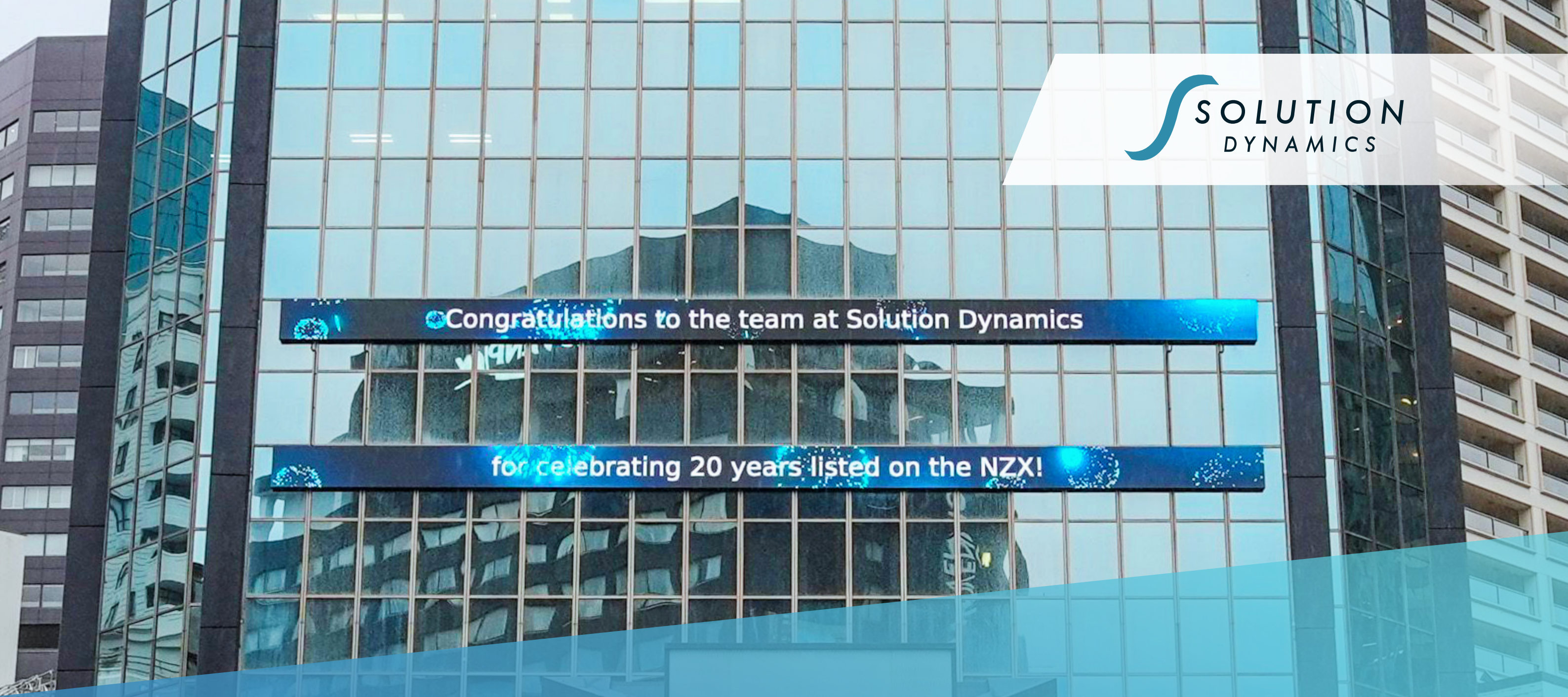

Directors' and Management Commentary

FY2024 Result Overview

Solution Dynamics Limited ("SDL" or "Company") recorded a net profit after tax of $2.82 million for FY2024, a 17.7% decline on the profit of $3.42 million the prior financial year, but still the second highest net profit the Company has ever produced. FY2024 earnings per share was 19.2 cents, down 17.6% from 23.3 cents the prior year.

Three factors account for the majority of the decline in earnings:

- costs related to several areas of staff restructuring;
- one-off higher customer non-recoverable costs; and
- timing of a sizeable order around year end that moved into FY2025 (this is an annual order that was included in the FY2023 result).

The Company's revenue declined slightly to $38.7 million (down 4.6% from $40.6 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 local councils.

International operations generated only modest new business, with SDL placing significant focus on key existing client retention. Ongoing weakness in the US mortgage market driven by high interest rates continued to negatively impact results, along with the timing of a large order, and somewhat lower customer volumes from the weakening global economy, resulted in a 12.0% reduction in SDL's Software & Technology revenue to $25.1 million.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") dropped 15.4% to $4.84 million (FY2023 $5.71 million). Gross Profit declined 8.1%, with the benefit of higher pricing at the start of FY2024 more than offsetting the effects of lower revenue and higher non-recoverable costs to ensure customer satisfaction and deliver new value. Selling, General and Administration expenses were effectively controlled, declining 4.1% due to SDL's improved operational efficiency. This cost saving is despite one-off costs relating to staff changes and the impact of inflation-driven wage increases.

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Cash flow from operations was $3.35 million (FY2023 $4.84 million) and the net cash and short-term deposit position at year end was $7.95 million (FY2023 $6.63 million) which equates to 54 cents per share.

The directors have declared a final dividend of 2.5 cents per share (FY2023 1.5 cents), bringing total cash dividends for FY2024 of 9.5 cents per share (FY2023 11.5 cents). All dividends are fully imputed. SDL continues to receive a co-funding International Growth Fund development grant from NZ Trade & Enterprise ("NZTE") up to a maximum amount of $0.6 million over the grant period. One of NZTE's conditions is that SDL's dividend payout ratio is capped at 50% for the duration of the grant and the final dividend of 2.5 cents brings the FY2024 payout ratio to 49.6%.

Major Customer Request for Proposal ("RFP")

In mid-2023, SDL's largest customer announced it would issue an RFP that covered the communications services currently provided by SDL. The RFP is part of the customer's regular review and tendering of its major contracts.

The RFP process covers a SaaS software platform to create highly personalized sponsor communications at scale, technically complex data management, digital document management, and global distributed print requirements. Responding to the formal RFP and subsequent data requests involved significant staff time and effort over FY2024. SDL is pleased with our progress to date, having driven substantial and ongoing cost savings for the client, through a global distributed print model. These improvements impacted our FY2024 results, from higher support costs and somewhat lower revenue as we passed postage savings on to the client. We continue to be awarded new work by the client on key programs.

Nevertheless, uncertainty will remain until the customer concludes its process; SDL reiterates this customer provides a very material contribution to the Company's financial outcomes.

FY2024 Business Performance

The New Zealand operations' refreshed focus on new business activity following staff changes and restructuring the sales team in late FY2022, delivered market share gains in FY2023 which continued over FY2024. Overall volumes of physical mail in New Zealand continue to decline. NZ Post's interim result in early 2024 noted a 16% mail volume deduction, making SDL's 3% decline in mail lodgements a solid result. New Zealand revenues also benefited from growth in digital volumes, which is a key area of focus.

International operations saw minimal new business growth beyond a major business process outsourcing vendor. A major UK customer re-tendered its customer communications requirements and SDL successfully retained the business. Margins will be slightly lower, but the scope of work and volumes will expand and should more than offset this.

The Company again achieved broad-based price increases in New Zealand during the year, although at a much lower level than in FY2023. This price increase mainly offset ongoing inflationary pressures. Staff cost pressures have abated, with the labour market noticeably softening as macroeconomic conditions deteriorated.

Several areas of New Zealand operations saw restructuring, aimed at improving efficiency and effectiveness and to generate cost savings. Onboarding new team members presents its own set of challenges and requires time for them to become fully integrated and effective. SDL's primary focus has been on ensuring the Company is well-prepared for operational scaling and growth.

FY2024 saw an increase in marketing investments and enhancing the SDL brand through a brand refresh with support from NZTE.

Given difficult macroeconomic conditions, ongoing erosion in New Zealand mail volumes, internal efforts required to support the major customer RFP, various cost restructuring activities, and sales underperformance in international markets, the Company considers the FY2024 result was a solid outcome in a highly uncertain environment.

Business Description

SDL operates in the global Customer Communications market, providing a comprehensive suite of software technology, professional services, and managed services to facilitate the digital transformation of global customer communications. SDL operates primarily in New Zealand, North America and the UK, increasingly supporting global organisations with customer communications needs. The Company's products and services are represented by two revenue streams:

- Services (split into Digital Printing & Document Services, and Outsourced Services); and
- Software & Technology.

Services reflects the New Zealand business where SDL owns and operates mail house activities. Within Services, Digital Printing & Document Services revenues are generated from digital printing and mail house processing for two categories of mail items: transactional mail, such as invoices and statements; and direct marketing and promotional mail. Outsourced Services such as envelope printing and postage are typically bundled as part of the total solution albeit generally at much lower margins.

Software & Technology, reflecting the International business principally in North America and the UK, provides a comprehensive suite of global customer communications cloud solutions. This cloud service provides a complete global solution while the DMC (Digital Mail Centre) leverages and extends the capabilities of the SDL cloud to the desktop through a simple yet powerful user experience. Primary components of the SDL technology stack include:

- complex digital document management, workflow and integration;
- complete digital and print multi-channel distribution;
- global distributed print integration in over 50 countries;
- digital asset management;
- digital and print campaign optimisation and management;
- document scanning, workflow and archiving;
- artificial intelligence applied to document enhancement
- document composition and hyper-personalisation;
- desktop digital mail centre User Interface (UI);
- data quality and enhancement; and,
- dashboards and analytics.

SDL has several different business models for international clients. For some, the Company provides only software and related consulting services, but for others it also integrates with third party printing and logistics providers, on which it will typically earn a modest margin. For these latter clients, the software charge and print/logistics margins are typically aggregated into an overall charge to the customer. This means Software & Technology revenues are a mix of pure software and software consulting revenues for some clients, while others also include third party printing and logistics revenues that are generated from SDL's software. The third-party printing and logistics revenues are the larger proportion of total Software & Technology revenue.

The primary focus for most clients is digital transformation of customer communications, while improving the efficiency and effectiveness of printed communications remains vital. The majority of SDL's revenue in FY2024 remains from printed communications, a declining sector, and our growth, sales focus and differentiation globally are increasingly around our software and digital communications transformation.

Total Software & Technology revenue (some of which is revenue billed from New Zealand) as a proportion of total revenue was around 65% in FY2024 (FY2023 around 70%).

Description and Review of Revenue Streams

Services

Services is the Company's New Zealand operation that provides mail house solutions to high-volume postal mail users in the business-to-consumer sector. Services operates leased, high-speed digital colour and monochrome printers. In addition to digital printing, Services also provides the ancillary document handling operations such as automated envelope inserting and flow-wrap.

Services now bases its sales approach around digital transformation; some of the largest SDL clients in New Zealand rely on SDL for digital services from data quality and enhancement, to digital channel distribution and closed loop reporting.

Services revenue also includes Outsourced Services, which encompasses a variety of outsourced functions or components such as postage, third party offset printing, freight, paper and envelopes, and digital channel delivery. The Company has an access agreement with NZ Post and an alternative carrier which provides wholesale rates and bulk mail discounts off retail rates. The gross profit margins on many of these outsourced components, especially postage, are low but an important component of the total solution.

FY2024 saw SDL largely conclude the implementation of several updated IT systems to improve efficiency and productivity across various parts of the business. These include an end-to-end estimating, ordering, invoicing and production management information system that is approximately 90% operational and provides improved flexibility and control of the Company's print operations. A more modern ERP/accounting package is fully installed, and a new sales CRM (customer relationship management) system now in place. A data securities services firm was recently contracted to provide software and services to reduce risk of cyber-attacks.

In a declining overall mail market and despite market share gains, SDL's mail volumes fell by around 3% on the prior year (FY2023 mail volumes rose 2%). The Company increased market share in New Zealand, including further wins amongst Councils and several new commercial customers. The headwinds to physical transactional mail are exacerbating as rapidly increasing postage rates accelerate customers' switch to digital. From 1 July 2024, NZ Post increased its standard medium-sized letter retail pricing by $0.30 to $2.30 a rise of 15.0%. This is on top of a rise of $0.30 the prior year, meaning a standard letter price has increased $0.60 or 35.3% in two years. SDL holds a competitive cost position in the domestic mail house market and has recently implemented a further broad-based price increase.

On the digital communications side, SDL's New Zealand volume of customer emails rose about 19% (on top of a 5% increase in FY2023) largely as a result of the switch from physical to electronic communications. Email volumes are now approaching the level of physical mail volumes for SDL, however, the revenue and gross margin for an electronic communication is significantly lower than for physical print and mail.

SDL Services Revenue Breakdown (all figures $000)	FY2024	FY2023	Percentage Change
Digital Printing and Document Services	4,449	4,431	0.4%
Outsourced Services and Other Income	8,726	7,528	15.9%
Total Services Revenue	**13,175**	**11,959**	**10.2%**

FY2024 was solid with revenue up 10.2% and the pipeline for FY2025 is robust. While the overall domestic postal market decline provides an ongoing headwind that makes sustained growth difficult to achieve, the full year benefit from FY2024 gains, a further round of price increases, plus pipeline opportunities, should underpin further growth in FY2025.

SDL Software & Technology

Software & Technology generated revenue of $25.1 million in FY2024, a decline of 12.0% on the prior year's revenue of $28.5 million.

SDL saw double digit growth in the UK market as post-COVID recovery in volumes continued. The Company's largest customer, based in North America, saw a decrease in revenue of around 8% (partly timing of orders around end of FY2024 financial year and lower volumes) versus an FY2023 increase of around 7%. Revenue was also down in North America due to continued weakness in the US mortgage market and fewer large one-time orders post COVID.

Software & Technology revenue is partly platform based, typically under SaaS (software as a service) arrangements, which can be priced as a monthly subscription tiered base on volume or on a per document basis. It also includes revenue where SDL manages the total communications solution including document printing and distribution for the customer. The printing and distribution component forms the larger part of Software & Technology's revenue and is generally lower margin.

SDL has "productised" its global customer communications platform, DMC, and made it easier for customers to access and "self serve". DMC simplifies onboarding of customers and sending and tracking of documents through physical and digital channels. DMC integrates with other SDL products including the document composition platform, Composer, and the automation tool, Autoprod, to enable creation of highly personalised communications at scale. DMC integrates with SDL's print partner network through the Company's distributed print platform, Jupiter, to manage and provide real time status updates on job completion and mailing. SDL's expertise in global postage management delivers significant cost savings by leveraging DMC to optimise production and delivery logistics. The Company's objective is to grow SaaS platform revenue at a faster rate than print services by focusing on digital transformation.

Communication channels are no longer "one size fits all"; customers now receive increasingly personalised messaging through multi-media channels. SDL's software platforms enable one to one personalisation of each form of communication whether a customer email, an invoice or account statement, or a piece of marketing collateral as a means to enrich and deepen the relationships that our customers have with their customers.

SDL excels at enabling organisations to drive down cost of customer communications while improving client engagement. Leading global brands rely on the Company's software to simplify sending of complex global customer communications through print and digital channels. SDL's global network of mail service providers delivers significant savings in print and postage costs. As the secular decline in mail continues, SDL's software platforms provide an omni-channel bridge to digital transformation.

For a more detailed view of SDL's software solutions, refer to the Company's website at: www.solutiondynamics.com/customer-solutions

The International Growth Fund ("IGF") co-funding grant from NZ Trade and Enterprise ("NZTE") to support a range of market development activities in North America operated over all of FY2024 (part year in FY2023). The IGF provides 50:50 co-funding for eligible project costs up to a maximum of $0.6 million from NZTE over a three-year period from November 2022. A condition of the co-funding is that SDL cannot make distributions that exceed 50% of net profit after tax for the duration of the co-funding agreement.

Financial Performance

SDL's decline in FY2024 earnings was primarily the effect of lower Software & Technology/International revenue. A price increase in the local market helped offset inflationary cost pressures.

Gross Profit declined 8.1% from some pressure on Cost of Goods Sold, including some non-recoverable production costs for a large client. While SG&A costs saw ongoing inflationary pressures across the business, a focus on productivity gains saw staff numbers tightly managed, although this incurred some one-off restructuring costs.

EBITDA reduced 15.4% to $4.84 million (FY2023 $5.72 million).

Summary Financial Performance (all figures $000)	FY2024	FY2023	Percentage Change
Total Revenue and Income	38,668	40,553	-4.6%
Less: Cost of Goods Sold	23,824	24,399	-2.4%
Gross Profit	**14,844**	**16,154**	**-8.1%**
Gross Margin (%)	38.4%	39.6%	
Less: Selling, General & Admin (SG&A)	10,009	10,442	-4.1%
EBITDA	**4,835**	**5,712**	**-15.4%**
EBITDA margin (%)	12.5%	14.1%	
Depreciation	851	965	-11.8%
Amortisation	54	85	-36.5%
EBIT	**3,930**	**4,662**	**-15.7%**
Net Interest Received / (paid)	-125	18	n.m.
Income Tax	1,236	1,219	1.4%
Net Profit after Tax	**2,819**	**3,425**	**-17.7%**
Tax rate	30.5%	26.2%	

SDL's earnings in FY2024 benefited from NZTE's market development co-funding assistance, which totaled $0.2 million pre-tax ($0.1 million in FY2023).

The following table highlights first and second half performance for the last two financial years. The timing of a small number of particularly large customer jobs during the year can materially alter the split of first and second half earnings, with one order slipping from late FY2024 into FY2025 (the order is an annual job and was included in the FY2023 result).

SDL Half Financial Years (all figures $000)	2H FY2024	2H FY2023	Percent Change	1H FY2024	1H FY2023	Percent Change
Total Revenue and Income	15,902	17,209	-7.6%	22,766	23,344	-2.5%
EBITDA	**834**	**1,601**	**-47.9%**	**4,001**	**4,111**	**-2.7%**
EBITDA margin	5.2%	9.3%		17.6%	17.6%	
Net Profit after Tax	**346**	**968**	**-64.3%**	**2,473**	**2,457**	**0.7%**

Balance Sheet, Liquidity and Debt

SDL closed the year with net cash (i.e. cash plus short-term cash deposits less interest-bearing debt) on hand of $7.95 million (FY2023 $6.63 million) or around 54 cents per share. This net cash figure excludes debt liabilities relating to Right to Use Liabilities arising from the Lease Accounting standard; these liabilities are approximately offset by Right to Use Assets.

The directors intend to maintain a prudent approach to balance sheet management and are conscious that a period of more difficult economic times may provide acquisition opportunities. A number of opportunities have been reviewed but none progressed to date.

A condition of the NZTE IGF grant constrains distributions to 50% of earnings for the term of the grant, with distributions defined to include both dividends and capital return initiatives such as share buybacks.

The Company maintains an overdraft arrangement from ANZ Bank with a $200,000 limit. This was unused during FY2024.

Selected Balance Sheet and Cashflow Figures (all figures $000)	FY2024	FY2023	Change
Net Cash and Short-term Deposits/(Debt & Borrowings)	7,950	6,628	1,322
Non-Current Assets	1,745	1,850	-105
Right of Use Assets	1,795	2,188	-393
Net Other Assets/(Liabilities)	-673	-1,065	392
Right of Use Liabilities	-1,815	-2,250	435
Net Assets	**9,002**	**7,351**	**1,651**
Cashflow from Trading	3,429	4,740	-1,311
Movement in Working Capital	-74	103	-177
Cash Inflow from Operations	**3,355**	**4,843**	**-1,488**

Capital expenditures for the year totalled around $0.1 million (FY2023 $0.3 million), largely relating to laptops and IT hardware. The Company does not capitalise any software development.

Net assets include intangible assets of around $1.1 million, which is all goodwill and subject to an annual impairment test.

SDL operates with a largely neutral working capital balance, meaning growth typically does not require additional investment of capital, although international expansion and larger "lumpier" contracts means month-to-month and intra-month cash flow movements fluctuate significantly.

Taxation and Dividends

SDL pays full New Zealand tax on locally generated earnings. The higher tax rate is FY2024 is partly the result of US tax payments (including state taxes).

SDL intends to pay dividends only to the extent that it can fully impute them and also subject to the Company not experiencing any one-off requirements for abnormal capital expenditure or any significant acquisition or investment activity. NZTE's IGF co-funding 50% distribution cap limited the FY2024 final dividend to 2.5 cents per share.

Earnings and Dividends per Share	FY2024	FY2023	Percentage Change
Closing Shares on Issue ('000)	14,720	14,720	0.0%
Reported Earnings per Share (cents)	**19.2**	**23.3**	**-17.6%**
Dividend per Share (cents)	**9.5**	**11.5**	**-17.4%**
Dividend Proportion Imputed	100.0%	100.0%	
Dividend Payout Ratio	**49.6%**	**49.4%**	

The final dividend of 2.5 cents per share will be fully imputed and paid on 27 September 2024.

The number of shares on issue was unchanged year-on-year. At financial year end, the Company had outstanding ESOP rights to four key staff members in the plan (including the CEO) who collectively hold rights to 0.6 million shares.

Risk Factors

Physical mail volumes in New Zealand and worldwide are continuing to show structural decline, especially for transactional mail. As previously noted, NZ Post standard-mail retail postage rates have increased 15.0% for FY2024 (on top of a 17.6% increase for FY2023). The Company has several key domestic contracts that, if lost, could place material pressure on local profitability although much of this is under medium-term contract. SDL reiterates its expectation that consolidation in the New Zealand print market is inevitable, with some current signs of capacity rationalisation underway. The Company will not participate unless there is clear value enhancement for shareholders.

SDL's largest five customers accounted for 60% of revenue. Loss of one or more of those, particularly the Company's largest customer (currently running an ongoing RFP for its communications services work provided by SDL), would cause financial results to change very materially.

The Company's software provides critical document management, distributed print, and storage functions for its clients. SDL needs to ensure it continues to maintain appropriate levels of software development quality control, along with well-trained staff for software delivery and support. Cyber and data security is a known high-risk area. The Company regularly reviews its IT and data security arrangements including the use of external consultants.

The Company operates a single site facility for its New Zealand print and mail house production, with an offsite for data and server backup. The directors are conscious of the operational risk a single site implies for digital imaging and mail house operations. SDL has a reciprocal disaster recovery ("DR") plan with another printer, as well as a degree of backup capability with a division of its major print equipment supplier.

The Company mainly relies on distribution channel partners to market its software products into the UK, Europe and the US. This means SDL has little or no contact with many of the end user customers of its products. While these channel partner arrangements are currently stable there is no guarantee these arrangements will continue. SDL aims to ensure its software meets channel partner requirements.

While the risks noted represent ongoing challenges and headwinds, the market opportunities to help organisations with their global customer communications digital transformation can be significant. SDL holds a leadership position in global postage management and distributed print, capturing significant savings as the first step in the digital transformation journey. Leading brands rely on SDL's digital document management platform and the Company's sales and marketing efforts are to enable growth in key vertical global markets and offer longer term paybacks. Nevertheless, the shorter-term headwinds in the global environment, especially relating to macroeconomic conditions, are producing significant uncertainty and this could materially affect the Company's results.

FY2025 Outlook

Domestically, SDL is continuing to win new business, although the overall decline in the print and mail house market continues unabated, exacerbated by continued increases by postal operators globally, including NZ Post, in postage rates. This is inevitably hastening the move from physical to digital communications. SDL is continuing to lead with a "digital first" approach, to help our clients create more effective communications tailored by channel. The annualised effect of wins in FY2024, along with a strong pipeline of opportunities, should see SDL's New Zealand operations continue to expand.

Internationally, gaining new business has been difficult, driven by economic weakness, rising prices, and customer focus on cost cutting in the face of rapidly rising postal rates. SDL is in the process of enhancing its digital solutions by integrating artificial intelligence (AI) into its customer communications platform. The company's customers have language translation needs that SDL is targeting as an initial AI application. A software-based approach to language translation leveraging AI can significantly improve the speed and lower the cost compared to third party translation services. We also see opportunities in the government sector for AI assisted language translation to better serve citizens and comply with regulations. We are investing in sales and marketing local to the US to increase market awareness. Regaining International sales momentum is a key and critical priority for success in FY2025 and beyond.

SDL noted in mid-2023 that its largest customer would review its communications contracts by issuing a Request for Proposal ("RFP") tender for the work the Company has undertaken for around five years. The customer has stated it is very satisfied with SDL's service quality and operational flexibility and that the RFP is part of the customer's periodic review of its large contracts. The RFP was issued in mid-2023 and has been responded to, along with subsequent data requests. The RFP covers complex data and global distributed print and logistics, and the timing of the outcome remains uncertain. SDL continues to win new projects with this client, reaffirming our value. This customer is very material to SDL and every effort will be undertaken to ensure the business is retained, although an RFP process inevitably carries significant risk for the Company.

The ongoing delays to the RFP, and its outcome, make providing guidance for the financial year ahead difficult. The directors have decided to defer providing FY2025 earnings guidance until the result of the RFP is known and the commercial implications can be assessed. At this stage, the first half result for FY2025 is likely to be largely unaffected.

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

Patrick Brand
Chief Executive Officer

John McMahon
Director (Chairman)

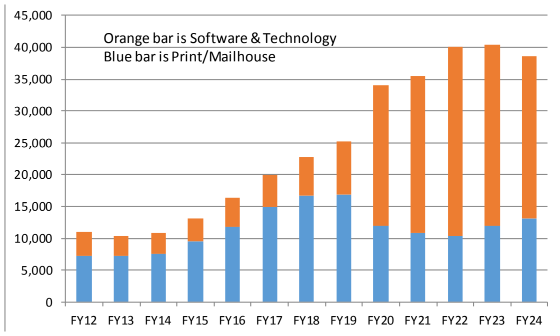
Key Financial Trend Metrics

Revenue and Income ($ 000)

Revenue CAGR (10 yr) 13.5%

Software CAGR (8 yr) 24.1%

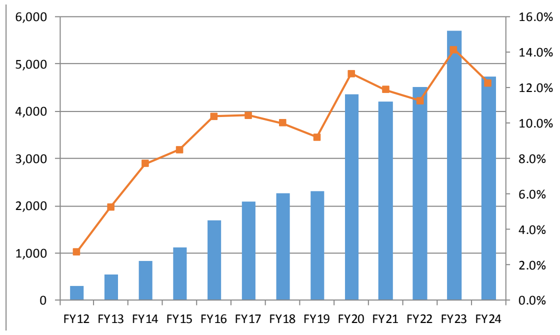
Print/Mail CAGR (8 yr) 1.7%



EBITDA ($ 000)

CAGR (10 year) 19.1%

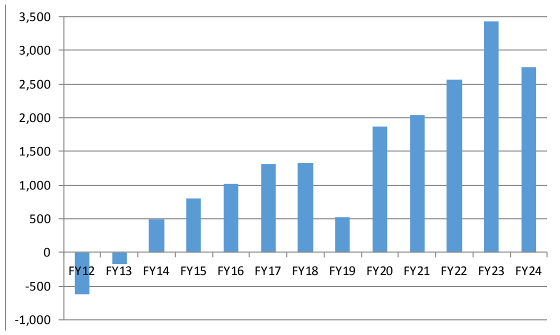
EBITDA is as reported in financial statements, noting this is affected by the change of accounting standard to NZ IFRS 16 (accounting for leases) in FY2020 (increases reported EBITDA) so FY2020 onwards is not comparable with prior years.



Net Profit ($ 000)

CAGR (10 year) 18.9%

Reported net profit. Note that SDL paid no tax from FY2012 to FY2014.



Dividends

CAGR (from FY15 dividend) 22.8%

Cents per share (excludes imputation credits).

All dividends are fully imputed.