

Simplifying Business



Interim Report 2021



Interim  
Report  
2021

## Highlights for Six Months to 31 December 2020

- > Net profit after tax increased 209% to \$1.45 million
- > Software & technology revenues grew 40% to \$13.1 million, with strong pipeline of opportunities
- > EBITDA increased 101% to \$2.85 million
- > Cash flow from operations increased \$0.56 million to \$2.53 million and net cash at 31 December 2020 was \$6.1 million
- > Interim dividend 7.0 cents per share, fully imputed (up from 3.0 cents the prior year)
- > FY2021 profit guidance maintained in the range of \$2.0-2.5 million

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# Chairman's & Chief Executive Officer's Report

## Result Overview

Solution Dynamics Limited ("SDL" or "Company") produced an unaudited net profit after tax of \$1.45 million for the half year (1H FY2020 \$0.47 million), a year-on-year increase of 209%.

This gain in profit stems largely from significant new revenue and gross margin from rollouts of SDL's global print and software solution for two major global organisations. This was offset by ongoing decline in domestic NZ print and mail services and a further increase in Selling, General & Administration (SG&A) costs to support UK operations and development of the US market opportunity.

Cash flow from operations was \$2.54 million (1H FY2020 \$1.98 million). The closing net cash position at 31 December was \$6.06 million (1H FY2020 \$2.20 million), noting that approximately a quarter of this cash represents pre-payments by customers of postage. The Directors have declared an interim dividend of 7.0 cents per share (1H FY2020 3.0 cents), fully imputed.

## Operational Commentary

Operating revenue grew 17.3% to \$18.52 million with strong international gains offset by declines in New Zealand operations. Software & Technology revenue (almost wholly international) increased 39.9% on the back of rollouts of two major contracts the company announced details of at the annual meeting in October 2020. Gains here were constrained by significant volume weakness in the UK where a major customer in the dental sector and a downstream mail access provider were affected by COVID. The overall New Zealand market remains in structural decline and industry rationalisation seems inevitable at some point.

SG&A costs continue to rise, up 6.2% year-on-year (on top of a 27.5% increase in the prior year first half). International expansion has seen a greater need for in-market customer support for account management, applications and DevOps, along with increased New Zealand and international staffing for software development and IT infrastructure such as cybersecurity. Additional sales staff have been added in the US and Europe, partly the result of COVID restrictions curtailing travel of New Zealand-based staff but also to attack new market opportunities.

The Company's traditional digital print and document handling services market revenue in New Zealand declined 23.9% year-on-year to \$2.07 million (1H FY2020 \$2.71 million). The first half saw an ongoing increase in the rate at which customers switched to electronic communications, with mail lodgements down 16.7% and email volumes up a disappointing 3.3%. The industry has excess digital print capacity and rationalisation will inevitably occur; the Company has held discussions with several market participants, however, there seems broad resistance to be the first mover in implementing structural change.

SDL's existing print equipment contract concluded during the first half. The Company has renewed with the same supplier and upgraded equipment although "click" charges for throughput have increased modestly on average. The extent of the overall increase will be partly dependant on the mix of equipment utilisation SDL is able to achieve.

SDL has maintained its COVID-related work practices around health monitoring, segregated teams and controlled facility access. This has helped ensure no staff member has been infected to date. The effects of COVID on revenue have mainly been seen in SDL's UK business as noted above, along with some constraints to certain operations by a number of international clients which lowered preliminary FY21 revenue growth expectations.

While there have been modest cost savings (notably travel) the net effect from COVID on gross margin and net profit has been moderately negative in the half year and little respite seems likely until sometime in FY2022, subject to the effectiveness of various vaccine rollouts underway.

The Company continues to see interest in its post-on-demand (POD) and distributed print solutions and is currently trialling POD sales activity in the US small-to-medium-business (SMB) market. This SMB market is currently served largely by hardware solutions so SDL's software-based solution should be competitive, although potential customers typically lease (on fixed terms) much of the hardware, meaning the Company will face longer sales cycles to grow market penetration.

## Financial Performance

Earnings before interest, tax, depreciation and amortisation (EBITDA) approximately doubled to \$2.85 million (1H HY2020 \$1.42 million) on sales revenue that rose 17.3%.

<b>Summary Financial Performance</b> (all figures \$'000)	<b>1H FY21</b>	<b>1H FY20</b>	<b>Yr-on-Yr \$ Change</b>	<b>Yr-on-Yr % Change</b>
<b>Total Revenue</b>	<b>18,522</b>	<b>15,785</b>	<b>2,737</b>	<b>17.3%</b>
Cost of Goods Sold	11,214	10,168	1,046	10.3%
<b>Gross Margin</b>	<b>7,308</b>	<b>5,617</b>	<b>1,691</b>	<b>30.1%</b>
<b>Gross Margin (%)</b>	<b>39.5%</b>	<b>35.6%</b>		
Selling, General & Admin Costs	4,463	4,201	262	6.2%
<b>EBITDA</b>	<b>2,845</b>	<b>1,416</b>	<b>1,429</b>	<b>100.9%</b>
<b>EBITDA Margin (%)</b>	<b>15.4%</b>	<b>9.0%</b>		
Depreciation	612	581	31	5.3%
Amortisation	150	176	-26	-15.0%
<b>EBIT</b>	<b>2,083</b>	<b>659</b>	<b>1,424</b>	<b>216.1%</b>
Net Interest	27	64	-37	-57.0%
<b>Net Profit before Tax</b>	<b>2,056</b>	<b>595</b>	<b>1,461</b>	<b>245.5%</b>
Taxation	607	126	481	381.7%
<b>Net Profit after Tax</b>	<b>1,449</b>	<b>469</b>	<b>980</b>	<b>208.9%</b>

The EBITDA improvement is partly a reversal of the prior year decline and mostly stems from better sales mix improving the Gross Margin, partly offset by higher SG&A costs. The Company has obtained NZ Trade & Enterprise ("NZTE") support for its US expansion activities and this helped offset some of the cost expansion in that market. The interim result included a net gain of \$0.34 million (pre-tax) from realised foreign exchange currency hedges that were protecting part of SDL's offshore Gross Margin.

SDL's taxation rate in 1H FY20 was 29.5% versus 21.2% in the prior period. The Company is incurring losses in the UK as a result of COVID revenue declines there, and these are not able to be grouped against profits in other jurisdictions.

<b>Revenue Analysis</b> (all figures \$'000)	<b>1H FY21</b>	<b>1H FY20</b>	<b>Yr-on-Yr \$ Change</b>	<b>Yr-on-Yr % Change</b>
Software & Technology	13,099	9,365	3,734	39.9%
Digital Print & Document Handling	2,065	2,713	-648	-23.9%
Outsourced Services	3,358	3,707	-349	-9.4%
<b>Total Revenue</b>	<b>18,522</b>	<b>15,785</b>	<b>2,737</b>	<b>17.3%</b>

SDL's pipeline of opportunities and sales efforts in the UK, European and US markets is likely to ensure Software & Technology has several years of revenue growth ahead, although COVID constraints place uncertainty around this expectation.

## Balance Sheet, Liquidity and Debt

SDL closed the half year with net cash on hand of \$6.06 million, up 175% on 1H FY2020 (\$2.20 million) although around a quarter of this represents customer balances the Company is holding as prepayment for postage (and customers can ask for this to be returned). A bank overdraft facility of \$0.2 million remains in place but is unused. Capital expenditure was \$0.05 million in the half, largely for minor items of computer equipment.

<b>Selected Balance Sheet and Cashflow Figures</b> (all figures \$'000)	<b>1H FY21</b>	<b>1H FY20</b>	<b>Yr-on-Yr \$ Change</b>	<b>Yr-on-Yr % Change</b>
Net Cash on Hand (net of debt)	6,063	2,203	3,860	175.2%
Non-current Assets (excl Right of Use)	2,048	2,554	-506	-19.8%
Right of Use Assets	900	2,361	-1,461	-61.9%
Net Other Liabilities (excl Right of Use)	-2,606	-611	-1,995	326.5%
Right of Use Liabilities	-1,036	-2,489	1,453	-58.4%
<b>Net Assets</b>	<b>5,369</b>	<b>4,018</b>	<b>1,351</b>	<b>33.6%</b>
Cashflow from Trading	1,887	1,288	599	46.5%
Movement in Working Capital	651	689	-38	-5.5%
<b>Cash Inflow from Operations</b>	<b>2,538</b>	<b>1,977</b>	<b>561</b>	<b>28.4%</b>

Book value (net assets) increased 33.6% to \$5.37 million, mainly the effect of higher first half earnings. Working capital remains reasonably well managed and SDL has not seen any bad or doubtful debt issues arising as a result of COVID.

## Dividend

SDL has declared an interim dividend of 7.0 cents per share, a 133% on the prior year.

<b>Earnings and Dividend per Share</b>	<b>1H FY21</b>	<b>1H FY20</b>	<b>Yr-on-Yr Change</b>	<b>Yr-on-Yr % Change</b>
Shares on Issue (000)	14,639.8	14,639.8	0	0.0%
Earnings per share (cents)	9.89	3.20	6.69	208.9%
<b>Earnings per share (cents) on NPATA <sup>(a)</sup></b>	<b>10.92</b>	<b>4.41</b>	<b>6.51</b>	<b>147.8%</b>
<b>Dividend per share (cents)</b>	<b>7.00</b>	<b>3.00</b>	<b>4.00</b>	<b>133.3%</b>
Dividend proportion Imputed	100.0%	100.0%	n.a.	n.a.
Payout ratio (on NPATA)	64.1%	68.1%	n.a.	n.a.

(a) NPATA is Net Profit After Tax plus Amortisation (i.e. adding back Amortisation to net profit). This is non-GAAP measure of earnings agreed with NZTE for maximum dividend payout ratio purposes.

The dividend is fully imputed and the amount represents a payout ratio of 70.7% of earnings per share (and 64.1% of NPATA). The new agreement with NZTE for US market development support continues to limit SDL to a dividend payout ratio of 75% of NPATA.

## FY 2021 Outlook

As expected, the key factor contributing to SDL's expected FY2021 outlook has been the progressive onboarding and ramp up of new client wins for the Company's Software & Technology services and products internationally. The scale of various phases of onboarding and projects for a number of these clients has introduced a degree of lumpiness into revenue and earnings, which has been further affected by COVID-related delays and uncertainty.

SDL's New Zealand business continues to suffer the industry-wide pressure of declining physical volumes, partially offset by modest new business gains. The Company's international Software & Technology platforms are continuing to expand, particularly in North America. Activity levels at SDL's UK customers remains well down on the prior year although is around budget. Additional costs are currently being incurred as SDL is increasing its investment globally in both in sales channel development and customer support infrastructure (including developers, DevOps and cybersecurity) to maintain growth momentum and deliver expanded software functionality requirements that clients are requesting.

SDL reiterates its prior guidance of full year FY2021 net profit after tax in the range of \$2.0 to \$2.5 million. This outlook assumes little recovery in lower international volumes in the UK and that new client projects and onboarding activities proceed as currently planned. Significant volatility is possible around the guidance range and the predominant likely causes of volatility (including world health and macroeconomic outlooks) are in many cases beyond the Company's control.

# Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 31 December 2020

	6 MONTHS ENDED 31 DEC 2020	6 MONTHS ENDED 31 DEC 2019	AUDITED YEAR ENDED 30 JUN 2020
(NZ\$ in thousands, except per share amounts)			
Operating revenue	17,697	15,573	32,140
Grant income	825	212	1,890
<b>Total income</b>	<b>18,522</b>	<b>15,785</b>	<b>34,030</b>
<b>Expenses</b>			
Employee costs	3,808	4,003	7,621
Research & development	613	332	1,077
Directors fees & salaries	445	222	570
Print & other outsource expenses	2,708	3,425	6,179
Other expenses	8,103	6,387	14,229
<b>Total Expenses</b>	<b>15,677</b>	<b>14,369</b>	<b>29,676</b>
<b>Earnings before interest, tax, depreciation &amp; amortisation (EBITDA)</b>	<b>2,845</b>	<b>1,416</b>	<b>4,354</b>
Depreciation	612	581	1,151
Amortisation of intangible assets (software)	150	176	330
Net Interest	27	64	92
<b>Profit before income tax</b>	<b>2,056</b>	<b>595</b>	<b>2,781</b>
Income tax	607	126	915
<b>Net profit after income tax</b>	<b>1,449</b>	<b>469</b>	<b>1,866</b>
	<b>Cents</b>	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	9.9	3.2	12.7
Diluted earnings per share	9.7	3.3	12.6

# Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 31 December 2020

(NZ\$ in thousands, except per share amounts)	6 MONTHS ENDED 31 DEC 2020	6 MONTHS ENDED 31 DEC 2019	AUDITED YEAR ENDED 30 JUN 2020
Net operating profit after income tax	1,449	469	1,866
Exchange differences on translation of foreign operations	(103)	12	(53)
<b>Total comprehensive income for the year</b>	<b>1,346</b>	<b>481</b>	<b>1,813</b>

# Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 31 December 2020

(NZ\$ in thousands)	SHARE CAPITAL	EMPLOYEE SHARE PLAN	CURRENCY TRANSLATION RESERVE	ACCUMULATED LOSSES	TOTAL EQUITY
Balance 1 July 2019 (restated)	5,413	7	(15)	(1,583)	3,822
Issue of shares to employees	-	8	-	-	8
<b>Transactions with owners</b>	-	<b>8</b>	-	-	<b>8</b>
Dividend	-	-	-	(293)	(293)
Profit for the period after tax	-	-	-	469	469
Other comprehensive income	-	-	12	-	12
<b>Total comprehensive income</b>	-	-	<b>12</b>	<b>176</b>	<b>188</b>
<b>Balance 31 December 2019</b>	<b>5,413</b>	<b>15</b>	<b>(3)</b>	<b>(1,407)</b>	<b>4,018</b>
Issue of shares to employees	-	14	-	-	14
<b>Transactions with owners</b>	-	<b>14</b>	-	-	<b>14</b>
Dividend	-	-	-	(439)	(439)
Profit for the year after tax	-	-	-	1,365	1,365
Other comprehensive (loss) income	-	-	(65)	-	(65)
<b>Total comprehensive income</b>	-	-	<b>(65)</b>	<b>926</b>	<b>861</b>
<b>Balance 30 June 2020 (Audited)</b>	<b>5,413</b>	<b>29</b>	<b>(68)</b>	<b>(481)</b>	<b>4,893</b>
Issue of shares to employees	-	9	-	-	9
<b>Transactions with owners</b>	-	<b>9</b>	-	-	<b>9</b>
Dividend	-	-	-	(879)	(879)
Profit for the period after tax	-	-	(103)	1,449	1,346
<b>Total comprehensive income</b>	-	-	<b>(103)</b>	<b>570</b>	<b>467</b>
<b>Balance 31 December 2020</b>	<b>5,413</b>	<b>38</b>	<b>(171)</b>	<b>89</b>	<b>5,369</b>

# Consolidated Statement of Financial Position (Unaudited)

As at 31 December 2020

(NZ\$ in thousands)	AS AT 31 DEC 2020	AS AT 31 DEC 2019	AUDITED AS AT 30 JUN 2020
<b>Current Assets</b>			
Cash and cash equivalents	6,063	2,203	5,012
Trade & other receivables	2,600	2,894	4,838
Inventories and work in progress	139	215	267
Prepayments	161	226	200
<b>Total Current Assets</b>	<b>8,963</b>	<b>5,538</b>	<b>10,317</b>
<b>Current Liabilities</b>			
Trade creditors	1,439	1,961	2,511
Other current liabilities	3,074	760	4,131
Other non-financial liabilities	228	694	72
Employee benefit liabilities	758	520	666
Right of use lease liability	784	703	802
Deferred tax liability	7	11	229
<b>Total Current Liabilities</b>	<b>6,290</b>	<b>4,649</b>	<b>8,411</b>
<b>Working Capital</b>	<b>2,673</b>	<b>889</b>	<b>1,906</b>
<b>Non-Current Assets</b>			
Capital works in progress	188	174	188
Property, plant & equipment	413	1,096	525
Right of use assets	900	1,898	1,406
Intangible assets	386	686	536
Goodwill	1,061	1,061	1,061
<b>Total Non-Current Assets</b>	<b>2,948</b>	<b>4,915</b>	<b>3,716</b>
<b>Non-Current Liabilities</b>			
Right of use lease liability	252	1,786	729
<b>Total Non-Current Liabilities</b>	<b>252</b>	<b>1,786</b>	<b>729</b>
<b>Net Assets</b>	<b>5,369</b>	<b>4,018</b>	<b>4,893</b>

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# Consolidated Statement of Financial Position (Unaudited) CONTINUED

As at 31 December 2020

	AS AT 31 DEC 2020	AS AT 31 DEC 2019	AUDITED AS AT 30 JUN 2020
<b>Equity</b>			
Share capital	5,413	5,413	5,413
Employee share option plan	38	15	29
Foreign currency translation reserve	(171)	(3)	(68)
Accumulated losses	89	(1,407)	(481)
<b>Total Equity</b>	<b>5,369</b>	<b>4,018</b>	<b>4,893</b>

For and on behalf of the Board



John McMahon  
Director (Chairman)



Andy Preece  
Director

Date: 25 February 2021

# Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 31 December 2020

(NZ\$ in thousands)	6 MONTHS TO 31 DEC 2020	6 MONTHS TO 31 DEC 2019	AUDITED YEAR TO 30 JUN 2020
<b>Cash Flow from Operating Activities</b>			
<i>Cash was provided from:</i>			
Receipts from sales	20,677	17,313	35,296
Other revenue	825	212	1,890
	<b>21,502</b>	<b>17,525</b>	<b>37,186</b>
<i>Cash was applied to:</i>			
Payments to suppliers	13,366	10,870	21,560
Payments to employees	5,533	4,060	8,730
GST paid to Inland Revenue	65	618	1,130
	<b>18,964</b>	<b>15,548</b>	<b>31,420</b>
<b>Net Cash Inflow from Operating Activities</b>	<b>2,538</b>	<b>1,977</b>	<b>5,766</b>
<b>Cash Flow from Investing Activities</b>			
<i>Cash was applied to:</i>			
Purchase of property, plant & equipment & capital works in progress	53	172	216
Purchase of software & intangible assets	-	2	6
<b>Net Cash (Outflow) from Investing Activities</b>	<b>(53)</b>	<b>(174)</b>	<b>(222)</b>
<b>Cash Flow from Financing Activities</b>			
<i>Cash was applied to:</i>			
Payment of dividends	879	293	732
Interest paid	27	64	124
Finance lease liabilities	528	425	858
	<b>1,434</b>	<b>782</b>	<b>1,714</b>

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# Consolidated Statement of Cash Flows (Unaudited) CONTINUED

For the six months ended 31 December 2020

	6 MONTHS TO 31 DEC 2020	6 MONTHS TO 31 DEC 2019	AUDITED YEAR TO 30 JUN 2020
<b>Net Cash (Outflow) from Financing Activities</b>	<b>(1,434)</b>	<b>(782)</b>	<b>(1,714)</b>
<b>Net change in cash and cash equivalents</b>	<b>1,051</b>	<b>1,021</b>	<b>3,830</b>
Add cash & cash equivalents held at beginning of year	5,012	1,182	1,182
<b>Finance Facility and Cash Balance at End of Year</b>	<b>6,063</b>	<b>2,203</b>	<b>5,012</b>
<b>Reconciliation of net deficit after income tax for the year with net cash inflow/ (outflow) from operating activities</b>			
Net surplus after income tax	1,449	469	1,866
Interest expense (reclassified as financing activity)	27	64	92
<i>Add non-cash items:</i>			
Depreciation & amortisation of assets	762	757	1,481
(Gain) on foreign exchange	-	(18)	(1,356)
Bad and doubtful debts	(35)	(7)	19
Other non-cash items	(316)	23	190
<b>Cash Flow from Trading</b>	<b>1,887</b>	<b>1,288</b>	<b>2,292</b>
Add movements in Working Capital	651	689	3,474
<b>Net Cash Inflow from Operating Activities</b>	<b>2,538</b>	<b>1,977</b>	<b>5,766</b>

# Notes to the Condensed Financial Statements (Unaudited)

For the six months ended 31 December 2020

## 1. GENERAL INFORMATION AND BASIS OF PREPARATION

The condensed interim consolidated financial statements (the interim financial statements) are for the six months ended 31 December 2020 and are presented in NZ\$, which is the functional currency of the parent company. They have been prepared in accordance with New Zealand generally accepted accounting practice and comply with New Zealand Equivalent to International Accounting Standard 34 (NZ IAS 34) and IAS 34 "Interim Financial Reporting" (IAS 34). They do not include all of the information required in annual financial statements in accordance with IFRS's and should be read in conjunction with the consolidated financial statements for the year ended 30 June 2020.

Solution Dynamics Limited is the Group's ultimate parent company. It is a limited liability public company incorporated and domiciled in New Zealand and is listed with the New Zealand Stock Exchange on the NZX. The address of its registered office and principal place of business is 18 Canaveral Drive, Auckland, New Zealand.

The Group comprises Solution Dynamics Limited and its wholly owned subsidiaries Solution Dynamics (International) Limited (based in the United Kingdom), Solution Dynamics Incorporated (based in the United States of America) and Déjar International Limited (non-trading).

The Group offers a range of integrated solutions encompassing data management, electronic digital printing, web presentment and archiving, fulfilment, traditional print services, scanning, data entry and document management.

The interim financial statements for the six months ended 31 December 2020 and the related comparative interim period, are unaudited. Due to seasonal variability financial information from the audited financial statements for the immediate preceding financial year ending 30 June 2020 have also been included.

The unaudited interim financial statements for the Group for the six months ended 31 December 2020 were authorised for issue on 25 February 2021 in accordance with a resolution of the directors of the Company.

Notes to the Condensed Financial Statements (Unaudited) **CONTINUED**  
For the six months ended 31 December 2020

## 2. SIGNIFICANT ACCOUNTING POLICIES

These interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 30 June 2020.

Certain comparative information has been reclassified to conform with the current period's classification.

## 3. ESTIMATES

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2020.

## 4. SEGMENT INFORMATION

The Group operates in one business segment, the supply of customer communication solutions. These include a range of integrated document management products and services separated into three streams; Software & Technology, Outsource Services and Digital Imaging & Output Services. Specific elements of these streams are as follows:

- **Software & Technology**, Solution Dynamics owns the intellectual property in five products;
  - » Déjar, an online digital archival and retrieval system sold stand-alone under licence agreements and also as a hosted service in New Zealand and Internationally.
  - » Bremy, Digital asset management, workflow and multichannel publishing software sold as a licenced product and also as a hosted service in New Zealand, Australia and the UK.
  - » Composer, "On-Demand" content creation software.

- » DéjarMail, is a web browser-based desktop mail management solution which allows customers to route mail correspondence to SDL or any other service provider for printing and delivery.
- » Jupiter is a hybrid mail application that was acquired through the purchase of the DigitalToPrint business. The application routes data received from clients for international distribution of communications to the destination country for print production and lodgement as local mail.
- » Scantech provides high volume scanning and capture of both physical and digital documents; it was acquired through the purchase of Scantech Ltd.
  - » Ok2Pay – is a financial transaction engine that processes Accounts Payable invoices, credit vouchers, and cheques.

Software & Technology services revenues in markets outside New Zealand include print and related services, logistics and postal revenues derived through the technology platforms.

In addition to owning the intellectual property for the above products, Solution Dynamics provides programming, consulting and design services that help clients to distribute marketing and essential communications by mail and electronically. The provision of these services is covered under this category.

- **Digital Printing & Output Services** is solely New Zealand revenue and includes the printing of client's information digitally using high speed laser printers followed by output fulfilment, lodgement and distribution of those documents using a variety of machine and other processes.
- **Outsourced Services**, not all components of Solution Dynamics' services in New Zealand are produced internally. External elements such as domestic New Zealand post, freight, paper and envelopes are sourced from external suppliers and included in this service stream. Solution Dynamics has long term arrangements with a number of key suppliers such as NZ Post for the provision of these services.

An overhead structure including sales, marketing and administration departments provides services for all of the above revenue streams.

There are no reconciling items in this note due to the management information provided to the Chief Operating Decision Maker being compiled using the same standards and accounting policies as those used to prepare the financial statements.

Notes to the Condensed Financial Statements (Unaudited) **CONTINUED**  
For the six months ended 31 December 2020

(NZ\$ in thousands)	<b>6 months to December 2020</b>		<b>6 months to December 2019</b>		<b>Year to June 2020</b>	
Software & Technology	13,099	71%	9,365	59%	22,012	65%
Digital Printing & Document Handling Services	2,065	11%	2,713	17%	4,568	13%
Outsourced services	3,358	18%	3,707	24%	7,450	22%
<b>Total income</b>	<b>18,522</b>	<b>100%</b>	<b>15,785</b>	<b>100%</b>	<b>34,030</b>	<b>100%</b>
Less cost of sales	11,214	61%	10,168	64%	20,571	60%
<b>Gross margin</b>	<b>7,308</b>	<b>39%</b>	<b>5,617</b>	<b>36%</b>	<b>13,459</b>	<b>40%</b>
Selling, general & administration	4,463	24%	4,201	27%	9,105	27%
<b>Earnings before interest, tax, depreciation &amp; amortisation</b>	<b>2,845</b>	<b>15%</b>	<b>1,416</b>	<b>9%</b>	<b>4,354</b>	<b>13%</b>
Depreciation	612	3%	581	4%	1,151	4%
Amortisation	150	1%	176	1%	330	1%
Interest	27	0%	64	0%	92	0%
Income tax	607	3%	126	1%	915	2%
<b>Operating Profit after income tax</b>	<b>1,449</b>	<b>8%</b>	<b>469</b>	<b>3%</b>	<b>1,866</b>	<b>6%</b>

### Segment Assets

Assets are not segmented between service streams.

### Information about Major Customers

Included in revenues for Solution Dynamics of \$18.522 million (2019: \$15.785 million) are services revenues of \$6.399 million (2019: \$2.969 million) which arose from sales to the Company's largest customer.

### Geographical Information

The Group has customers in New Zealand, Australia, United States of America and Europe.

(NZ\$ in thousands)	REVENUE FROM EXTERNAL CUSTOMERS			NON-CURRENT ASSETS		
	6 mths to 31 Dec 2020	6 mths to 31 Dec 2019	Year to 30 June 2020	As at 31 Dec 2020	As at 31 Dec 2019	As at 30 June 2020
New Zealand	7,633	8,066	16,687	2,905	4,906	3,613
Australia	199	238	484	-	-	-
United States of America	9,718	5,095	12,625	29	-	50
Europe	972	2,386	4,234	14	9	53
<b>Total</b>	<b>18,522</b>	<b>15,785</b>	<b>34,030</b>	<b>2,948</b>	<b>4,915</b>	<b>3,716</b>

## 5. CASH & CASH EQUIVALENTS

(NZ\$ in thousands)	As at 31 Dec 2020	As at 31 Dec 2019	As at 30 June 2020
Cash and cash equivalents	6,063	2,203	5,012
<b>Total Finance Facility and Cash</b>	<b>6,063</b>	<b>2,203</b>	<b>5,012</b>

Solution Dynamics has an overdraft facility in place with the ANZ Bank at an interest rate of 6.95% p.a. (2019: 7.7%). This facility is to support the operational requirements of the Group, is interest only and is secured by first ranking debenture over the assets of the Group.

At period end, the ANZ Bank has imposed no financial covenants to secure the existing facilities. The Group maintains a \$200,000 overdraft facility that was unused at the reporting date 2019: \$200,000). The Group now holds a net cash position with no bank debt (2019: \$Nil).

At the end of the reporting period the Bank provided commercial guarantees totalling \$65,000 (2019: \$65,000) to the Group's suppliers.

## 6. SHARE CAPITAL & SHARE-BASED PAYMENTS

Solution Dynamics Limited has 14,639,810 ordinary shares (2019: 14,639,810 ordinary shares) each fully paid.

The Group operates equity-settled, share-based compensation plans, under which employees provide services in exchange for non-transferable options. The value of the employee services rendered for the grant of non-transferable options is recognised as an expense over the vesting period, and the amount is determined by reference to the fair value of the options granted.

Notes to the Condensed Financial Statements (Unaudited) **CONTINUED**  
For the six months ended 31 December 2020

**Number of Shares**

Shares in 000's

	<b>As at 31 Dec 2020</b>	<b>As at 31 Dec 2019</b>	<b>As at 30 June 2020</b>
<i>Shares Issued and Fully Paid:</i>			
- Beginning of the Period	14,640	14,640	14,560
- Share Issue (exercise of options)	-	-	80
<b>Shares Issued and Fully Paid</b>	<b>14,640</b>	<b>14,640</b>	<b>14,640</b>
<i>Employee Share Option Plan:</i>			
- Beginning of the Period	160	160	160
- Granted	80	80	80
- Vested	-	-	-
- Lapsed (on resignation of staff member)	-	-	(80)
<b>Shares Authorised for Share-based Payments</b>	<b>240</b>	<b>240</b>	<b>160</b>
<b>Total Shares Authorised at the end of the Period</b>	<b>14,880</b>	<b>14,880</b>	<b>14,800</b>

The 240,000 options outstanding (2019: 240,000) were at a weighted average exercise price of \$1.98 (2019: \$1.68). 80,000 options are eligible to be exercised from January 2022 with 80,000 options eligible to be exercised from September 2022 and 80,000 eligible to be exercised from November 2023.

## 7. RELATED PARTIES

Transactions between related parties include payments to shareholders, directors and their companies and senior executives, also being shareholders.

Related party transactions from 1 July 2020 to 31 December 2020 were as follows:

- Key management were paid \$1,153,350 (as employees of Solution Dynamics Limited) during the period (2019: \$424,216) and were owed \$201,700, including annual leave, (2019: \$68,176).
- Salaries paid to directors are disclosed in the Consolidated Statement of Profit or Loss.

## 8. EVENTS AFTER THE BALANCE DATE

At the board meeting of 25 February 2021, the directors resolved to pay a fully imputed interim dividend of 7.0 cents per share, amounting to \$1,024,787 (2019: the directors approved the payment of a fully imputed interim dividend of 3.0 cents per share, amounting to \$439,194). There were no other significant events after balance date.

# Directory

## Directors

John McMahon – Non-independent  
Chairman  
Julian Beavis - Independent  
Elmar Toime – Independent  
Andy Preece – Independent  
Lee Eglinton - Independent  
Indrajit Nelson Sivasubramaniam  
(Nelson Siva) – Chief Executive Officer

## Auditors

Grant Thornton New Zealand Audit  
Partnership  
Grant Thornton House  
152 Fanshawe Street  
AUCKLAND

## Bankers

ANZ National Bank Limited  
9-11 Corinthian Drive  
Albany  
AUCKLAND

## Legal Representative

Stephen Layburn  
Commercial Barrister  
Level 3, 175 Queen Street  
AUCKLAND

## Share Registry

Computershare Investor Services  
Level 2, 159 Hurstmere Rd  
Takapuna  
AUCKLAND  
Private Bag 92119  
Auckland Mail Centre  
AUCKLAND 1142

## Registered Office and address for service

18 Canaveral Drive  
Albany  
AUCKLAND  
PO Box 301248  
Rosedale  
AUCKLAND 0752  
Tel +64 9 970 7700

## Solution Dynamics (International) Limited

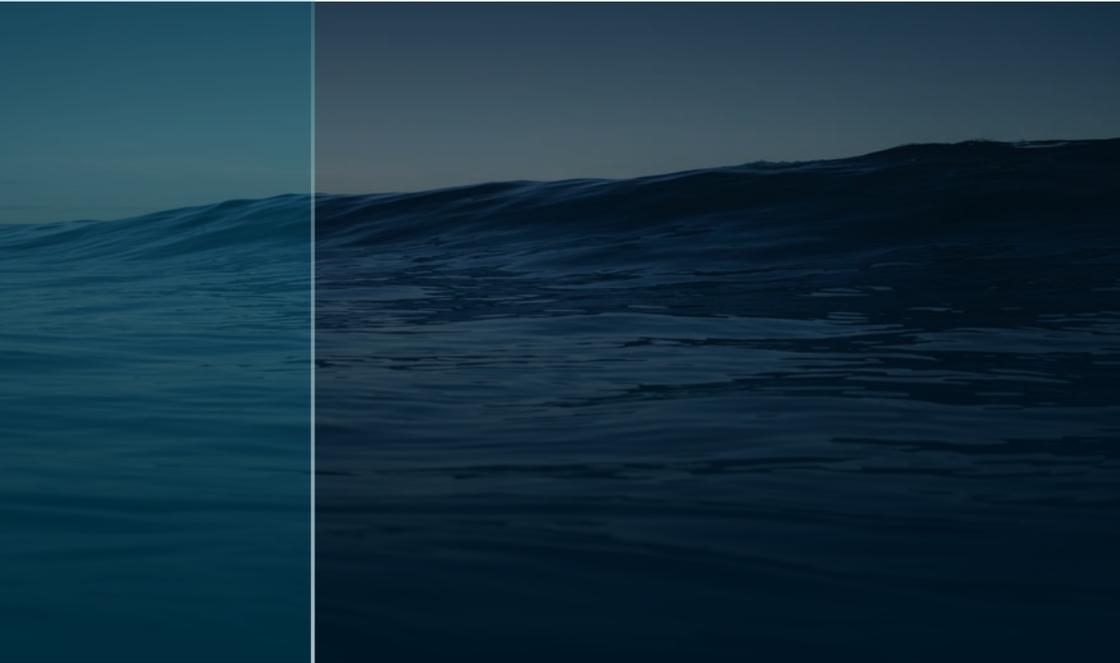
Lancaster Court, 8 Barnes Wallis Road,  
Fareham, PO15 5TU  
Hampshire  
UNITED KINGDOM  
Tel +44 1489 668219

## Solution Dynamics Incorporated

260 Madison Avenue, 8th floor  
New York, New York 10016  
UNITED STATES OF AMERICA  
Tel: +1 (917) 319 5625

## Déjar International Limited (non-trading)

18 Canaveral Drive  
Albany  
AUCKLAND  
PO Box 301248  
Albany  
AUCKLAND 0752



New Zealand ■ United Kingdom ■ United States of America



**Head Office:**

18 - 24 Canaveral Drive, Rosedale, Auckland 0632, New Zealand  
Phone +64 9 970 7700 | PO Box 301248, Albany 0752, New Zealand  
[info@solutiondynamics.com](mailto:info@solutiondynamics.com) | [www.solutiondynamics.com](http://www.solutiondynamics.com)