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## 20 February 2017 ASX Announcement FY2017 Half Year Results Announcement

### Financial Results & Operational Highlights

CSG Limited (ASX: CSV) (the Company) today announced its financial results for the half year ended 31 December 2016. The financial results and operational highlights are as follows:

- Revenue of \$120.7 million representing 3% growth (pcp);
- Reported NPAT of \$8.3 million<sup>1</sup> representing a 14% increase (pcp);
- Underlying EBITDA<sup>2</sup> of \$14.1 million representing a 18% decline (pcp);
- CSG Finance lease receivables growth of 10% (pcp);
- Increased adoption of CSG's Technology as a Subscription product suite with total technology sales representing 23% of total group equipment sales and subscription seats of approximately 10,700 as at 31 December 2016, up 75% (pcp);
- Implemented two key strategic initiatives in signing an agreement with Officeworks to sell CSG's Technology as a Subscription solutions and acquired R&G Technologies; and
- \$5.2 million (or ~1.6 cents per share) buyback in 1H FY2017

### Business Performance

Julie-Ann Kerin, CSG Managing Director & CEO said: "The first half of FY2017 has been very disappointing with revenue below expectations. Despite this, we continue to have confidence in the unique product & service offerings we have built for our customers and we believe that our Technology as a Subscription strategy will deliver growth for our shareholders. We are seeing a strong take up in subscription seats which are forecast to exceed 17,000 by the end of FY2017."

Business Solutions had disappointing revenue growth of 3% relative to the prior corresponding period. Business Solutions technology sales performed well, adding approximately 3,100 subscription seats in the half. The biggest challenge was a decline in equipment sales driven by the underperformance of the sales team, partially impacted by changes to the sales management structure which occurred between July and September. These changes are expected to improve sales execution going forward.

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<sup>1</sup> Impacted by a lower tax expense in 1H FY2017 due to a \$3.6 million one-off benefit from receipt of a favourable tax ruling of LTIP.

<sup>2</sup> Before non-recurring costs of \$1.4 million (comprising \$1.1 million of costs incurred in setting up the Direct Sales channel and \$0.3 million of acquisition and non-recurring legal costs) and LTIP expense of \$1.0 million.



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Our sales staff are being given further training in 2H FY2017 to enhance productivity.

The Enterprise Solutions division achieved revenue growth of 6% (pcp). This was \$10 million lower than expected due to delays in the sales cycle. Major wins in the half included managed print contracts with a local representative council in New Zealand (BOPLASS) and with an Australian government health board and additional print sales as part of an existing contract with the Queensland education department.

In the Finance Solutions division, the lease book increased by 10% (pcp) to close at \$259.7m as at 31 December 2016 (remained flat compared with 30 June 2016). CSG continues to convert more than 95% of customers to CSG Finance products.

### **Business Transformation & Cost Out**

CSG has now completed transforming the sales team in Business Solutions which included the replacement of underperforming sales staff and the addition of more sales staff to increase and deepen geographical coverage.

A Chief Operations Officer has been appointed with over 35 years of experience including managing a \$500 million cost base and significant capex projects. Since starting in October, the Chief Operations Officer has identified areas of material cost savings including distribution & logistics, property and business process improvement. In addition, we have commenced the restructure of Business Solutions in New Zealand to increase efficiency in line with the Australian Business Solutions operations. Together, these cost out initiatives are expected to deliver \$5 to \$6 million in cost savings per annum from FY2018 onwards (approximately \$1.6 million in implementation costs in 2H FY17 with the associated \$1.5 million of cost savings included in Underlying EBITDA in FY2017).

### **Strategic Initiatives**

During 1H FY2017, CSG entered into an agreement with Officeworks to sell Technology as a Subscription which will increase the market adoption for CSG's innovative technology solutions from FY2018 onwards.

Consistent with Enterprise Solutions' strategy to expand its Managed Services and cloud IT Services capability, CSG acquired R&G Technologies, a Brisbane-based Managed IT services business in January 2017 for a total purchase price of \$6.6m, including an upfront payment and an earn-out. R&G Technologies will provide CSG with additional IT, cloud and managed services capability and will add 50+ enterprise and SME managed services customers with approximately 2,600 subscription seats as at 31 December 2016. The acquisition will also provide CSG with large, referenceable customers which will assist with new enterprise wins.

As announced in August 2016, CSG has launched a complementary, Direct sales channel to offer Technology as a Subscription sales to new, non-CSG customers. With an addressable market of almost 200,000 SME's in Australia with 5 to 10 employees, this channel will allow CSG to penetrate the broader market and to capitalise on first-mover advantage. To date, a total of 21 staff have been hired across Melbourne, Sydney and Brisbane, with an aim to



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increase this to a total of 32 staff by 30 June 2017. The Direct Sales channel closed its first sales in December 2016.

In 1H FY2017, the Direct Sales channel was on budget with a net EBITDA loss of \$1.1 million, relating to start-up recruitment & labour costs, administration costs and marketing costs. CSG expects the Direct Sales Channel to be at least break-even in FY2018.

### **FY2017 Guidance and Capital Management**

For the FY2017 financial year, CSG provides the following guidance:

- Forecast revenue in the range of \$250 to 275 million. This represents ~1% to 12% growth on FY2016;
- Forecast underlying EBITDA to be in the range of \$30 to \$36 million. This represents ~21% to ~6% decline on FY2016. This excludes LTIP expense, the impact of the launch of the Direct Sales Channel and implementation costs associated with the restructure of New Zealand and cost-out initiatives within logistics & distribution function in Australia;
- Launch of Direct Sales Channel in Business Solutions to result in a EBITDA loss of \$3.0 million which will be expensed in FY2017;
- Restructure of Business Solutions New Zealand and cost out initiatives within logistics & distribution in Australia will result in approximately \$1.6 million in implementation costs, with associated cost savings of \$1.5 million included in Underlying EBITDA;
- Capital expenditure of between \$6.0 - \$6.5 million; and
- The Board is not declaring an interim dividend in order to preserve maximum capital flexibility to accelerate growth. The Board will provide an update on capital management at the release of the FY17 full year results.



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### Investor conference call

A presentation and a discussion will be hosted by Julie-Ann Kerin (Managing Director & CEO) and Neil Lynch (CFO) at 10.00am (AEDT) on Monday, 20 February 2017.

To access the call, you must register by 10.00am (AEDT) through the link provided [here](#).

Once you have registered, you will be provided with the information you need to join the teleconference, including dial-in numbers and a passcode.

If you are unable to pre-register, please use the dial-in details provided below to access the teleconference on the day. Participants are asked to dial-in 15 minutes prior to complete the registration process.

CONFERENCE ID: **889286**

DIAL IN NUMBERS:

Country	Toll number	Toll-free number
Australia	+61 2 9007 8048	1800 908 299
New Zealand	+64 9 929 3905	0800 452 795
Singapore		800 101 2702
Malaysia		1800 816 441
Hong Kong		800 968 273
Japan		0066 3386 8000
USA / Canada		1855 624 0077
UK		0800 051 1453

### Q&A INSTRUCTIONS

In order to ask a question during the Live Question and Answer Session:

Press \* then 1 on your telephone keypad to enter the Q&A queue

Press \* then 2 on your telephone keypad to withdraw your question

### FURTHER ASSISTANCE ON THE CONFERENCE CALL

If you need assistance while on the teleconference, press \* then 0 on your telephone, and an operator will be happy to assist you.

END

Further Information:

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