

2020 Annual General Meeting

Chairman's Address **12 November 2020**

Ladies and gentlemen, good morning and welcome to the 2020 virtual Annual General Meeting of Data#3 Limited.

The fact that we are meeting virtually today, shows just how much and how quickly things can change. It also demonstrates how, collectively, we can adapt and find solutions. Together with our many customers Data#3 has been at the pinnacle of these changes right across the country.

The last four months of the 2020 financial year represented unprecedented challenges for every business and individual. I am pleased to say that the people of Data#3 rose to the challenges and helped our customers continue their business operations. In doing so, many parts of our business accelerated with the use of collaboration technology, cloud, end user computing and enhanced security solutions.

As a result, both board and management were delighted to report a record performance for the 2020 financial year (FY20).

Total revenue increased by 14.9% to \$1.6 billion. We are particularly pleased with the growth in the cloud-based business, with public cloud revenues increasing by 60.4% to \$581 million. With this strong revenue growth, we were able to gain extra leverage. Our Chief Executive and Managing Director, Laurence Baynham, will discuss this further when he addresses you shortly.

The consolidated after-tax profit and earnings per share increased by 30.5% and the directors declared a final fully franked dividend of 8.8 cents per share, bringing the total dividend for FY20 to 13.9 cents per share fully franked, which represents a 90.6 % payout ratio for the full year.

The financial position of the company remains strong. We continue to be debt free and very effective management continues to optimise the group's use of working capital.

It is particularly pleasing that at the same time as delivering strong financial performance during the ongoing global pandemic, we are also making steady progress with our long-term strategic plan. The non-financial measures indicate that the underlying health of the business has continued to strengthen. Again, Laurence will provide more detail in his address.

The board and management particularly acknowledge the contribution of the company's staff who this year performed exceptionally well whilst coping with extraordinary circumstances. Likewise, we acknowledge and greatly appreciate the continued support of you, our shareholders. Many of you have been long term investors in Data#3.

There are four resolutions to be formally considered at today's annual general meeting.

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 earnings growth have been established and the management team's remuneration is structured in line with these targets, with a significant proportion comprised of short term and long-term incentives. These are awarded based on the achievement of appropriately matching KPIs.

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.

A key focus of the board has been succession planning - both for the management team and the board itself. The board is focused on having succession plans for both senior management and directors, to ensure that we always maintain the relevant mix of skills and experience. In progressing our board succession plan, we were pleased to have had Mark Esler join the board last year after Terry Powell retired at the 2019 AGM.

In accordance with the constitution, one item for consideration today is the re-election of Mark Gray to the board. Mark joined the board in 2017, and he chairs the Remuneration and Nomination Committee, and brings valuable non-executive director insight. I recommend that shareholders vote in favour of that resolution.

To ensure continuity and minimal risk to the company, I am also standing for re-election. If re-elected, we will continue with our established succession plan over this next term.

For both of these items I will ask Leanne Muller to chair the meeting.

The final item for consideration is a request to approve the issue of performance rights to the Chief Executive Officer and Managing Director under the Long Term Incentive Plan. Again, I recommend this item for your confirmation.

In summing up ladies and gentlemen our key objective for the current year is to deliver sustainable earnings growth. With four months of the financial year behind us, we have made a good start to FY21, and we remain very confident in our long-term strategy.

I will now ask Laurence to address operational aspects of the company's FY20 performance and the outlook for the current period in more detail.

Thank you for your continuing interest in the company and your attendance at this 2020 Annual General Meeting.

Richard Anderson
Chairman
Data#3 Limited

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CEO and Managing Director's Address 12 November 2020

Good morning ladies and gentlemen, and thank you Richard.

Thank you for making the time to join us this morning. Like Richard, my preference would be to join you in person, however we are living in unusual times. Although this virtual meeting is a good demonstration of how we are helping our customers conduct business and how Data#3 works with all our stakeholders.

I would like to take the next 15 minutes or so to provide some more information on our operations and strategy.

In doing so, I would like to break this down into three elements:

1. An overview of our FY20 financial and operational performance.
2. A summary of the Australian IT market and the drivers.
3. Lastly, I will provide our outlook for the first half.

Starting with a review of an extraordinary year FY20 and we all know that calendar year 2020 has been, and still is, a year that we will all remember in so many ways. I thought we had seen change and disruption in our 40-year history, but nothing compares to this.

As Richard said, we have had a good FY20, with strong growth in revenues, profit and share price. But the numbers bely the extraordinary events that have taken place from late Q3 and Q4.

Let me first start with the first half of FY20. Off the back of a strong FY19, we continued to grow our business across our portfolio and geographies. The highlights of FY20 first half included:

- Increased integration project activity (combination of infrastructure, software and services).
- All business units and regions on or ahead of plan, except for Business Aspect Consulting.
- Record growth in the Australian IT market.

These were extraordinary. We ended with a substantial 41.5% increase in earnings compared to the PCP. It was somewhat unusual that everything across the group's portfolio was going according to plan.

The FY20 second half and calendar year 2020 started with good results in January and February. We then started to read about a virus in China and highlighted possible supply chain issues for our PC related business. Like many other organisations our risk register started to expand. In early March we made, what we thought at the time, a difficult decision to cancel our major customer event JuiceIT.

The impacts of the COVID-19 pandemic were significant. Our highest priority has been to safeguard the well-being of our staff and customers, as well as ensuring continuity of service for our customers. We invoked company-wide business continuity plans in response to the COVID-19 pandemic, aimed at protecting our people and to providing our customers with the best possible customer service. As part of our business continuity plan, we put in place a pandemic response plan and implemented remote working models across our business, with approximately 97% of our staff working, and supporting customers, remotely from March 2020 onwards.

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As the leading Australian IT solution provider, we were in the prime position to help our public sector and large corporate customers through their massive and immediate changes. Our core business includes connectivity, collaboration, modern workplace, end user computing, cloud and enterprise security, and these solutions have been, and continue to be, a high priority for our customers. We accelerated the delivery of remote working solutions, and pre-packaged other relevant cloud and security solutions, to respond rapidly to our customers' changing requirements as they adapt to new ways of working.

Now, let's cover the financial performance. We have delivered sustained revenue growth and we continue to gain market share.



The Data#3 business is structured around three functional areas – Software Solutions, Infrastructure Solutions and Services – operating across eight regions in Australia and the South Pacific Islands. Each of these geographic regions saw growth in FY20 and the standout regions for FY20 were the ACT and Western Australia.

As Richard stated earlier our total revenues have increased to \$1.6 billion.

The Software business was the most significant FY20 business unit performance which was largely boosted by the \$581 million of public cloud revenue. The Infrastructure business also experienced solid growth in FY20 with private cloud, end user computing, networking and general growth in software defined hyper-converged infrastructure.

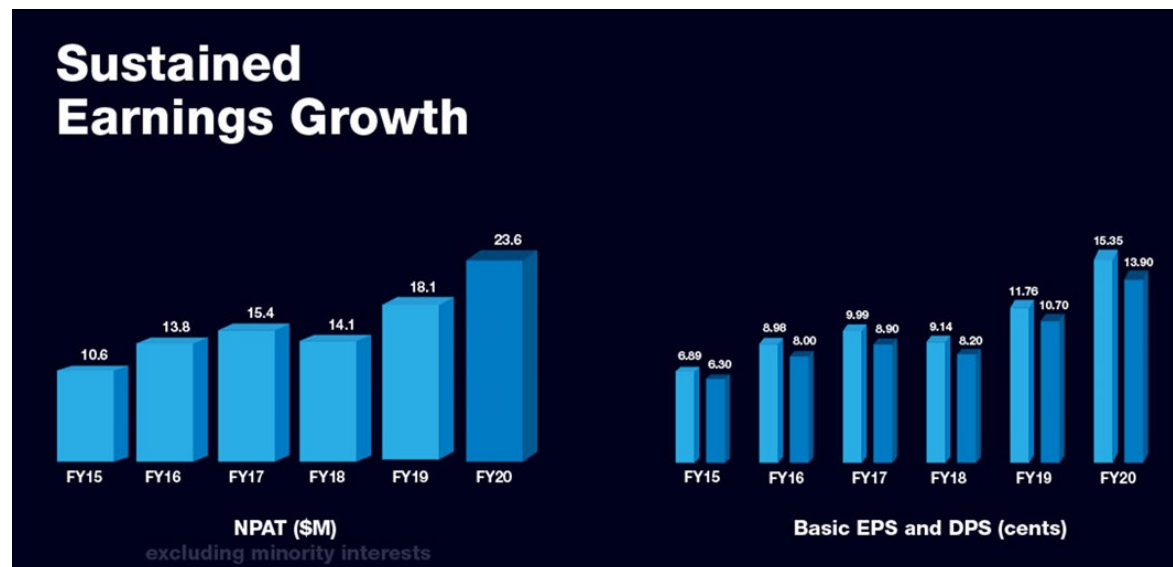
Our Services business unit largely supports the growth of the Software and Infrastructure teams. Project services grew in FY20 and we had a decline in Support Services where we are continuing to transform our Managed Services business. An example of this transformation is the recent attainment of the Microsoft Azure Managed Services Provider certification. This status places Data#3 amongst the elite ranks of Microsoft Azure Managed Services Providers globally. People Solutions had another solid year, increasing revenues in a highly competitive recruitment and contracting market. Business Aspect, our consulting business, had a poor first half followed by a much improved second half.

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I am pleased to say that for FY20 we reported that approximately 60% of our revenue is under contract, which is important in times of economic volatility.

Richard also mentioned that we gained some leverage from our growth in revenues. Total gross profit increased by 8.1% from \$173.9 million to \$188.0 million, and total gross margin decreased from 12.3% to 11.6%. The gross margin reduction reflected changes in sales mix, with very strong growth in Software licensing and public cloud revenues and decreases in Consulting and Support Services revenues.

Internal staff costs increased by 6.9% from \$125.2 million to \$133.8 million. Total staff numbers remained stable and average salaries increased in line with the industry trend. Staff incentives increased as a result of the strong profit improvement in most areas of the business. Operating expenses decreased by 5.1% to \$22.2 million with savings from the decommissioning of the Data#3 Cloud platform and a reduction in travel costs as a result of the pandemic. This improvement in operating leverage contributed to the group's 30.5% increase in net profit after tax to \$23.6 million, and more importantly continued our profit growth trend.



Discovery Technology concluded a long running legal matter and recorded a profit for FY20. In addition, we have just increased our shareholding to 100% from the previous 77.4% majority holding. We see improved opportunity for Discovery Technology working even closer with the Data#3 business.

To illustrate our growth in FY20, we have dozens of fantastic customer references and we have extremely high levels of customer retention.

One recent customer example is with Hearing Australia who operate across Australia with 160 centres. Faced with increasing competition, Hearing Australia undertook a major digital transformation project with Business Aspect taking a lead role in digital strategy and implementation. The outcome was a shift from multiple legacy systems into a modern cloud-based Microsoft solution. The initial great work from Business Aspect has paved the way for more work for the Data#3 Software and Services teams.

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Another example of our great work is in the education sector where we have just signed an exclusive relationship with a US application provider called Gaggle. They specialize in software that supports the mental health needs of 6 million students across 1,700 districts in the US. Using a combination of artificial intelligence and trained safety experts, the solution proactively assists schools in the prevention of student suicide, bullying, inappropriate behaviours, school violence, and other harmful situations. We do not expect this solution to provide any material difference to our financial performance, however we believe it aligns with our vision to harness the power of people and technology for a better future.

Our corporate social responsibility (CSR) program continues to increase as we grow our business and enter stock market indexes that require greater scrutiny of CSR and ethical behaviour.

Awards form an important part of external validation for our company and our people are motivated to gain national and international recognition. One of the most recent awards was from Cisco which was presented virtually at their annual global conference. The award was for Global Commercial Partner of the year which is Cisco's largest business segment and Data#3 was selected ahead of 60,000 Cisco partners. It referenced our great work in customer experience and helping customers maximise their investment with Cisco solutions.

In addition, for the fifth consecutive year we have won an Employer of Choice award for organisations above 500 employees, awarded by HRD. This is across all sectors, not just IT, and provides independent, external confirmation that Data#3 is considered a desirable place to work.

Another visible example of our support for our wider communities is the appearance of hair on the top lip of many of our team members – including myself – although with the video it may not be obvious! We are supporting men's health with Movember this month. We are still of the belief that if we can do good in the community, and improve our business, that's a definite win/win!

FY20 certainly contained many incredible achievements and challenges and ultimately produced record financial performance for the Data#3 group.

Looking forward, I'll start at looking at the market in which we operate.

For the IT sector, Gartner is the world's leading research and advisory company and pre COVID they predicted the Australian IT market would increase by 3.7% in the 2020 calendar year. More recently, they have modified their prediction to a 6% decline in the \$94 billion market. I think this is an illustration of the uncertainty in the market and the difficulty of making predictions.

As we have said on previous occasions, one of our greatest strengths is our ability to adapt and keep evolving with customer demands. One thing, I believe is certain, technology, and more specifically, digital transformation will play a major role in Australia's economic recovery. Data#3's role in digital transformation is to provide the foundation layer which includes various forms of cloud, scalable networks, and mobility solutions, all embedded with robust cyber security. Our ongoing strategy is to lead in the foundation layer of digital transformation and continue to work with the global leading vendors.

Now, let's look at FY21.

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Our planning assumed that the external environment in FY21 would see the continuation of the pandemic and the associated economic downturn, which would put pressure on our first half. In contrast to this expectation, we have navigated our way through the extreme market volatility and made a solid start to FY21. Activity levels are high, and the pipeline of business continues to grow. December is traditionally one of our largest months and we are focused on closing out the first half strongly, however the timing of realising these opportunities can be hard to predict.

At this stage we do not envisage the first half result to be materially different to our substantial first half FY20 performance.

We still have a skew to the second half and our fourth quarter, and in particular, June is again expected to contribute significantly to our annual profit.

The FY21 first half results and interim dividend will be announced on 18 February 2021. It is also our intention to maintain our usual dividend practice.

I want to personally acknowledge and thank the entire Data#3 team for their skilled work, and dedication over the challenging times. I am confident that our great team will continue to outperform the Australian IT market.

I am proud of our past achievements, but there is no room for complacency in a fast-changing market. We have plenty of opportunity ahead, and I look forward to updating you on our progress during the year.

Going forward, we are confident about delivery of the company's longer-term strategy. We have a robust business, no material debt, solid long-term customer relationships, committed supplier partnerships, and a highly experienced and productive team.

We see ongoing growth in the Australian IT market, and believe we remain well positioned to capitalise on those opportunities. We will continue to build on our strengths and enhance shareholder value. Our overall financial goal remains to deliver sustainable earnings growth.

Thank you.

Laurence Baynham
Chief Executive Officer and Managing Director
Data#3 Limited

This announcement has been authorised by the Data#3 board.

More information about Data#3 and its solution and service offerings is available at:
<http://www.data3.com.au>