

FY22 Interim Results Briefing

17 February 2022

Presenters:

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Brem Hill, Chief Financial Officer

Data#3

**Delivering
the Digital
Future**

Agenda

Data#3 Overview

1H FY22 Operational Overview

1H FY22 Financial Performance

Strategy & Outlook



1H FY22 Financial Highlights



Revenue
\$999.3M
Up 16.6%



Gross Profit
\$105.4M
Up 17.5%



NPBT
\$18.5M
Up 33.0%



NPAT
\$12.4M
Up 31.7%



Basic EPS
8.01 cents
Up 31.5%



Dividends per share
7.25 cents
Up 31.8%
Payout ratio of 90.5%

1H FY22 Overview

Revenue

\$999M



Public Cloud Revenue

\$467M



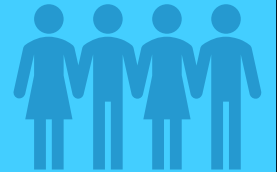
Recurring Revenue

65%



Direct staff headcount increase (mostly in services)

10%



- Strong 1H with positive contributions from all business units and regions despite uncertain operating environment
- Underpinned by leading market position, strength of supplier relationships, long-term customer base and experienced and committed team
- Order backlog benefit in 1H FY22 offset by slippage into 2H FY22; adjusted lead times by customers and suppliers resulting in more normalised operating patterns
- In line with strategic focus, increase in software and services revenue driving recurring revenue and margin uptick
- Growing pipeline of large integration project opportunities

Key awards + certifications

- Microsoft Azure Expert Managed Services Provider Certification
- Cisco Global Software Partner of the Year
- Cisco APJC Security Partner of the Year
- Trend Micro Security Partner of the Year



ESG update

- Sustainability goals
- ATSI Reconciliation Action Plan
- Ethics global benchmarking





Digital Transformation



**Artificial
Intelligence**



Internet of Things



3D Printing

Foundation Layer



Multi-cloud



**Modern
Workplace**



Security



Data & Analytics



Connectivity

Integrated Solutions



Multi-cloud

Modern Data Centre
Public Cloud
Private Cloud



Modern Workplace

Collaboration
End User Devices
Printing
Systems Management



Security

Cloud Security
Data Security and Privacy
Identity and Access Management
Infrastructure and Endpoint Security
Security Monitoring and Analytics



Data & Analytics

Business Analytics
Customer Management
Internet of Things
Location-Based Analytics



Connectivity

IT-OT Networking
Software-Defined Networks
Software-Defined WAN
Wireless Networks

Consulting

Project Services

Support Services

Lifecycle



#1 partner in Australia



#1 partner in Australia



#1 partner in Australia



Top five partner in Australia

**Strategic partnerships with
global leaders**

**Significant investment in
technical capability and
services**

400+ other partnerships

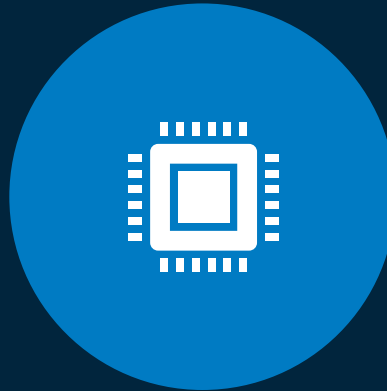


1H FY22 Operational Overview

FY22 External Factors



**Australian IT
market**



**Global chip
shortage**



**COVID-19
disruption**

1H FY22 Operational Highlights



Multi-cloud Growth

\$467M in Public Cloud.
Private Cloud growth.
Customers have multiple clouds.



Security Growth

Fastest growing solution.
Combined D3 and BA offerings.
Complements other solutions.



Services

Strong growth in Consulting and
Support Services.
Improving gross margins.



Customer Experience

Investment in systems and people.
Data and analytics driven.
Global recognition with Cisco.



ERP System

New Microsoft D365 platform.
Multi-year project & investment.
System 'go-live' in 2H FY22.

Delivering the digital future in South Australia

- Multi-year managed services contract with Department for Education
- One of several contracts with the SA Government
- Consolidates our national education leadership position
- Selected to manage the server infrastructure due to deep expertise, services capabilities and ability to adapt offerings

Data#3

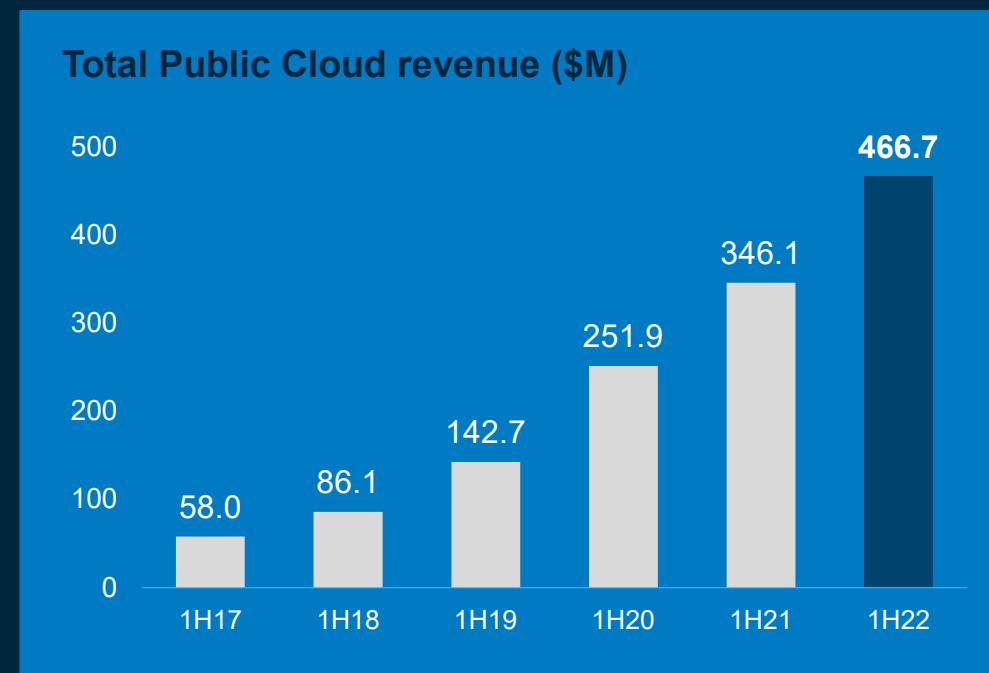
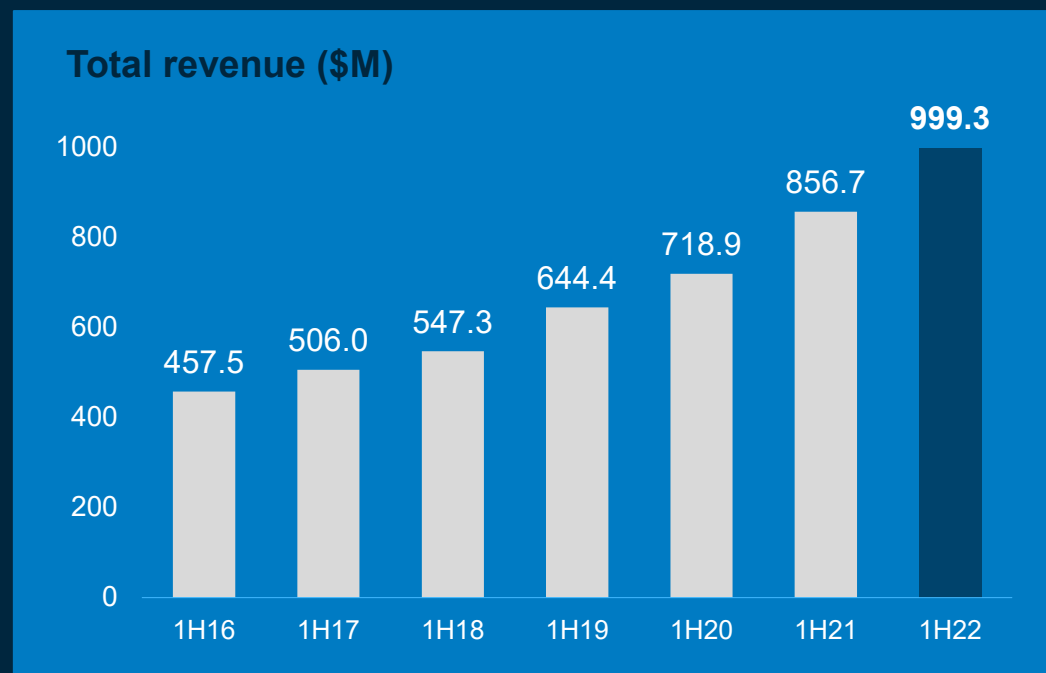


Government
of South Australia
Department for Education



1H FY22 Financial Performance

Sustained revenue growth, boosted by cloud



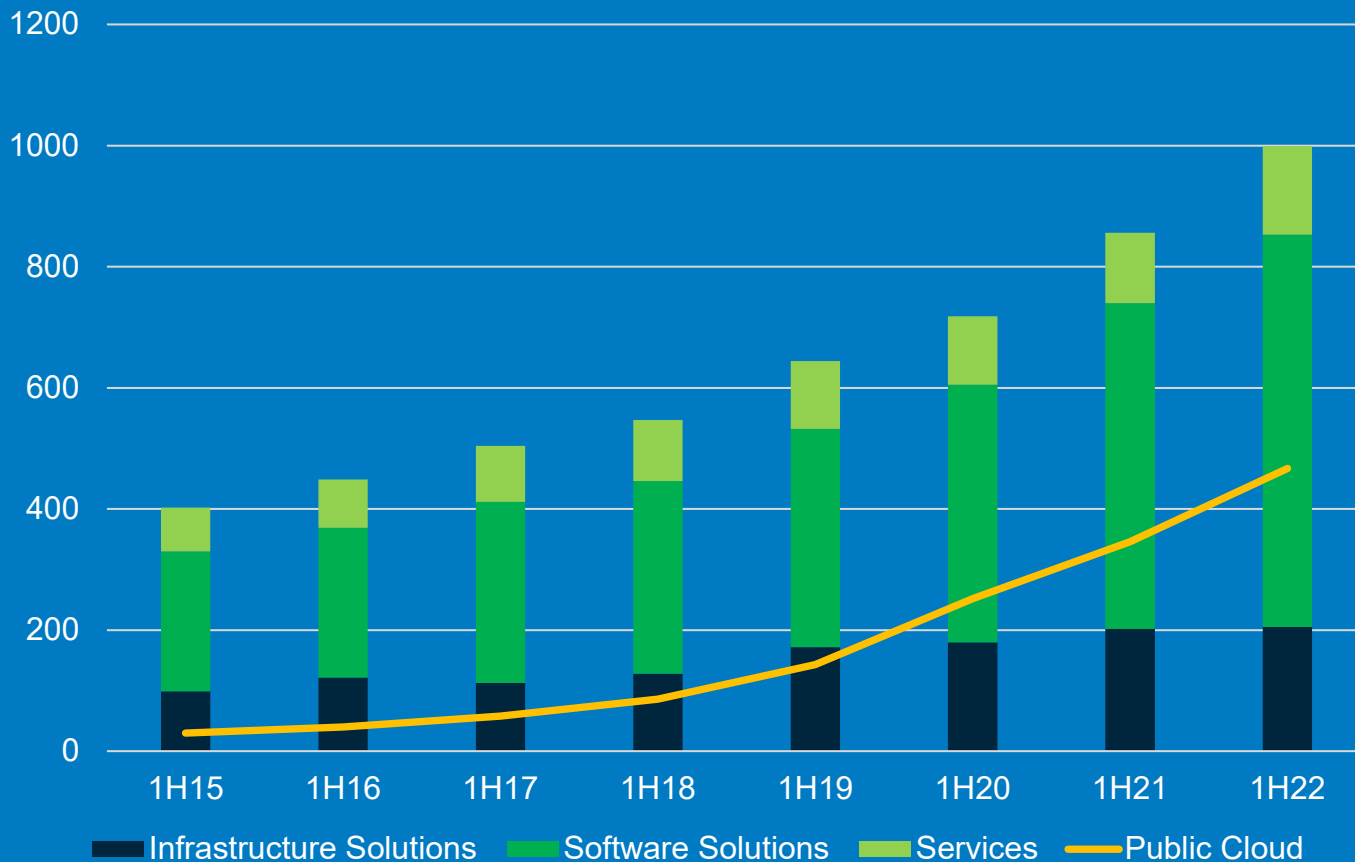
Strong revenue growth (CAGR 13.9%) fuelled by software licensing and cloud-based solutions.

Total revenue includes \$466.7M of public cloud revenues, up 34.8% on PCP, to 47% of total revenue.

Approximately 65% of revenue is recurring, under term-based contracts.

Changing sales mix

Revenue trend by functional area (\$M)



Business unit	1H FY22 revenue (\$M)	Change vs. 1H FY21
Infrastructure Solutions	205.0	+ 1.3%
Software Solutions	648.3	+ 20.5%
Business Aspect Consulting	13.0	+ 68.4%
Project Services	32.5	+ 7.8%
Support Services	69.2	+ 47.9%
People Solutions (recruitment)	29.8	+ 1.1%
Discovery Technology	1.5	- 27.4%

Gross margin and Gross profit

Overall Gross Margin % varies with the changing revenue mix.

- Strong growth in software licensing and public cloud revenues relative to services in recent years.
- Accelerated services growth will boost total Gross Profit \$ and should also increase the blended Gross Margin %.

Gross Margin % within each business unit has remained relatively stable.

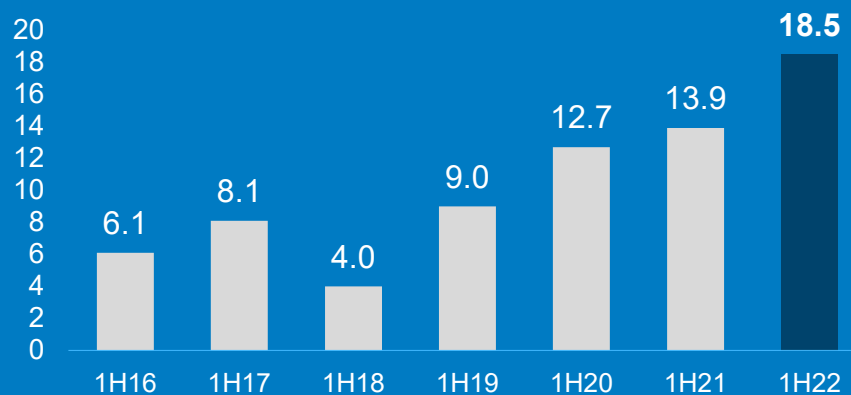
Changing vendor rebate programs will increasingly reward Services.

Objective is to deliver steady, sustained growth in total Gross Profit \$

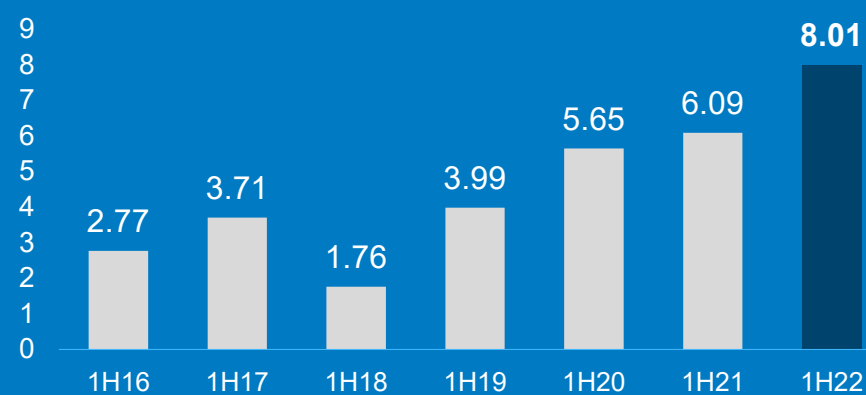
Business unit	1H FY22 revenue (\$M)	1H FY22 revenue growth	Relative Gross Margin %		
			LOW	MED	HIGH
Infrastructure Solutions	205.0	+ 1.3%	LOW to MED		
Software Solutions	648.3	+ 20.5%	LOW		
Consulting	13.0	+ 68.4%	MED to HIGH		
Project Services	32.5	+ 7.8%	MED		
Support Services	69.2	+ 47.9%	Maintenance Services LOW Managed Services HIGH		
People Solutions	29.8	+ 1.1%	LOW to MED		

Sustained earnings growth

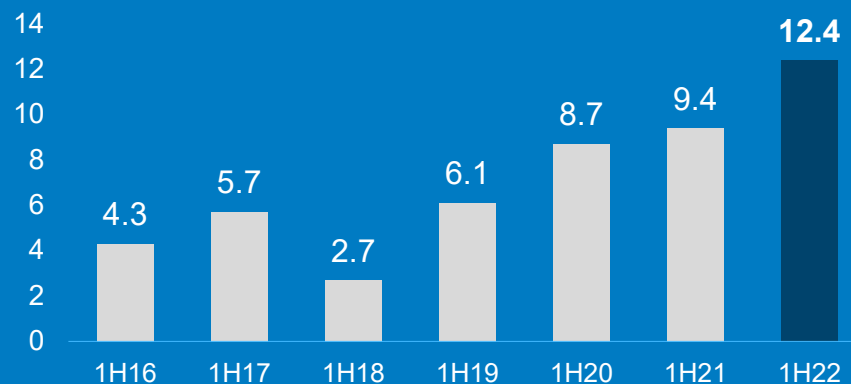
NPBT (\$M)



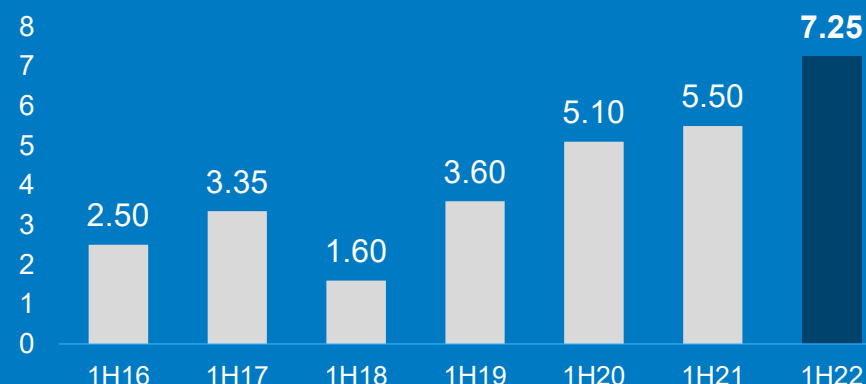
Basic EPS (cents)



NPAT (\$M) - excluding minority interests



DPS (cents)

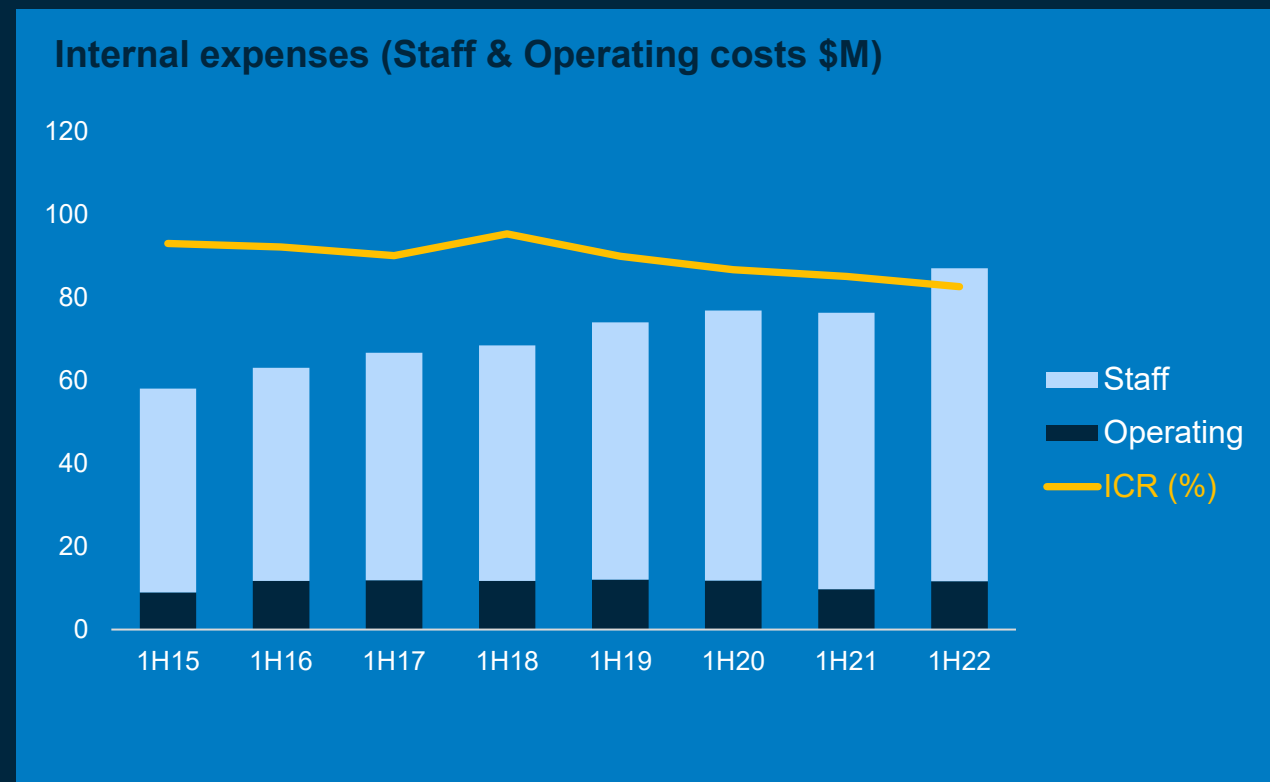
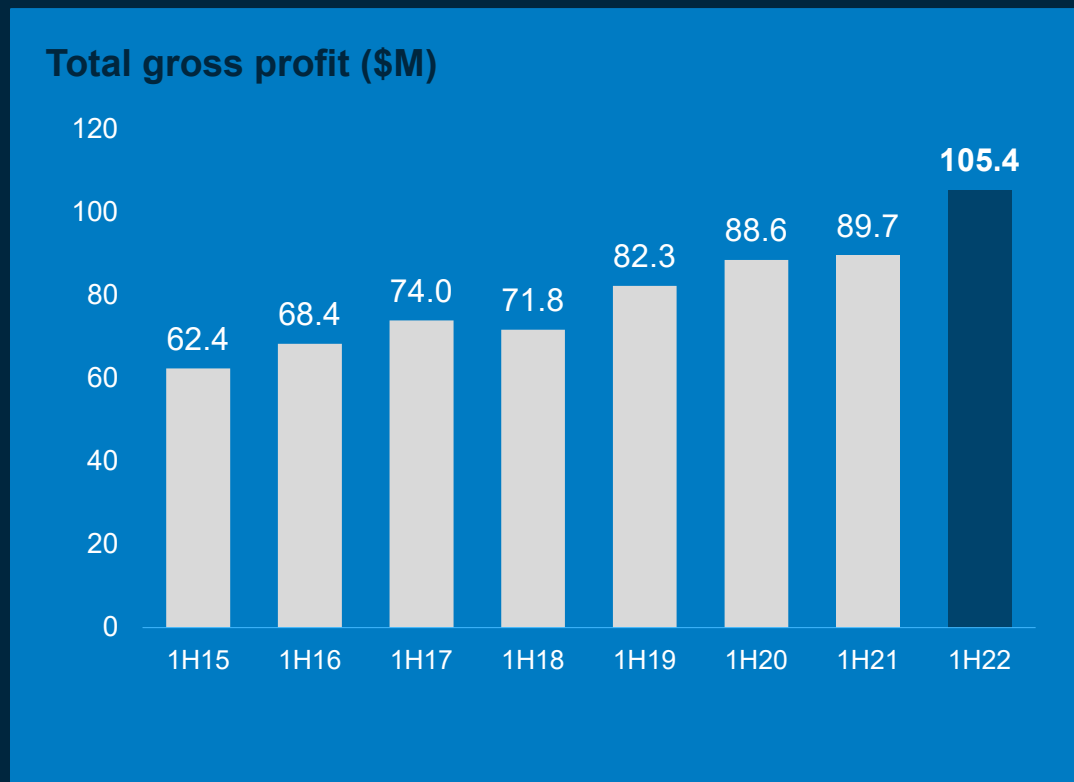


Statement of profit or loss

	Half year to December	
	2021	2020
	\$'000	\$'000
Revenue		
Revenue from contracts with customers	999,089	856,145
Other	208	593
	999,297	856,738
Expenses		
Changes in inventories of finished goods	2,700	(11,102)
Purchase of goods	(796,381)	(676,193)
Employee and contractor costs directly on-charged	(42,393)	(37,518)
Other cost of sales on services	(57,570)	(41,621)
Other employee and contractor costs	(75,538)	(66,698)
Telecommunications	(1,143)	(1,108)
Rent	(940)	(1,031)
Travel	(67)	(70)
Professional fees	(803)	(401)
Depreciation and amortisation	(2,450)	(2,704)
Finance costs	(736)	(689)
Other	(5,432)	(3,660)
	(980,753)	(842,795)
Profit before income tax	18,544	13,943
Income tax expense	(6,191)	(4,575)
Profit for the half year	12,353	9,368
Profit for the half year is attributable to		
Owners of Data#3 Limited	12,353	9,379
Non-controlling interests	-	(11)
	12,353	9,368
Earnings per share for profit attributable to the ordinary equity holders of the company:	Cents	Cents
Basic earnings per share	8.01c	6.09c
Diluted earnings per share	7.98c	6.07c

- Revenue increased by 16.6%
- Gross profit increased by 17.5% (from \$89.7M to \$105.4M) and total gross margin increased from 10.5% to 10.6% with changes in the revenue mix
- Internal staff costs increased by 13.3% (from \$66.7M to \$75.5M) due to 10% headcount growth (predominantly in Services) and general remuneration increases
- Other operating expenses increased by 19.7% (from \$9.7M to \$11.6M), largely due to expenditure on new Microsoft D365 ERP system:
 - \$1.3M expensed in 1H FY22
 - \$1.8M capitalised in 1H FY22
- Basic EPS increased by 31.5%

Steady improvement in operating leverage



Gross margin % has varied with changing sales mix.

Internal Cost Ratio (ICR) = Internal expenses / Gross profit.

The ratio has improved from 93% in 1H FY15 to 83% in 1H FY22
(1H FY21 = 85%)

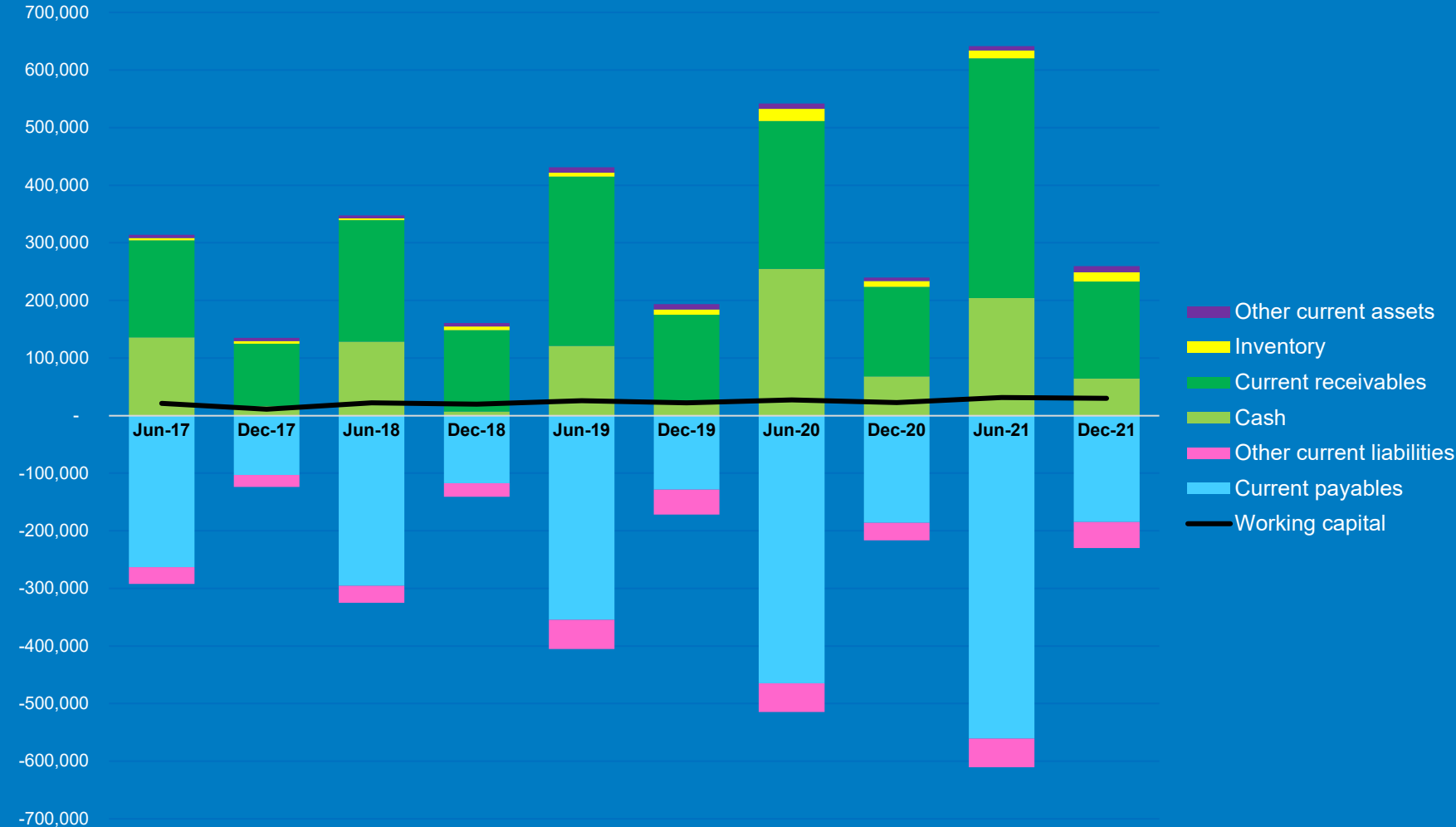
Balance sheet

	31 December 2021 \$'000	30 June 2021 \$'000
Current assets		
Cash and cash equivalents	64,598	204,323
Trade and other receivables	167,985	415,991
Contract assets	4,611	3,355
Inventories	16,572	13,872
Current tax receivable	2,600	-
Other	3,375	4,018
Total current assets	259,741	641,559
Non-current assets		
Trade and other receivables	1,263	2,336
Property and equipment	3,251	3,375
Right-of-use assets	24,874	25,698
Deferred tax assets	5,523	5,898
Intangible assets	17,255	15,959
Total non-current assets	52,166	53,266
Total assets	311,907	694,825
Current liabilities		
Trade and other payables	184,575	560,865
Contract liabilities	35,519	39,312
Lease liabilities	2,889	2,761
Current tax liabilities	-	1,327
Provisions	6,801	6,095
Total current liabilities	229,784	610,360
Non-current liabilities		
Trade and other payables	631	614
Lease liabilities	23,637	24,105
Provisions	3,275	3,441
Total non-current liabilities	27,543	28,160
Total liabilities	257,327	638,520
Net assets	54,580	56,305
Equity		
Contributed equity	10,313	8,278
Share-based payments reserve	250	1,825
Foreign currency translation reserve	(532)	(657)
Retained earnings	44,549	46,859
Total equity	54,580	56,305

- Strong balance sheet with no borrowings
- 4th quarter revenue spike inflates Trade receivables and Trade payables at 30 June
- Inflated temporary cash surplus at 30 June
- Average DSOS of 26.8 days (1H FY21 = 27.3 days)
- Inventory slightly inflated due to supply chain delays, however all inventory is allocated to customer orders.

Working capital analysis

Working capital components



- Short or negative working capital cycles underpin self-funding business model

- Low inventory, allocated to customer orders or projects
- Average collection cycle around 27 days
- Favourable trade terms with suppliers

- Stable working capital position, despite significant seasonal fluctuation at period end

Statement of cash flows

	Half year ended December	
	2021	2020
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	1,310,997	1,010,664
Payments to suppliers and employees (inclusive of GST)	(1,403,653)	(1,162,183)
GST paid	(18,714)	(8,009)
Interest received	176	608
Interest and other borrowing costs paid	(715)	(666)
Income tax paid (net of refunds)	(9,702)	(9,715)
Net cash outflow from operating activities	(121,611)	(169,301)
Cash flows from investing activities		
Payments for property and equipment	(357)	(1,339)
Payments for software assets	(1,834)	(239)
Payment for acquisition of minority interests in subsidiary	-	(150)
Net cash outflow from investing activities	(2,191)	(1,728)
Cash flows from financing activities		
Payment of dividends	(14,663)	(13,550)
Proceeds from issue of shares	2,035	-
Payments for shares acquired by the Data#3 Employee Share Trust	(2,035)	-
Repayment of principal on lease liabilities	(1,385)	(1,804)
Net cash outflow from financing activities	(16,048)	(15,354)
Net decrease in cash and cash equivalents held	(139,850)	(186,383)
Cash and cash equivalents at the beginning of the reporting period	204,323	255,147
Effect of exchange rate changes on cash and cash equivalents	125	(881)
Cash and cash equivalents at the end of the reporting period	64,598	67,883

- Cash flow 'seasonality' consistent with previous years.
- Timing differences in the collections from customers and payments to suppliers around 30 June generate large temporary cash surpluses at year-end, which are paid out in 1H .
- 1H FY22 average cash balance \$190M (1H FY21 = \$158M)
- Underlying 'free cash' is typically in the \$15M to \$20M range.
- Low capital expenditure
- High dividend (payout ratio approx. 90%)

Strategy & Outlook

Strategic Focus Areas



Customer Experience

Long term view,
not transactional

Lifecycle approach

Joint investments with
global vendors



Security

Protecting our business

Market opportunity

Executive leadership

Go-to-market with
Business Aspect



Accelerating Services

Completed rebuild of
Managed Services

Strong growth in Consulting &
Support Services

Complementing vendor
incentive programs

We will continue to focus on driving growth in our services and software businesses to increase recurring revenues and improve our margins.

Outlook



Strong growth outlook for AU IT market with biggest opportunity in software & services



Services growth complements software and infrastructure divisions, while improving recurring revenue and margins



Growth in cloud business provides data and insights to enhance lifecycle services



Supply constraints set to continue into FY23, well placed to grow market share



Strong pipeline of major integration project opportunities as large corporates and government drive transformation agendas

“While the strong trading performance has continued at the start of the second half, given pandemic-related uncertainties remain, at this stage it would not be prudent to provide specific guidance for FY22.

In line with previous years, we continue to expect a sales peak in the months of May and June and a higher profit skew in the second half, and to deliver sustainable earnings growth.”

- Laurence Baynham, CEO



Q&A

Appendix

Recent Awards

Cisco Global Software Partner of the Year		Microsoft OEM Device Reseller Partner of the Year	Aruba As a Service Partner of the Year	2021 Employer of Choice, HRD Magazine	Trend Micro Security Partner of the Year
Dell Technologies 2021 APJ Channel Excellence in Cloud Sales Award	Lenovo Technical Excellence for Australia	ARN Partner Value - Enterprise	Veeam Pro Partner of the Year ANZ	Cisco ANZ Partner of the Year	Dell Technologies Solution Provider of the Year for Australia 2021
Poly Hybrid Solutions Partner 2021 ANZ	ARN Emerging Technologies – Digital Transformation	Cisco APJC Security Partner of the Year	Palo Alto Networks Growth Partner of the Year	Microsoft Azure Expert Managed Services Provider Certification	

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