CSG Limited

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ASX Announcement

CSG's transformation program delivers strong earnings growth

FY19 KEY HIGHLIGHTS

- **Strategic transformation program driving strong financial performance**
  - Underlying EBITDA up 71% to $17.1 million, in line with guidance
  - Revenue down 3% to $217.6 million reflecting the focus on generating sustainable and profitable revenue
  - Underlying NPAT of $5.7m, underlying EPS of $0.015 (statutory NPAT of -$1.8m)
  - $7.7 million cost-outs and $10 million inventory reduction delivered
  - Positive operating cashflow of $10.4 million
- **CSG 2021 Program launched, including new vision, mission, strategy and values**
- **Technology momentum continuing to build with subscription revenue up 17%, and exited FY19 with monthly recurring revenue up 17% to $2.5 million**
- **Revitalised board & executive with key appointments driving the cultural change**
  - Gavin Gomes (former Executive General Manager, Canon Australia) to join CSG as Executive General Manager, Australia responsible for Print and Technology operations in Australia
  - Harold Melnick to join CSG as General Manager, Marketing
  - Rajarshi Ray to formally join the CSG Board in Q1 FY20
- **Strengthened balance sheet with leverage reduced to 1.5x underlying EBITDA**

CSG Limited (ASX: CSV) is pleased to announce its financial results for the 12 months ended 30 June 2019 (FY19), that saw the Company meet its guidance, delivering a 71% increase in underlying earnings before interest, tax, depreciation, and amortisation (EBITDA) to $17.1 million.

Commenting on the Company's FY19 performance, CSG's Acting CEO & Managing Director Mark Bayliss said: *"We are very pleased with the FY19 result which is the outcome of a significant strategic transformation program rolled out within CSG. The efforts the team has taken to reposition the Company are showing early benefits, and importantly, we continue to build a stronger and more sustainable CSG.*

"The CSG 2021 Program that we launched has seen a significant cultural shift in the business. The business was restructured to focus on the SME market, to be the leading Technology as a Subscription service provider to this sector across Australia & New Zealand. There were a number of personnel changes, including several key board and management appointments, and there was further investment in our sales capabilities and technology offering.

"These initiatives are driving improvements in CSG's financial performance. Quality of revenue is improving with a focus on generating profitable revenue, underlying earnings grew substantially, the balance sheet has been strengthened following the capital raising that was completed earlier in the year, and cash generation was significantly improved.

"There is still a lot of work to do to achieve our CSG 2021 Program goals, but we enter FY20 as a substantially stronger Company, positioned well for further growth, and excited by the growth opportunities we see for this business."

Commenting on the Company's recent key board and management appointments, Mr Bayliss said: *"We are delighted to announce that Gavin Gomes will be joining us as Executive General Manager, Australia on 26 August 2019. Gavin was previously the Executive General Manager at Canon Australia, and at CSG will be responsible for the Print and Technology businesses in Australia. Gavin brings strong experience in achieving operational change and efficiencies.*

"We are also delighted to announce the appointment of Harold Melnick as our General Manager, Marketing. Harold is an experienced B2B marketing executive with a strong product development, market strategy and management background. He brings with him more than 20 years' experience in technology and telecommunications, holding senior positions at leading corporates such as Microsoft, Telstra and Vodafone.

"Finally, we have strengthened our Board with the appointment of Rajarshi Ray as a Non-Executive Director, to commence in the first quarter of FY20. Raj joins CSG with a wealth of experience in the finance and information technology sector with a specific focus on SME and subscription-based segments, including a number of senior management roles across the globe, most recently as CEO of Class (ASX:CL1) where he is currently a Non-Executive Director.

"We look forward to Gavin's, Harold's and Raj's contribution to the ongoing "CSG 2021" transformation program."

Technology as a subscription continues to gain momentum

CSG's Technology business continues to gain momentum, with subscription revenue growing 17% on prior year. Pleasingly, this growth has been driven by higher value Managed IT subscriptions, which represent significantly higher average revenue per customer. The Company exited FY19 with monthly recurring revenue of $2.5 million, up 17%.

Business Technology Made Easy

Adjusting for the sale of pcMedia, there were 3,689 net subscription seats added in FY19, growth of 18%. Earnings in the Technology business were impacted by the ongoing investment in the Australian sales team, but this investment positions the Australian Technology business to return to profitability in FY20.

Improving profitability in Print and Display

Although Print and Display continued to be a challenging sales environment, underlying EBITDA for the segment increased by $6.6 million to $11.7 million, driven by cost efficiencies and a strong focus on profitable sales. Initiatives during the year included a focus on cost optimisation, a new commission plan, and increased focus on the customer, including completion of a customer survey and customer profitability analysis.

Finance underpins CSG's subscription strategy

The Finance division results were impacted by historically lower print equipment sales and a lower receivables balance, as well as a one-off impact of $1.3 million for non-core bad debts in the Australian lease book. Despite this, the Finance division remains an important part of the CSG business model as it enables the "technology as a subscription" strategy. A number of initiatives were implemented to improve the performance of this division, including a restructure of the New Zealand lease financing facilities and automation initiatives.

On 26 June 2019, CSG also introduced a mezzanine capital provider, DCF Asset Management, into the New Zealand lease book structure to comply with APS 120. This released $4 million in net proceeds.

Consolidating the transformation to drive sustainable growth in FY20

Commenting on CSG's outlook, Mr Bayliss said: *"A significant amount of work has been completed over FY19, and there has been substantial change within CSG. We implemented a new strategy that overhauled our sales and marketing, our customer profitability, our IT systems, as well as a number of changes to people and culture. These have delivered early benefits and will enable growth in the business going forward.*

"However, we still have more work to do. We have a number of key strategic priorities for FY20 that we will be working to deliver on, including improving our customer experience, accelerating Technology growth and share of earnings, improving our cash conversion and working capital efficiencies, and delivering sustainable growth in earnings.

"We have grown CSG to be a stronger company over FY19 and have put in place the foundations for a sustainable future. We are confident that we have the right strategy in place and, if we execute, we will achieve double digit percentage EBITDA growth in FY20."

Investor Conference Call

CSG will be hosting a group investor conference call at 10:30am AEST today (Tuesday 20 August 2019) to discuss its FY19 financial results.

Details of the call are:

- Phone number: +61 2 9007 3187 or 1800 870 643 (Australia toll free)
- Conference ID: 10001495

To bypass the operator and gain immediate access to the call, participants can preregister via: https://s1.c-conf.com/diamondpass/csg-10001495-invite.html

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Further Information:

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APPENDIX: FY19 financial summary

($ million)	FY19	FY18	Change
Revenue			
Technology	46.6	44.0	6%
Print & Display	149.3	154.2	(3%)
Finance	23.5	26.4	(11%)
Total Revenue	**217.6**	**223.5**	**(3%)**
Underlying EBITDA[1]	17.1	10.0	71%
EBITDA	12.7	(151.0)	>>
Statutory NPAT	(1.8)	(150.1)	>>
Underlying NPAT	5.7	2.3	226%
Underlying EPS	$0.015	$0.007	
Operating cash flow	10.4	(1.6)	>>

1. FY19: Before deconsolidation impact of sale of pcMedia ($0.5m), non-cash share issue and LTIP expense $2.5m, one-off non-core bad debts $2.4m; FY18: Before impairment $116.1m, restructuring provision $39.2m, non-cash LTIP $0.4m and non-recurring expenses $5.3m