

29 August 2018

## **Market Update - Execution of Strategic Objectives – Unaudited Preliminary Interim Full Year Results for the Year Ended 30 June 2018**

During the 2018 financial year Finzsoft executed an extensive transformation of the Company's service delivery model, including the announcement of the strategic alliance with Datacom Systems Limited. The success of this transformation program has enabled the Finzsoft Group to have a cost effective, sustainable, scalable and flexible model to provide the Group and its customers software support and development services. We are pleased to now be in the benefit realisation phase of this transformation program. Further efficiencies are being targeted in the FY19 financial year with regard to reduced tenancy requirements as a result of new agile and scalable working models and efficiency gains through the externalisation of non-core functions.

Notwithstanding the growth of our underlying core business drivers, Recurring Licence Revenue and Professional Services Revenue and a decrease in normalised operating expenses and maintenance of a healthy gross margin as a percentage of revenue, overall performance is down on the same period last year. Please refer to the attached Preliminary Financial Results. The Summary of Finance attached records the key variables attributable to year and year changes primarily the one-off transaction costs incurred in the period and a one-off related provision of NZ\$1.08 million, and the inclusion in the year ended 30 June 2017 of a End-of-Term Licence Fee of NZ\$3.435 million that is non-recurring in the FY18 period.

*Managing Director, Andrew Holliday said* a testimony to the dedication of our team over the past three decades and independent validation of the faith and trust our customers place in our team and solution, is now evidenced in the independent market validation by *Cyrus Daruwala as the Managing Director of IDC Financial Insights* as one of the leading independent advisors in the sector who has reported:

*“Based on the on-going research that IDC does on various Core Banking Solution (CBS) providers in the global market and based on our MarketScape studies, I believe that Finzsoft has developed a unique and compelling API / Open Banking solution architecture that is both very current, with the market requirements, and very compelling, from a cost and delivery standpoint. If I were to compare this framework to the dozen qualified CBS providers in Asia, and a dozen more worldwide – Finzsoft would be amongst the Top-3!”. Cyrus Daruwala, Managing Director, Financial Services and FinTech, IDC Asia/Pacific Head Office.*

*Managing Director, Andrew Holliday said* our customers are at the centre of everything Finzsoft does. This has been a tough year with some of our most critical compliance projects in recent years converging at one point in time. The achievement of the delivery success of these projects and indeed of our overall performance, would not have been possible except for the incredible ongoing support and trust of our strategic alliance partner Datacom and our customers.

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Included below is what a couple of customers have to say in their own words:

*"It has been an extraordinary year for Finzsoft. The Police and Families Credit Union thank the Finzsoft team for the great commitment they have shown during this time to support and provide development for us whilst also on boarding two brand new clients and strategically restructuring their business. We value our relationship with Finzsoft and more importantly the people that make that relationship so strong". **Helen Hatchard, Chief Executive, Police and Families Credit Union.***

*"First and foremost Finzsoft had First Credit Union migrated on to Sovereign on time and on budget. Followed by great back up and support, we are now set on a tier one platform, ready for the future". **Simon Scott, General Manager, First Credit Union.***

Based on current contracted revenue, along with our pipeline opportunities, we will expect to see Finzsoft operate profitably with no debt and positive cashflow.

Yours faithfully,

Andrew Holliday  
**Managing Director**

Brent Impey  
**Chairman**

Contact details regarding this announcement:

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# Finzsoft Solutions Limited

## Summary of financial performance - UNAUDITED (figures subject to change)

1

Finzsoft - summary of financial performance			
Normalised before one-off expensed items			
	Year ended 30-Jun-18 NZ\$000	Year ended 30-Jun-17 NZ\$000	Year ended 30-Jun-18 % change
<b>Revenue</b>			
Upfront licence fee income	958	2,068	
Recurring licence fees	4,023	3,644	10%
End of term licence	1	3,435	
Professional services	9,662	7,050	37%
Other revenue	(3)	559	
<b>Total revenue</b>	<b>14,639</b>	<b>16,755</b>	
Development, servicing and other direct costs	(9,771)	(8,151)	20%
<b>Gross margin</b>	<b>4,869</b>	<b>8,605</b>	
Gross margin (% of revenue)	2	51.4%	
Operating expenses	(3,356)	(4,073)	(18%)
<b>EBITDA before one-off items</b>	<b>1,512</b>	<b>4,532</b>	
Depreciation and amortisation	(1,362)	(1,099)	
<b>EBIT before one-off items</b>	<b>150</b>	<b>3,466</b>	
One-off expensed items	3	-	
One-off provision	4	(359)	
Finance costs (net of interest income)	(27)	(26)	
<b>Profit (loss) before tax</b>	<b>(956)</b>	<b>3,440</b>	

One-off items		
	Year ended 30-Jun-18 NZ\$000	Year ended 30-Jun-17 NZ\$000
<b>One-off expensed items:</b>		
Legal fees	431	-
Consultants	100	-
Accounting services	151	-
Travel and associated costs	39	-
<b>Total one-off expensed items</b>	<b>721</b>	<b>-</b>
<b>One-off provision</b>		
Provision for lease surrender	359	-
<b>Total one-off provision</b>	<b>359</b>	<b>-</b>
<b>Total one-off items</b>	<b>1,080</b>	<b>-</b>

1 Finzsoft's traditional licencing model is term based. On the 1<sup>st</sup> of November 2016 Finzsoft announced that it had entered into a new one-year core banking licence agreement with Heartland Bank for Finzsoft's Sovereign banking and finance software. It was further announced that the sums received will be a significant one-off gain for that financial year. During this financial year the Heartland Bank final one-year licence expired. Heartland Bank was a long standing customer of Finzsoft after using Finzsoft's core banking solution for over two decades. Recurring licence revenue in the FY18 financial year viewed on a normalised basis separates out this end-of-term licence fee on the basis that it is not recurring, and as such reflects the growth recorded above. It is important to note that revenue recorded as upfront or initial licence fee income reflects new sales and new customers. New sales generate recurring annual licence fees under the second and subsequent years of a term. Finzsoft has a very low customer turnover. In the past five years Finzsoft has only had one customer come to end of term (Heartland Bank), and has not extended. However, Finzsoft's customer base has increased in this period with the new core and whole of banking sales to First Credit Union and Westforce Credit Union.

2 The higher gross margin in the prior period principally reflected the non-recurring end of term licence fee referred to in footnote 1 above. The company has still exceeded its target gross margin in this period.

3 This item reflects the direct one off transaction and associated cost attributable to the strategic alliance with Datacom Systems Limited announced in November 2017.

4 This item reflects the direct one-off provision with regard a proposed future surrender of the lease of office premises in Auckland which are now surplus to requirements as a result of our new agile and scalable working models directly attributable to the strategic alliance with Datacom Systems Limited announced in November 2017. Surrender will be effected within the FY19 period and will release Finzsoft from all obligations under its Lease which currently expires in July 2021.

### Disclaimer

The results above are unaudited.

## Finzsoft Solutions Limited

### Summary of financial performance - UNAUDITED (figures subject to change)

2

Finzsoft - summary of financial performance			
	Year ended 30-Jun-18 NZ\$000	Year ended 30-Jun-17 NZ\$000	Year ended 30-Jun-18 % change
<b>Revenue</b>			
Upfront licence fee income	958	2,068	
Recurring licence fees	4,023	3,644	10%
End of term licence	1	3,435	
Professional services	9,662	7,050	37%
Other revenue	(3)	559	
Total sale revenue	14,639	16,755	
Development, servicing and other direct costs	(9,771)	(8,151)	20%
Gross margin	4,869	8,605	
Gross margin (% of revenue)	2	33.3%	51.4%
Operating expenses	(4,436)	(4,073)	9%
<b>EBITDA</b>	432	4,532	
Depreciation and amortisation	(1,362)	(1,099)	
<b>EBIT</b>	(930)	3,466	
Finance costs (net of interest income)	(27)	(26)	
<b>Profit (loss) before tax</b>	(956)	3,440	

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#### Disclaimer

The results above are unaudited.

Finzsoft Solutions Limited	
<b>Results for announcement to the market</b>	
Reporting Period	12 months to 30 June 2018
Previous Reporting Period	12 months to 30 June 2017

	Amount (\$NZ'000s)	Percentage change
Revenue from ordinary activities	\$14,639	(12.63%)
Profit (loss) from ordinary activities after tax attributable to security holder	(\$734)	(129.41%)
Net profit (loss) attributable to security holders	(\$734)	(129.41%)

Interim/Final Dividend	Amount per security	Imputed amount per security
	No dividend is proposed to be paid	Not applicable

Record Date	Not Applicable
Dividend Payment Date	Not Applicable

Comments:	As per below.
Net Tangible Asset amount per security:	(\$0.06) (2017: \$0.18)

Finzsoft is pleased to provide its unaudited preliminary results for the year ended 30 June 2018.

- Total Revenue of NZ\$14.639 million is down on the same period last year (FY17 NZ\$16.755 million). The revenue is derived from annual licence fees, initial licence fees and professional services from existing and new clients. The timing of these are variable.
- EBITDA after one-off items of NZ\$0.432 million is down on the same period last year (FY17 NZ\$4.532 million).
- EBIT loss after one-off items of NZ\$0.930 million is down on the same period last year (FY17 NZ\$3.466 million).
- Profit (loss) before tax of (NZ\$0.956) million is down on the same period last year (FY17 NZ\$3.440 million).

- Profit (loss) after tax of (NZ\$0.734) million is down on the same period last year (FY17 NZ\$2.495 million).

The period includes non-recurring transaction related costs and provisions in excess of NZ\$1.080 million. The company also announced in FY17 that a one-off end of term licence fee of NZ\$3.435 million would be a significant one-off gain for that (FY17) financial year.

During the period the company achieved strong increases in Recurring Licence Fees and Professional Service revenue whilst continuing to retain positive cash flow.

The Company retains a strong customer base which supports underlying, recurring licence and service revenue.

The Directors believe that the announced investment in the service and delivery model restructuring will achieve significant benefits and cost savings for Finzsoft going forward.

## Statement of comprehensive income

For the year ended 30 June 2018

	UNAUDITED 2018 \$	2017 \$
Revenue	14,642,424	16,722,985
Other income	<u>(2,962)</u>	<u>32,004</u>
Total operating revenue	<u>14,639,462</u>	<u>16,754,989</u>
Development, servicing and other direct costs	(9,770,817)	(8,152,491)
Occupancy expense	(1,100,653)	(792,090)
Depreciation and amortisation	(1,362,019)	(1,099,003)
Sales and marketing expenses	(554,066)	(434,294)
Finance expense	(26,807)	(26,036)
Corporate expenses	(1,783,538)	(1,383,044)
Other operational overheads	<u>(997,954)</u>	<u>(1,427,607)</u>
Total operating expense	<u>(15,595,854)</u>	<u>(13,314,565)</u>
(Loss) / profit before income tax expense	(956,392)	3,440,424
Income tax (expense) / benefit	<u>222,415</u>	<u>(944,525)</u>
<b>Profit for the year</b>	<u>(733,977)</u>	<u>2,495,899</u>
<b>Other comprehensive income:</b>		
Exchange difference on translating foreign operations	<u>4,728</u>	<u>(43,304)</u>
<b>Other comprehensive income for the year, net of tax</b>	<u>4,728</u>	<u>(43,304)</u>
<b>Total comprehensive income for the year</b>	<u>(729,249)</u>	<u>2,452,595</u>
<b>Earnings per share attributable to the ordinary equity holders of the company during the year:</b>		
Basic earnings per share (cents per share)	(8.33)	28.33
Diluted earnings per share (cents per share)	(8.33)	28.33

## Statement of changes in equity

For the year ended 30 June 2018

	Share Capital	Currency translation reserve	Share option reserve	Retained earnings	Total equity
	\$	\$	\$	\$	\$
<b>Balance as at 1 July 2016</b>	<u>4,316,441</u>	<u>(138,716)</u>	<u>128,495</u>	<u>453,528</u>	<u>4,759,748</u>
<b>Comprehensive income</b>					
Profit for the year	-	-	-	2,495,899	2,495,899
<b>Other comprehensive income</b>					
Currency translation differences	-	(43,304)	-	-	(43,304)
<b>Total comprehensive income</b>	<u>-</u>	<u>(43,304)</u>	<u>-</u>	<u>2,495,899</u>	<u>2,452,595</u>
Lapsed options transferred to Retained Earnings	-	-	(128,495)	128,495	-
<b>Balance as at 30 June 2017</b>	<u>4,316,441</u>	<u>(182,020)</u>	<u>-</u>	<u>3,077,922</u>	<u>7,212,343</u>
<b>Balance as at 1 July 2017</b>	<u>4,316,441</u>	<u>(182,020)</u>	<u>-</u>	<u>3,077,922</u>	<u>7,212,343</u>
<b>Comprehensive income</b>					
Loss for the year	-	-	-	(733,977)	(733,977)
<b>Other comprehensive income</b>					
Currency translation differences	-	4,728	-	-	4,728
<b>Total comprehensive income</b>	<u>-</u>	<u>4,728</u>	<u>-</u>	<u>(733,977)</u>	<u>(729,249)</u>
<b>Balance as at 30 June 2018</b>	<u>4,316,441</u>	<u>(177,292)</u>	<u>-</u>	<u>2,343,945</u>	<u>6,483,094</u>



## Statement of financial position

As at 30 June 2018

	UNAUDITED 2018 \$	2017 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,451,561	2,363,816
Trade and other receivables	2,594,409	2,094,541
Current tax receivables	27,327	-
<b>Total current assets</b>	<b><u>4,073,297</u></b>	<b><u>4,458,357</u></b>
<b>Non-current assets</b>		
Property, plant and equipment	501,846	633,103
Intangible assets	6,672,088	5,609,393
Deferred tax benefit	358,552	81,505
<b>Total non-current assets</b>	<b><u>7,532,486</u></b>	<b><u>6,324,001</u></b>
<b>Total assets</b>	<b><u>11,605,783</u></b>	<b><u>10,782,358</u></b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	1,807,442	926,966
Unearned revenue	1,379,936	1,335,501
Provisions	835,311	949,871
Bank and other loans	1,100,000	-
Current income tax payable	-	357,677
<b>Total current liabilities</b>	<b><u>5,122,689</u></b>	<b><u>3,570,015</u></b>
<b>Total liabilities</b>	<b><u>5,122,689</u></b>	<b><u>3,570,015</u></b>
<b>Net assets</b>	<b><u>6,483,094</u></b>	<b><u>7,212,343</u></b>
<b>EQUITY</b>		
Ordinary shares	4,316,441	4,316,441
Other reserves	(177,292)	(182,020)
Retained earnings	2,343,945	3,077,922
<b>Total Equity</b>	<b><u>6,483,094</u></b>	<b><u>7,212,343</u></b>

## Statement of cash flows

For the year ended 30 June 2018

	<b>UNAUDITED</b>	2017
	<b>2018</b>	\$
	\$	\$
<b>Cash flows from operating activities</b>		
Receipts from customers	<b>14,117,573</b>	17,278,316
Dividends received	-	1,022
Interest received	<b>359</b>	<u>33,194</u>
	<b>14,117,932</b>	17,312,532
Payments to suppliers and employees	<b>(13,278,292)</b>	(12,043,953)
Interest paid	<b>(26,807)</b>	(26,036)
Taxation paid	<b>(439,636)</b>	(633,829)
Goods and services tax net paid	<b>(93,402)</b>	(216,124)
	<b>(13,838,137)</b>	<u>(12,919,942)</u>
<b>Net cash generated from operating activities</b>	<b>279,795</b>	<u>4,392,590</u>
<b>Cash flows from investing activities</b>		
Purchase of equipment	<b>(38,023)</b>	(455,145)
Investment in intangible assets	<b>(2,257,535)</b>	(1,248,301)
<b>Net cash used in investing activities</b>	<b>(2,295,558)</b>	<u>(1,703,446)</u>
<b>Cash flows from financing activities</b>		
Receipts from Bank and other loans	<b>1,100,000</b>	-
Repayment of borrowings	<b>1,100,000</b>	(750,000)
<b>Net cash used in financing activities</b>	<b>1,100,000</b>	<u>(750,000)</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(915,763)</b>	1,939,144
Exchange gains on cash and cash equivalents	<b>3,508</b>	4,191
Cash and cash equivalents at beginning of the year	<b>2,363,816</b>	<u>420,481</u>
<b>Cash and cash equivalents at end of the year</b>	<b>1,451,561</b>	<u>2,363,816</u>

## Segment information

Management has determined the operating segments based on the reports reviewed by the Board.

The Board considers the business from both a geographic and product perspective. Geographically, management considers the performance of sales and services in New Zealand, Australia and the rest of the world.

The reportable operating segments derive their revenue primarily from software delivery and support.

The Board assesses the performance of the operating segments based on a measure of adjusted earnings before interest, tax, depreciation and amortisation (EBITDA). This measurement basis excludes the effects of non-recurring expenditure from operating segments. Interest income and expenditure are not allocated to segments, as this type of activity is considered to be a central treasury function.

There are no sales between segments as these are eliminated on consolidation. The revenue from external parties reported to the Board is measured in a manner consistent with that in the statement of comprehensive income.

The amounts provided to the Board with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

The amounts provided to the Board with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.

**The segment information for the period ended 30 June 2018 is as follows:**

	New Zealand Software Delivery & Support \$	Australia Software Delivery & Support \$	Rest of the world Software Delivery & Support \$	Total \$
Segment revenue from external customers	<u>7,789,488</u>	<u>6,852,936</u>	<u>-</u>	<u>14,642,424</u>
Adjusted EBITDA	1,646,290	569,382	(56)	2,215,616
Depreciation and amortisation	(1,361,667)	(352)	-	(1,362,019)
Income tax (expense) / benefit	<u>274,324</u>	<u>(51,909)</u>	<u>-</u>	<u>222,415</u>
Total Assets	<u>9,800,951</u>	<u>1,797,745</u>	<u>7,087</u>	<u>11,605,783</u>
Additions to non-current assets (other than Financial instruments and deferred tax assets)	2,295,558	-	-	2,295,558
Total Liabilities	<u>(4,720,018)</u>	<u>(398,678)</u>	<u>(3,993)</u>	<u>(5,122,689)</u>

### Segment information (continued)

The segment information for the period ended 30 June 2017 is as follows:

Segment revenue from external customers	<u>11,226,486</u>	<u>5,496,499</u>	<u>-</u>	<u>16,722,985</u>
Adjusted EBITDA	5,804,420	132,350	(21,460)	5,915,310
Depreciation and amortisation	1,095,569	3,434	-	1,099,003
Income tax expense	<u>923,257</u>	<u>22,803</u>	<u>(1,535)</u>	<u>944,525</u>
Total Assets	<u>7,569,585</u>	<u>3,205,970</u>	<u>6,804</u>	<u>10,782,359</u>
Additions to non-current assets (other than Financial instruments and deferred tax assets)	1,703,446	-	-	1,703,446
Total Liabilities	<u>(2,845,284)</u>	<u>(724,732)</u>	<u>-</u>	<u>(3,570,016)</u>

A reconciliation of adjusted EBITDA to profit before tax is provided as follows:

	<b>UNAUDITED</b>	
	<b>2018</b>	2017
	<b>\$</b>	<b>\$</b>
Adjusted EBITDA from reportable segments	<u>2,215,616</u>	<u>5,915,310</u>
Depreciation	<b>(167,179)</b>	(225,339)
Amortisation	<b>(1,194,840)</b>	(873,664)
Interest received	<b>359</b>	33,194
Interest paid	<b>(26,807)</b>	(26,036)
Legal expenses	<b>(740,038)</b>	(417,485)
Directors fees	<b>(199,828)</b>	(210,924)
Professional and consultancy costs (not attributable to a segment)	<b>(702,393)</b>	(636,515)
Other	<b>(141,282)</b>	(118,117)
Profit / (loss) before income tax	<u><b>(956,392)</b></u>	<u>3,440,424</u>