

SMS Management & Technology Level 41

140 William Street Melbourne Victoria 3000 Australia T +61 1300 842 767 F +61 1300 329 767

www.smsmt.com

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23 October 2012

# SMS Management & Technology Limited (ASX:SMX) - AGM Addresses including Trading Update

Please find attached the SMS Management & Technology Limited Chairman and CEO addresses including a trading update that will be delivered at the Company's Annual General Meeting in Melbourne today.

**Anna Gorton** 

Company Secretary

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#### **About SMS**

SMS Management & Technology (SMS) [ASX:SMX] is a leading Asia Pacific consulting, technology and systems integration company employing over 1,700 professionals throughout Australia, Hong Kong, Vietnam and Singapore. Established in 1986, SMS is best known for delivery excellence. SMS helps its clients improve their business performance through the implementation of strategy and the delivery of business and technology projects. Industry expertise spans the financial services, ICT, government, defence, health, utilities, mining, gaming and infrastructure sectors. www.smsmt.com



## **SMS Management & Technology Limited**

Annual General Meeting of Shareholders (2012)
KPMG Theatrette, Ground Floor, 147 Collins Street, Melbourne, VIC, 3000
10.00 am Tuesday 23 October 2012

### Chairman's Address

SMS achieved strong market share gains during 2012 and continued its long established track record of profit growth despite continuing uncertainty in the broader macroeconomic environment.

The 2012 financial results have again demonstrated the resilience of the business and reinforce our decision to continue to invest in the growth and development of our people, with HR programs designed to assist them achieve their full potential and career aspirations.

For the year to 30 June 2012, the Company increased:

- Revenue by 10% to \$335.8 million;
- Earnings before interest, tax, depreciation and amortisation by 5% to \$44.3m;
- Net profit after tax to \$30.6 million; and
- Basic earnings per share to 44.8 cents.

Our ability to pay a consistent level of dividends has been underpinned by strong cash generation and a balance sheet which continues to be debt free with cash of \$30m at 30 June 2012. This cash position was achieved after paying \$20.5m in dividends and \$9.7m in deferred consideration payments relating to businesses acquired in prior years.

Your Board has declared a final fully franked dividend of 17.0 cents per share which will be paid on 26 October. This brings total dividends for the year to 30.5 cents per share.

Uncertainty in the economy during the course of 2012 caused several project delays and reduced client demand, particularly from the Financial Services sector. While this presented some challenges, our diverse spread of clients and industries enabled us to redeploy staff and partly mitigate the impact of the reduced demand.

SMS continues to attract and retain some of the best talent in the IT industry. Staff engagement and employee satisfaction remains high as confirmed by independent surveys. Our brand and future growth rely on continuing to attract and retain outstanding people who enhance our culture and reputation for quality.

85% of the ASX Top 20 companies use SMS services to assist with the delivery of their business and technology projects. This highlights the strength of the SMS business including the range of services we offer and the quality of the professionals we employ.

No acquisitions were made during 2012, however, we continue to pursue strategic acquisition targets. In the absence of acquisitions, and taking into consideration the appropriate level of cash required to fund the business, we will continue to explore the various capital management initiatives available to us to improve shareholder value.

Our policy in relation to the dividend payout ratio remains unchanged at between 65% - 70% of net profit after tax.

Despite the on-going volatility in global markets, SMS continues to build a business capable of delivering larger programs of work across our core practice areas. Our vision is for the Company to become a regional leader and SMS is well positioned to realise this aspiration.

Before handing over to our CEO, Mr Tom Stianos, who will provide you with an update on operations including our trading performance for the first quarter of 2013, I would like to take this opportunity to thank our people who continue to work tirelessly to deliver outstanding results for our clients. Their dedication to the task at hand and to the long-term success of the Company is very much appreciated.

## **Chief Executive Officer's Address**

Good morning everyone. As our Chairman has noted, the Company completed another year of strong growth. Revenue grew by 10% and earnings before interest, tax, depreciation and amortisation increased by 5%.

Our focus on operational efficiency and targeted recruitment resulted in an improved operating margin during the second half of the 2012 financial year. This was primarily due to improved utilisation in our consulting business, particularly in NSW, and a program to reduce overhead costs across the Company. Consultant utilisation averaged 88% for the 2012 year which was in line with the previous financial year, but below our benchmark average of 90%.

M&T Resources continued to be adversely affected by a weak recruitment market and reduced contractor margins. We nevertheless believe that M&T Resources has strategic value because it provides a level of resource flexibility to the overall business and therefore should not be undervalued in both weak and strong market conditions.

In a year marked by fluctuating client demand, SMS has succeeded by:

- Capitalising on industries with strong demand; this included Health, ICT, Resources and Utilities;
- Streamlining operations including the removal of \$2m in annualised operating costs:
- Leveraging our technology partners (such as Microsoft, IBM, Salesforce.com, Oracle); and
- Increasing service offerings to clients aimed at reducing their costs and improving efficiency.

The Company completed a wide range of projects during the year. As an example of this diversity, we successfully completed the following:

- Assisting a client to complement its successful print advertising business with a new, on-line real estate application that is a first in the industry;
- Leading the migration of a loans processing technology platform, which is responsible for \$5b of loans per month; and
- Completing the development of a major technology system for a State health agency, helping them more effectively manage \$2b of grants each year.

We increased recruitment early in the financial year in response to a perceived uplift in client demand, particularly in NSW. This increase, together with the time lag involved in the commencement of overseas recruits, led to staff numbers reaching 1,776 in the first quarter of 2012. As market conditions changed, the business took appropriate steps to reduce resource capacity and overhead costs in order to mitigate the impact on profitability. As a result, permanent consultant numbers have remained constant year on year.

The National Practice structure which was implemented in 2011 has been a catalyst to provide a broader range of services to our clients. This investment in specialist capability and thought leadership has allowed the business to secure new sales with established clients while leveraging our existing regional footprint.

The Company signed \$392m of new contracts during 2012, a 12% uplift on the previous year. This growth slowed in the fourth quarter of 2012 and this trend has continued in the first quarter of the current year with new contracts signed totalling \$81m. This is below the prior corresponding period and is primarily due to:

- Lower demand from a major Hong Kong based client due to it experiencing poor trading conditions. This decline in demand has had a significant impact on the company's first quarter financial performance and will continue to do so for the remainder of the first half. As a partial offset, we have successfully established three new strategic clients in Hong Kong; a global insurance and wealth management company; a regional bank; and a regional telco. These will take some time to make their full contribution to the business;
- A major Australian resources company has deferred a multi-billion dollar project due to depressed commodity prices; and
- Weaker demand from the ICT and Federal Government sectors of the market.

In light of reduced demand, we have taken action to protect earnings by:

- Where appropriate, reducing resource capacity to better reflect current and estimated levels of client demand in the short to medium term;
- Restricting recruitment to specialist requirements with immediate client needs; and
- Continuing to actively review and reduce overhead costs.

Based on financial performance to date and contracts signed in the first quarter, we estimate that the FY13 half year profit after tax will be in the range of \$12.5m - \$14m. This profit range represents our best estimate for the first half taking into consideration current trading conditions and the potential for certain sales to close and convert to revenue over the coming weeks.

While we are taking appropriate steps to protect the profitability of the business in the short term, we are also positioning the business to take advantage of any increase in demand in the second half of the financial year.

We remain positive about the long-term contribution from our Asian operations which will broaden the revenue base of the business. Recently, SMS won two awards for its export of services and industry development in Hong Kong. Mr Simon Pho, President of the Hong Kong Australia Business Association said, "What the team at SMS have been able to achieve in a relatively short period of time is testament to their reputation in the industry, coupled with their ability to quickly mobilise their business to respond to demand and client needs."

Despite the slower sales growth in Q1, we are confident that our market positioning, service offering and growth strategy, places us well for an upswing in customer activity over the coming months.

I would like to take this opportunity to thank our loyal and committed staff for their efforts over the last 12 months. Their contribution to the business is greatly appreciated. I would also like to thank our many long term clients for their enduring relationship and loyalty.