3 Limited

Data#3 Limited
2014 AGM - MD's Review of Operations
21 November 2014

Ladies and gentlemen,

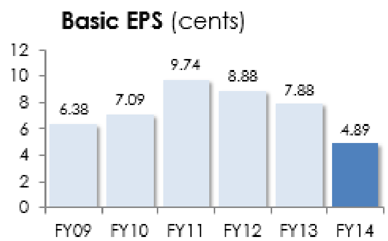
Good morning and welcome to shareholders and friends of the company. As Richard said, with my current service agreement as Managing Director coming to an end in December 2015, we are implementing a sensible and progressive transition from me to the company's long term Group General Manager, Laurence Baynham. Laurence has been a committed and loyal deputy for the past 10 years and I'm totally comfortable that we will achieve an effective transition. More about this later. Let me now report on the performance of your company over the 2014 financial year and our plans for 2015.

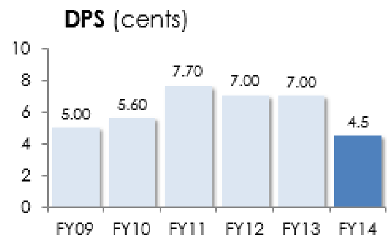


In terms of overall financial performance, Richard summarised the high level situation very succinctly when he said that in this period of market transition with its demand for investment, it has proven difficult to manage expenses in line with top line gross profit without very significant disruption and risk.

For the last three years, sales margins have declined as IT budgets have come under pressure to sweat on-premise assets, and IT strategies have changed to take advantage of the new paradigms offered by the public cloud, mobile apps and big data. That our revenues have essentially held strong over this period is an indication of the ability we have always had to win share, but this has come at increased cost. Consequently, profit and earnings have declined.

Revenue growth did not translate to increased earnings





As Richard also said, through best in class cashflow management, we have been able to increase dividend pay-out ratios but not the quantum of dividends. Our market is in transition and your company as a consequence is in transition also.

To explain this a little further, I need to take you to the next level of detail. I hope this helps you to better understand the transition that is taking place and our position in it.

Our pedigree is as a reseller and associated services company

While over its 37 years Data#3 has operated a number of business models, for the large part of its 17 years as a listed company, our pedigree has been as a reseller of hardware and software technologies sourced from global vendors such as Cisco, EMC, HP, IBM, Microsoft and VMWare, and has provided a range of high quality and market leading services to integrate, implement and enhance our customers' use of those technologies. As such we have not been a creator of technologies that are uniquely ours and taken them directly to market. This reselling business model has allowed us to partner directly with our vendors leveraging their market power, brand and marketing spend. We have executed and continue to execute this business model, I believe, better than any other organisation in the country, and over the long run it has been rewarding for our people, our customers and our shareholders.

Around six years ago we saw parts of our reselling revenues being subsumed into outsourcing agreements primarily with large multi-national suppliers such as Unisys, Fujitsu and IBM, and we decided to form an outsourcing business of our own, partly to compete, and partly to deliver additional revenue and profit to the business. In a sense this move took us into a business model in which we invested to create a services capability independent to some degree of vendor applications and technologies, and we took this to market directly without the leverage and support of those global partners. While a more expensive sales model, this had the promise of higher margins and contracted revenues that could mitigate the seasonality associated with the transactional reseller business model. I think we have executed this business model relatively well, but it has demanded continued investment and we haven't yet reached the scale required to optimise the leverage that should come with these investments.

Around four years ago, the cloud surfaced for serious consideration as a way enterprises could change the way they delivered services to their business. This promised to remove their dependence on specific vendor technologies and in-house skills to keep their systems operating – 'lights on' so to speak, and its Opex rather than Capex oriented funding model appealed to a constrained investment environment.

One thing happened at this point and another didn't.

What did happen was that Chief Information Officers went back into their shells delaying investment in existing systems as they sought to define if and how the cloud could form part of their future IT strategy.

And what didn't happen was that the global partners we'd supported through their reselling business model, concurrent to hailing cloud as the latest and greatest, failed to deliver cloud versions of their technologies we could resell. In addition, stuck in their own transactional oriented revenue model, most wanted us to continue to buy their product and then to invest large sums to deliver it to our customers from our own cloud. In large part, our global partners talked the talk but didn't walk the talk, and some such as Cisco, IBM and HP have paid the price of not doing so both with flat revenues and declining profitability, and by leaving an opening for fast movers such as Amazon Web Services, Rackspace and SalesForce.com to enter the market with what has been absolutely no attention whatsoever to achieving any reasonable level of profitability, but with the ability to create the positive perception and share prices that invariably go with first movers and the next big thing.

In fact, what these new entrants have done is commoditise elements of what is a complex and mission critical function for enterprises and one that, to operate in an integrated way with security and integrity, demands continuing high levels of investment. Over time, there may be a higher price for customers to pay than first appears.

At that time we made the right strategic decision that in order to remain relevant to our customers and the market more broadly, we needed to be able to offer applications and technology from our own cloud. We did this in partnership with our first customer, Alpha Coal, but around $5M of investment later, while we have remained relevant, have secured a number of significant customers and have competitive solutions, we are yet to achieve the scale necessary to deliver the expected financial returns. It is of some small compensation that this has also been the case with almost every other organisation around the world that has made similar investments.

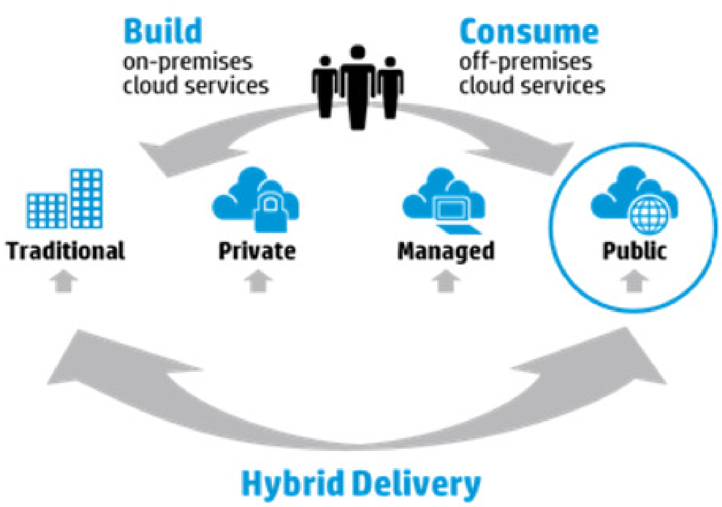
However shareholders will be pleased I hope to hear that the sun is peeping from behind the cloud. In recent months we've seen our global partners start to make substantial investments to deliver cloud delivered versions of their technologies. IBM has acquired an infrastructure as a service cloud company called Softlayer and has announced over $1B in investment to roll this offering out across the world. Cisco has announced its global Intercloud partnering with Telstra in Australia to deliver a resalable offering. Microsoft has now launched Office 365 and its Azure infrastructure as a service public cloud from leased data centres in Australia. EMC is now delivering its public cloud backup as a service offerings, VMWare has announced a range of infrastructure and software offerings as a service and Symantec is delivering its security offerings from its own cloud.

And the best thing is that they're all being offered for resale by their partners.

There's still a way to go before these offerings are as mature and integrated as they need to be to become mainstream investments by our customers and the market more broadly, but it seems that what goes around may be coming around, and that we are returning to the reseller and integrator business model we have proven over time we can excel in, but where we resell a vendor delivered service rather than a physical product, and offer a range of accompanying consulting, transition, integration, implementation, operational management and optimisation services.

But this is a transition as I said at the outset – one that is not yet complete and one that will still present potholes for less than vigilant travellers. Your company is in this transition and we have a plan that is encapsulated internally in the mantra ‘Transition Together. Towards Tomorrow’ – one that sees our business and the offerings we have for our customers progressing over time from primarily product centric to increasingly service centric.

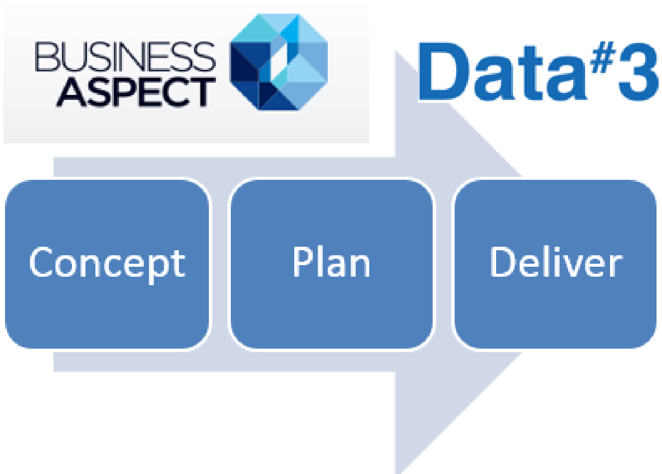
This targets the practical reality that our customers will continue to invest decreasingly in their on-premise applications and infrastructure and increasingly in consumption based applications and infrastructure provided as a service from our own and our partners’ clouds, integrated and delivered by us across what we’re calling a Hybrid IT applications and infrastructure environment.



Through this transition we will continue to see pressure on margins in customers’ on-premise investments and new consumption investment will need to scale further to completely offset this. So our plan targets both organic and inorganic opportunities. In the organic sense and given we operate in a very big market, the plan increases sales capacity to drive market share. There is clearly additional cost associated with this approach, but the simple rationale is that if our win rates are maintained, profitable growth will follow. It is also in contradiction to the previous two years where we have scaled back parts of the business early in the year which has put us on the back foot. This does not mean that we won't continue to drive cost out where we can and we have identified our current product supply chain, enhanced automation of processes within our outsourcing business and cross business services administration as areas we will pursue.

It's for this reason that we are looking to inorganic growth through new partnerships and acquisitions that can both enhance and make more competitive what we already offer, and provide new sources of revenue and profit.

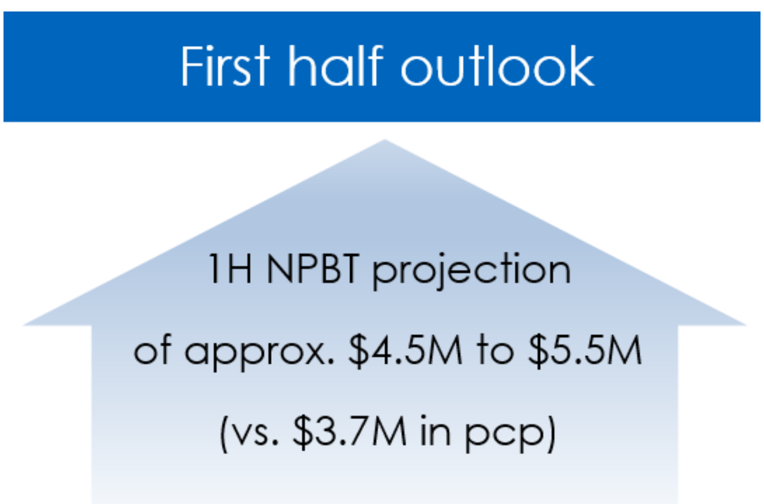
Our acquisition of 42.5% initially in Discovery Technology offers two opportunities – firstly as an investor in a software company that, while effectively a start-up, is positioned very strongly in the rapidly growing Wi-Fi Analytics sector; and secondly as a reseller of the CCX Customer Connected Experience application and the necessary Cisco Wi-Fi infrastructure. With the ability to extend our shareholding to 56.7% by June 2015 and to 100% by June 2017, there is potential to gain a significant position in this market both locally and globally.



Our acquisition of the consulting firm Business Aspect also offers two fresh opportunities – firstly to extend what we can provide to our customers with an end-to-end ‘Concept to Plan to Deliver’ range of services from one fully accountable organisation, and secondly to provide additional consulting revenue and profit we would not otherwise get.

It’s early days for both acquisitions and the integration is still work in progress, but signs are positive and in line with our expectations.

Given its November 21, I’m expecting you’re anticipating I’ll give some guidance for the first half. We expect to improve on last year’s first half NPBT of $3.7M. To what extent we can do this remains primarily dependent on identified on-premise opportunities closing and being shipped in November and December.



But our current projection is for pre-tax profit in the range of $4.5M to $5.5M. This projection underpins the full year guidance to improve on last year’s pre-tax profit of $10.9M.

Let me now turn to our succession strategy.

As Richard pointed out, a key element of my service agreement is that I deliver to the board a plan for my succession that ensures the transition to a new leader occurs effectively and with the minimum disruption by 31 December 2015. Over the past year the board has been working with me and members of the senior leadership team to formulate and implement this succession plan. The handing over of the day to day operational and planning responsibilities with the appointment of Laurence as CEO in advance of my completing my service agreement was my recommendation and I'm delighted the board has accepted it. In so doing the directors have consulted with members of the senior leadership team and as such Laurence's appointment has all our full support.

This long period of transition is designed to ensure that there is a smooth transition. With 10 years' experience in running the majority of the business through the lines of business and the states, we expect Laurence will readily accommodate the additional management responsibilities of CEO and I will work with him to transition the relationship with the investment community and our shareholders.

I will continue in the role of Managing Director until the end of my contract on 31 December 2015 focusing on:

- Activities that transition current management responsibilities and relationships to Laurence
- Certain strategic projects where the board best sees my skills of value, and
- Data#3's acquisition interests as Chairman of the Discovery Technology board and a member of the Business Aspect advisory board. I will also continue to lead any future M&A activity.

At the end of my contract and after a suitable period, the board and I may consider my appointment as a non-executive director.

I have enjoyed my time enormously at Data#3 and will continue to do so for the balance of my term as Managing Director. It has become a great company with a remarkable team. I look forward to continuing to play a key role and to helping and supporting Laurence to optimise results from this year's plan.

Thank you.

John Grant
Managing Director
Data#3 Limited