

21 August 2018

## ASX Announcement

### CSG achieves revised guidance and repositions business to underpin future growth

CSG Limited (ASX: CSV) today announced its financial results for the 12 months ended 30 June 2018 (FY18), that saw the Company achieve its revised guidance, delivering revenue of \$225.7 million and underlying EBITDA of \$10.0 million.

Commenting on the FY18 results, CSG Managing Director & CEO Julie-Ann Kerin said: “CSG faced substantial headwinds in the enterprise segment in FY18 that led to the disappointing result. The Board and management reacted decisively and has repositioned the business for a return to growth in FY19. Cost-out initiatives expected to generate \$5 million in FY19 have quickly been implemented. Incremental initiatives to deliver an additional \$2.7 million of cost savings in FY19 are also underway.”

“We are already starting to see the benefits of a simplified business model with three clear operating segments. In particular, our Technology business has been the stand-out performer, with High Value technology subscription seats up close to 40% to 22,326 and total Technology revenue now representing approximately 15% of Group revenue.”

#### FY18 financial performance (vs FY17)

- Revenue down 8% to \$225.7 million
- Statutory Net Loss After Tax of \$150.1 million (FY17 statutory net loss of \$43.7 million) reflecting a non-cash impairment charge of \$116.1 million, provisions relating to the Enterprise Solutions business of \$39.3 million, non-cash LTIP of \$0.4 million and non-recurring costs of \$5.3 million
- Underlying earnings reflect the performance of the business and exclude the above non-cash impairment, provisions, non-cash LTIP and non-recurring costs:
  - Underlying EBITDA down 67% to \$10.0 million – achieved revised guidance
  - Underlying NPAT<sup>1</sup> down 88% to \$2.3 million
- Cash balance at 30 June 2018 of \$14.2 million (including restricted cash of \$8.0 million) and corporate borrowings of \$48.3 million.

#### FY18 business performance

During FY18, CSG continued to successfully execute on its Technology as a Subscription strategy in Australia and New Zealand, with total Technology revenue up 42% to \$42.8 million. High Value technology subscription seats grew by close to 40% organically to 22,326 with an average Monthly Recurring Revenue of approximately \$95 per seat. The growth in High Value seats reflects a more focused sales effort, increased marketing and improved digital targeting.

FY18 was a challenging year with print equipment sales lower than expected, primarily within the enterprise segment in Australia and production print in New Zealand, with revenue \$8.5 million lower than FY17. Print equipment sales in the SME segment were also lower than expected due to changes to CSG’s salesforce and sales incentive programs to accelerate growth in the Technology business. Revenue was also impacted by lower display sales relative to FY17 with revenue being recognised at the time of installation.

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<sup>1</sup> Before customer contract amortisation of \$3.8 million (adjusted for tax).



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The Company also continued to deliver high quality customer service, evidenced by a strong in-field NPS<sup>2</sup> score of 72 across the SME segment.

### **Strategic review sets turnaround initiatives for FY19**

As announced to the market on 9 February 2018, the Board appointed Morgan Stanley to assist in reviewing strategic options to maximise value for CSG's shareholders. As part of this process, CSG reviewed the performance of its enterprise segment and decided to cease investment in this segment.

To simplify CSG's business model and to return the business to growth, the Company is re-aligning the SME segment to a product-led, go-to-market model with three distinct operating businesses – Technology, Print & Display, and Finance.

The Technology business will have a clear focus on the SME segment, continuing to cross-sell Technology as a Subscription bundles to the Company's existing customer base. The key sales drivers within the Print & Display business will be the print-only sales force, incentivised to add new customers while maintaining the existing customer base and working with key partners to drive new customer acquisitions. Within Finance, the key focus will be on growing the lease book through new customers and equipment sales.

In addition, a major restructure of the Australian and New Zealand businesses within sales, service and operations, is being undertaken. The Company is also undertaking cost-out initiatives to simplify its operational structure and distribution costs, and continue realising cost synergies through the integration of recent acquisitions. Together, these restructure and cost-out initiatives will result in one-off restructuring charges of approximately \$2.5 million (majority have been expensed in FY18) and approximately \$7.7 million of cost savings in FY19 (annualised cost savings of approximately \$10.0 million to be realised in FY20).

The Company also expects a \$10 million improvement in working capital in FY19 due to the carrying of lower inventory given a reduction in equipment and toner-in-field.

### **Well placed to return to growth in FY19**

Mark Bayliss, Executive Director & Chairman, said: "I am encouraged by the early results of FY19, with the benefits from the major business repositioning already starting to flow through. With the new streamlined structure now in place and the business focusing on its key strengths, the path forward is clear for CSG to deliver increased services and engagement with its customers, and increased returns for shareholders."

For FY19, CSG is forecasting Underlying EBITDA in the range of \$17 million to \$20 million.

### **Fully underwritten equity raising strengthens the balance sheet and supports the Company's reinvigorated growth strategy**

To recapitalise the balance sheet and support CSG's reinvigorated growth strategy, the Company today announced a fully underwritten 1 for 3.52 pro rata accelerated non-renounceable entitlement offer (Entitlement Offer) to raise \$18.0 million at an offer price of \$0.185 per new share (Offer Price). The Offer Price represents a:

- 24.5% discount to the closing price of CSG ordinary shares on the last day of trading before the announcement of the Entitlement Offer, being \$0.245; and

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<sup>2</sup> Net Promoter Score (NPS) is a method of measuring customer loyalty. To calculate NPS, customers are categorised as "Promoters", "Passives" or "Detractors" based on how likely they would be to recommend CSG to a friend or colleague. The percentage of Detractors is then subtracted from the percentage of Promoters.



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- 20.2% discount to the Theoretical Ex-Rights Price<sup>3</sup> of \$0.232 reflecting the Entitlement Offer.

The Entitlement Offer has been fully underwritten by CSG's two largest shareholders, together holding approximately 36% of issued capital – Caledonia and TDM Asset Management.

Net proceeds of approximately \$17.0 million will be used to repay corporate debt (\$10.0 million), pay acquisition earn-outs (\$2.0 million), cover restructuring costs to exit the Enterprise Solutions business (\$2.0 million to \$2.5 million) and for working capital (\$3.0 million).

The Entitlement Offer consists of:

- An accelerated institutional component (Institutional Entitlement Offer) to be conducted over Tuesday, 21 August 2018 and Wednesday, 22 August 2018. Any entitlements not taken up under the Institutional Entitlement Offer and entitlements of ineligible shareholders will be offered to new and existing eligible institutional investors in a bookbuild process managed by Ord Minnett as Lead Manager. CSG's ordinary shares will remain in trading halt while the Institutional Entitlement Offer is undertaken; and
- A retail component that will open to eligible retail shareholders on Tuesday, 28 August 2018 and close on Thursday, 6 September 2018 (Retail Entitlement Offer). Retail shareholders will also have the opportunity to apply for additional shares in excess of their pro-rata entitlement. Any entitlements not taken up under the Retail Entitlement Offer will be placed to the underwriters, but allocations to oversubscribing retail shareholders will be made in priority to the allocation of any shortfall to the underwriters.

The Entitlement Offer is open to existing eligible CSG shareholders on the register as at 7.00pm (AEST) on the Record Date of Thursday, 23 August 2018.

Entitlements cannot be traded on the ASX or transferred. Eligible shareholders who do not take up their entitlement under the Entitlement Offer in full or in part, will not receive any value in respect of those entitlements not taken up.

#### Further Information

Further details in relation to the Entitlement Offer are set out in the Investor Presentation also lodged with ASX today. The Investor Presentation contains important information including key risks and foreign selling restrictions with respect to the Entitlement Offer.

For further information regarding the Retail Entitlement Offer, please contact the Offer Information Line on 1300 850 505 (local call cost within Australia) or +61 3 9415 4000 (from outside Australia) at any time between 8.30am and 5.00pm (AEST) Monday to Friday.

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<sup>3</sup> The Theoretical Ex-Rights Price ('TERP') is the theoretical price at which CSG shares should trade immediately after the ex-date of the Entitlement Offer. TERP is a theoretical calculation only and the actual price at which CSG shares will trade on the ASX immediately after the ex-date for the Entitlement Offer will depend on many factors and may not be equal to the TERP. TERP is calculated by reference to the closing price of CSG shares as traded on the ASX of \$0.245 on Monday, 20 August 2018, being the last trading day prior to the announcement of the Entitlement Offer.



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#### Equity raising indicative timetable

Event	Date (2018)
Announcement and trading halt	Tuesday, 21 August
Institutional Entitlement Offer and bookbuild	Tuesday, 21 August to Wednesday, 22 August
CSG shares re-commence trading	Thursday, 23 August
Record Date for the Entitlement Offer (7.00pm AEST)	Thursday, 23 August
Settlement of Institutional Entitlement Offer	Monday, 27 August
Retail Entitlement Offer opens	Tuesday, 28 August
Issue and normal trading of new shares issued under the Institutional Entitlement Offer	Tuesday, 28 August
Retail Entitlement Offer closes (5.00pm AEST) – last date for receipt of applications	Thursday, 6 September
Settlement of Retail Entitlement Offer	Thursday, 13 September
Issue and normal trading of new shares issued under the Retail Entitlement Offer	Friday, 14 September

The above timetable is indicative only and is subject to change without notice. All times and dates in this presentation refer to Australian Eastern Standard Time (AEST). The timetable above is subject to change without notice and CSG reserves the right to amend any or all of these date and times, subject to the Corporations Act, ASX Listing Rules and other applicable laws.

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