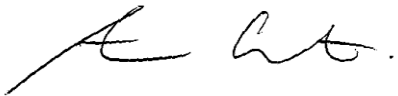


# MARKET ANNOUNCEMENT

17 November 2015

**SMS Management & Technology Limited (ASX:SMX)  
2015 Annual General Meeting  
Chairman and CEO Addresses including Trading Update**

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



**Anna Gorton**  
Company Secretary

**For further information please contact:**

**Investor Enquiries:**

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**About SMS**

SMS Management & Technology Limited (SMS) [ASX:SMX] is a leading Asia Pacific consulting, technology and systems integration company employing over 1,600 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, resources and infrastructure sectors. For further information refer to [www.smsmt.com](http://www.smsmt.com)

## SMS Management & Technology Limited

### Annual General Meeting of Shareholders (2015)

RACV Pavilion Room, Level 2, 501 Bourke Street, Melbourne, VIC, 3000

10.00am Tuesday 17 November 2015

#### **Chairman's Address**

I would like to extend a particular welcome to our recently appointed CEO Jackie Korhonen who joined the Board as an Executive Director in February. Prior to joining SMS, Jackie was the CEO of Infosys Australia and New Zealand for six years. Infosys is a global company providing technology driven business solutions, particularly outsourcing solutions to the market. Under Jackie's leadership, Infosys experienced substantial growth in both revenue and profitability in Australia. Prior to joining Infosys, Jackie held a number of senior roles with IBM in Australia and Asia. You will be hearing directly from Jackie following my address.

2015 was an eventful and successful year for your Company. Eventful in that we farewelled Tom Stianos, our CEO of 13 years and welcomed a new CEO Jackie Korhonen, and successful in that we produced significantly better results than in 2014.

On behalf of the Board I would like to again acknowledge the substantial contribution made by Tom Stianos during his tenure as CEO of SMS. Tom was instrumental in the growth of SMS over 13 years. We thank him for his efforts and wish him all the very best for the future.

2015 revenue of \$356 million was a record result and was up 13% on the prior year reflecting strong demand from the Financial Services, Government and Telecommunications, Media and Technology industry sectors. Earnings before Interest, Tax, Depreciation and Amortisation or "EBITDA" were \$28.7M, up 37% on 2014. Net Profit After Tax or "NPAT" of \$17 million increased by 34% over the prior year. Our revenue and earnings growth resulted from improved billable utilisation, stabilisation of project margins, development of our managed services business and a continued focus on cost management.

Following this improved result your Board declared a fully franked final dividend of 10 cents per share which was paid on 6 November 2015. With the interim dividend of 7 cents per share paid on 10 April 2015, this results in a full year dividend of 17 cents per share. This represents a dividend pay-out of 69% of NPAT, consistent with Board policy.

In May of this year after familiarising herself with our business, Jackie presented a transformation plan for SMS to your Board which they approved. This plan, which Jackie will discuss in more detail in her remarks, included a major restructure of our organisation, moving us from a regionally based business to a national structure for both sales and service delivery. We believe this new organisation structure, which became effective on 1 July 2015, will enable us to better focus our sales and delivery resources on the best opportunities for the execution of our Design-Build-Operate strategy.

We understood that the transition to the new organisation structure, particularly as it relates to our go-to-market approach, could impact contract wins and revenue in the short term. There is little doubt that the disruption involved in moving to our new organisation has impacted our revenue performance in the first four months of 2016. However, the recent substantial growth in our sales pipeline leads us to believe that the business will deliver an improved performance in the second half of the year. Jackie will shortly provide you with a trading update for the first four months of the current financial year.

As we continue to grow and respond to changing market conditions we maintain our commitment to strong corporate governance and risk management. Your Board has continued its focus on the Company's capital management by extending our on-market share buy-back on 15 June 2015. The share buy-back is part of SMS's objectives to ensure an efficient capital structure, maintain prudent levels of gearing and have sufficient balance sheet flexibility to pursue growth initiatives.

SMS is a business of knowledge workers and as such our people are our biggest asset and differentiator in the market. Our workforce strategies continue to focus on attracting, developing and retaining the very best people. We continue to invest in the skills and capabilities of our people and empowering them to be successful. As well as delivering a better performance in 2015 we asked them to absorb significant changes to the way they are organised, managed and go to market. On behalf of your Board, I would like to thank our staff for their unwavering support through what has been an extremely busy and demanding period.

In closing, I believe that the initiatives we have undertaken will enable us to better grasp the opportunities created by the major structural changes that are occurring in our industry and allows us to pursue growth strategies designed to increase shareholder returns.

I would now like to introduce you to our CEO Jackie Korhonen, who will provide you with more details with respect to the 2015 year, the strategic direction of the business and a trading update.

*Derek Young hands over to Jacqueline Korhonen.*

## CEO's Address

Thank-you Derek.

Good morning everyone. I am very pleased to be addressing you at my first AGM as CEO of SMS.

Today, I would like to cover:

- The highlights of our FY15 results;
- The changing environment and client demand;
- Setting SMS up for future success; and
- Conclude with some commentary on our current trading performance, H1 outlook and focus areas for growth.

Firstly, our FY15 results. As mentioned by our Chairman, FY15 was a record revenue year for SMS. Revenue of \$356.2m was up 13% on the previous year in a market that is estimated by industry analysts to be growing anywhere between 2% to 5%. Our contract wins were up 18% year on year and included a number of managed services engagements that will provide greater certainty over our revenue projections as we go forward.

We had a good mix of revenue across industries with our three largest industry verticals being Government, Financial Services and Telecommunications Media and Technology. The source of our revenue growth across industries varied. In Financial Services, our focus on managed services and solution offerings proved successful and drove strong growth. In Government, we had strong demand for our recruitment services and in TMT we were engaged in a large-scale transformation which concluded in June. Replacing these types of large-scale engagements in a timely manner remains a challenge for the business.

We experienced some challenges in our Energy, Resources and Infrastructure and Commercial verticals due to a slow-down in spending in the mining industry and a number of large projects coming to completion. As we move forward we will continue to look at the industries we believe offer most opportunities and development capability to address their specific needs.

Our Consulting business generated revenue of \$271m, up 14% on the previous year while EBITDA was up 32% to \$40m.

I am pleased to say that the last quarter of 2015 saw an improvement in our Victorian consulting business. Our billable utilisation across the Consulting business increased from 80% in FY14 to 84% and our continuing focus on managed services sees this part of the business now represent 10% of the SMS Consulting revenue.

Our M&T business continued to perform well during the past year. Revenue and EBITDA grew 11% and 42% respectively year on year. We successfully focused on margin improvement in M&T through preferred supplier arrangements and permanent placements, which led to a significant improvement in the EBITDA margin for this business.

At the end of June we completed the earn-out periods for our two most recent acquisitions, Birchman and Indicium. Both of these acquisitions outperformed their targets and we are now in a position to fully integrate and leverage our capabilities in these organisations across the breadth of our business.

As we now look forward, there is no doubt our market has changed and will continue to change at an increasingly rapid rate. Having said this, I believe there has never been a more exciting time to work in the IT services industry. I would like to cover three factors that I believe are significant in driving the changes we are seeing:

**First is the ever increasing speed of technology advancement**

For some time our clients have been building a digital presence to transact with their customers over the web and improve their customers' experience. In most industries the need to find new ways to attract and keep customers, while disrupting the competition is only intensifying. Our clients are looking to us to help them differentiate themselves in the digital world and gain competitive advantage by the application of new technologies.

With the expansion of digital business models comes an exponential growth in the amount of data being generated. This leads to demand for Business Analytics services. These services help our clients turn masses of data into business insights that allow them to service their customers better, simplify their internal operations and reduce cost and risk.

We are now entering a time where mobile devices such as phones, tablets and wearables are replacing traditional desktop PCs and laptops as the way individuals interact with organisations, both as customers and employees. This is leading to demand in mobile solutions that make applications easy and seamless to use and meets the challenges of securing and managing these mobile devices.

And finally, the Cloud. The trend for clients to move their applications to the Cloud continues. This is driven by the desire to move costs from capital to operating expenditure, to buy software as a service and to leverage the scale and efficiencies of Cloud providers. We have strong relationships with partners such as Amazon Web Services and Microsoft Azure, and as offerings mature, we see opportunities for SMS to assist clients take their Cloud journey.

We believe SMS is well placed in the market to assist clients take advantage of these technology trends with the breadth of our capability and we will invest in our people to give them leading edge skills to take to our clients.

**A second factor is the changing buying patterns and decision makers**

Technology changes have changed the way our clients use and purchase IT. Technology is now seen as a driver for their growth in revenue and market share, not just as a cost to be minimised.

IT executives are increasingly not the buyers of technology. These decisions are moving to business executives such as Chief Marketing Officers, Sales Directors, Chief Financial Officers and other Line of Business Executives. These new buyers expect their partners to know their industry and provide a broad range of services from Advisory and Consulting Services to Solutions implementation services and ongoing Managed Services. They expect their partners to be nimble and responsive and to share in the risks and rewards of technology implementation with them.

**And the third force is the changing competitive landscape and globalisation**

The IT services industry is a global industry. Large international companies have invested in our market and parts of our local IT industry have consolidated, changing the competitive landscape.

Australia and Asia are seen as attractive markets for international companies from the US, Europe and India. However, it is also true that our international competitors gravitate their focus to the biggest companies in Australia where IT budgets are largest. They are less focussed on ASX 20 - 200 companies, leaving an attractive client base for SMS to pursue. This means we have to carefully assess the clients we focus on to ensure we are relevant to them and build deep and lasting relationships.

So with these factors in mind we have looked at our business and embarked on a journey to position SMS for success in this future.

As of July 1<sup>st</sup> we made a change to our organisational structure. On the left of this chart we have the pre-July organisation. Pre-July, the company ran 7 profit and loss accounts based on the six states and territories we operate in, plus Asia. From July we moved from these location based profit centres to a company wide profit and loss with functions focussed on Sales and Delivery.

The vertical blue lines on this chart represent our sales teams. You will see our sales team are now primarily organised around clients' industries, so our sales team will develop the deep industry understanding expected by the new buyers of IT. These industry sales teams are complemented with specialists focused on particular technology capabilities.

Improving our sales capability and win rates has been a focus of mine since joining SMS and this will continue to be a major focus item for my leadership team going forward. An increasing part of our sales focus in FY16 and beyond will be on winning larger multi-year contracts combining our capabilities in Advisory, Implementation and Managed Services. We have already made some progress in this area and as we build up these long-term contracts we will improve our revenue backlog and gain confidence in predicting our future financial position.

If you look at the grey horizontal bars, you see the structure of our Delivery organisation, where the bulk of our people work. Building a world class Delivery organisation to serve our clients is crucial to our success. We have organised Delivery aligned to our Design-Build-Operate model. This company wide model will allow us to better manage our resources and deploy the best people for any particular engagement regardless of location. It will allow us to implement standard quality processes and have a better view of the skills we will need to build to meet the changing client demands. The primary drivers for this Delivery organisation will be customer satisfaction, capability development and high utilisation.

As I have mentioned, one of the current and future expectations of our clients is that their technology partners can support them in all phases of the technology lifecycle. This includes Advisory services, to Solutions implementation services to Managed Services.

In the past we have spoken about our Design-Build-Operate strategy.

The three separate areas you see on this chart bridge the previous terminology of Design-Build-Operate to the language of our clients and to the types of services we provide in the market.

Our Design capability provides our Business & IT Advisory Services. This has been the heritage of SMS and is absolutely important to our future. By winning work with clients in this area we get intimate knowledge of their business and work with them to solve business problems. We provide thought leadership, we build trust and we position ourselves for follow on work. The types of commercial arrangements in this area are generally time and materials based and as such our revenue is linked directly to our headcount and the utilisation of our people. In this area, our M&T organisation provides a level of flexibility and access to specific skills which is a competitive advantage for us. In this part of our business we must be partner and vendor neutral because we are advising our clients based on improving their business outcomes.

Our Build capability provides our solutions offerings, characteristics of such are shown in the blue box. Here, we look at the best technology to implement to support the business outcomes our clients require, so having strong and varied partnerships are key. The commercial arrangements move from time and materials to fixed price or deliverables based. The contracts become larger and we will take more ownership



of the deliverables including the risks of cost and schedule. This leads to higher value and longer term contracts.

Thirdly, if we look to the Operate part of our strategy, which is our Managed Services offerings. Here we move from implementing solutions to long term support and maintenance of these solutions. This is an area of change in the market with clients looking for help in managing the complexity of multiple Cloud, application and infrastructure environments. Orchestrating this environment to ensure this complexity is not just managed, but that clients select the best environments for each of their needs is key. Providing problem management and resolution to end users across multiple suppliers of applications and infrastructure puts SMS in the position of making the complex simple for our clients. The commercial arrangements for these services tend to be 3-5 year contracts, often usage based.

There will typically be service levels that we will commit to and there is no direct linkage between headcount and revenue. This means we can, at times, increase revenue with very little additional cost, and, because work is generally performed in centralised locations, we can leverage global delivery models to get access to high quality skills at affordable cost and to execute this we have established a delivery location in Manila, which is now providing services to our Australian clients.

I would now like to take a moment to introduce the new members of my leadership team.

To lead the newly formed sales organisation is Phil Heggie. Phil joined us as the Managing Director, Sales in June. Phil comes with over 25 years' experience of selling IT services in major multinational companies across Australia, Europe and Asia. Under Phil's leadership we will build a sales culture and improve our sales team's focus, skills and discipline, particularly targeting to win larger and more complex contracts.

The majority of our people work in the company wide delivery organisation. In June, Nick Kiosoglou joined us as the Managing Director, Delivery to lead this critical function. Nick comes with close to 30 years of delivery experience in global organisations, having led delivery teams in both onshore and offshore delivery models and across all of our service lines.

The Chief Marketing Officer position has been absent in SMS for some time. There is a large job to do to reposition SMS in the market and help all our stakeholders understand the vision for our future. James Foster joined us in July as CMO and comes with deep marketing experience in the IT industry. James will be focused on getting the SMS message clearly into the market and help our clients and stakeholders understand our capabilities and the value SMS can bring.

I am pleased to welcome Phil, Nick and James to the team.



## Current FY16 Trading Performance and 1H FY16 Outlook

We are now in a critical time period of bedding down a new organisation structure and leadership team, maintaining our focus on winning traditional business while also building a sales pipeline of longer term annuity contracts, and delivering the highest quality of service to our clients.

As mentioned earlier, we had a strong FY15 result. Having said that, we are still predominantly reliant on short term project based business where revenue movements are determined by market sentiment, client investment cycles and timing of projects.

The organisation restructure has caused short term issues for sales effectiveness, which has led to a shortfall in revenue targets. This has been exacerbated by the winding down of several major projects which has impacted billable utilisation during the first four months of this financial year.

Our forecast for the first half of FY16 has taken into account:

- Financial performance achieved in the first four months of the current year;
- Expected staff utilisation;
- Contract wins;
- Sales pipeline; and
- Current levels of client activity.

Given the above factors, we expect that the first half EBITDA is likely to be between 15% - 20% down on the 2015 first half reported EBITDA of \$13.5 million.

The significant change in our organisation structure combined with the encouraging growth in our sales pipeline over recent months, particularly in relation to open bids for large multi-year contracts, provides us with greater confidence of an improved second half financial performance.

There are a number of examples of long-term contract opportunities in our pipeline ranging from \$10m to \$100m in size that I find very encouraging. We are bidding on a large State Government agency opportunity involving a significant solution implementation that has directly led from early engagement by our consulting advisory business. This reinforces our strategy of early engagement with our clients to provide us better insight and broader opportunities for downstream business.

We are also bidding for long-term work with an existing Financial Services client to expand their managed services relationship with us in the area of real time trading platforms. This opportunity highlights the benefits of establishing strong relationships with existing clients and our ability to manage mission critical infrastructure and business applications in a highly regulated environment.

While undertaking a change of this size, we need to prioritise our focus. The priority areas for myself and my leadership team include:

1. Winning larger and more complex contracts will give us better predictability of our financial position, make us more relevant to our clients and provide great career opportunities for our staff. Under Phil's leadership we will equip our sales people with the skills and disciplines required to develop, negotiate and close these contracts.
2. Under Nick's leadership we will continuously measure and develop the skills of our Delivery people to meet the evolving needs of our clients, particularly in high demand areas such a Digital Transformations and across all our Services areas of Advisory, Solutions and Managed Services.
3. Improving operational effectiveness is a never-ending journey. Some areas we believe we can make some gains are: improving our margins by looking at the resource mix we have on our engagements, increasing our use of graduates and leveraging offshore delivery capabilities. We will continue to look at building a lean organisation by reviewing areas of significant cost, such as real estate.
4. With the success of the Birchman and Indicium acquisitions, we believe we have a proven methodology to assess and acquire companies that can accelerate implementation of our strategy. Acquisitions will likely be in the solutions and managed services space and we have a senior executive reporting to me, dedicated to finding and developing potential acquisitions.

I am very optimistic about the IT services market and our position in that market. More and more we are seeing technology as underpinning our clients' business. Digital disruption will challenge the way industry and governments conduct their business. Our clients will need help to navigate through these challenges, and SMS will be there to assist them in every step of their journey.

I would like to take this opportunity to thank our staff for their continuing support and professionalism during a period of immense change. Their high standard of work and dedication continues to underpin the on-going success of our business.

I thank you for your time today.

I would now like to hand back to our Chairman, Derek Young.



+ Annual General Meeting  
17 November 2015



Management & Technology



# Derek Young

## Chairman

# Summary of FY15 Results

Revenue from operating activities  
**\$356.2m** - up 13%

Record revenue year

Reported EBITDA **\$28.7m**  
- up 37%



Reported net profit after tax (NPAT) **\$17.0m**  
- up 34%



**\$9.2m** net cash



Contract wins  
**\$411m**  
up 18%

Basic earnings per share  
**24.5 cents** up 35%



Fully-franked final dividend of **10 cents** per share

Total dividends of 17 cents per share, 69% payout ratio



# Jacqueline Korhonen

## Chief Executive Officer

> FY15 results highlights

> The changing environment and client demand

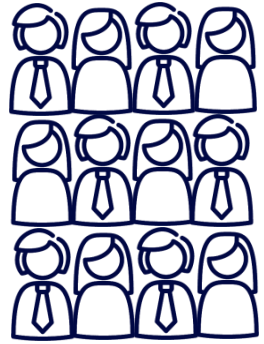
> Setting SMS up for future success

> Current trading performance, H1 outlook and growth focus areas

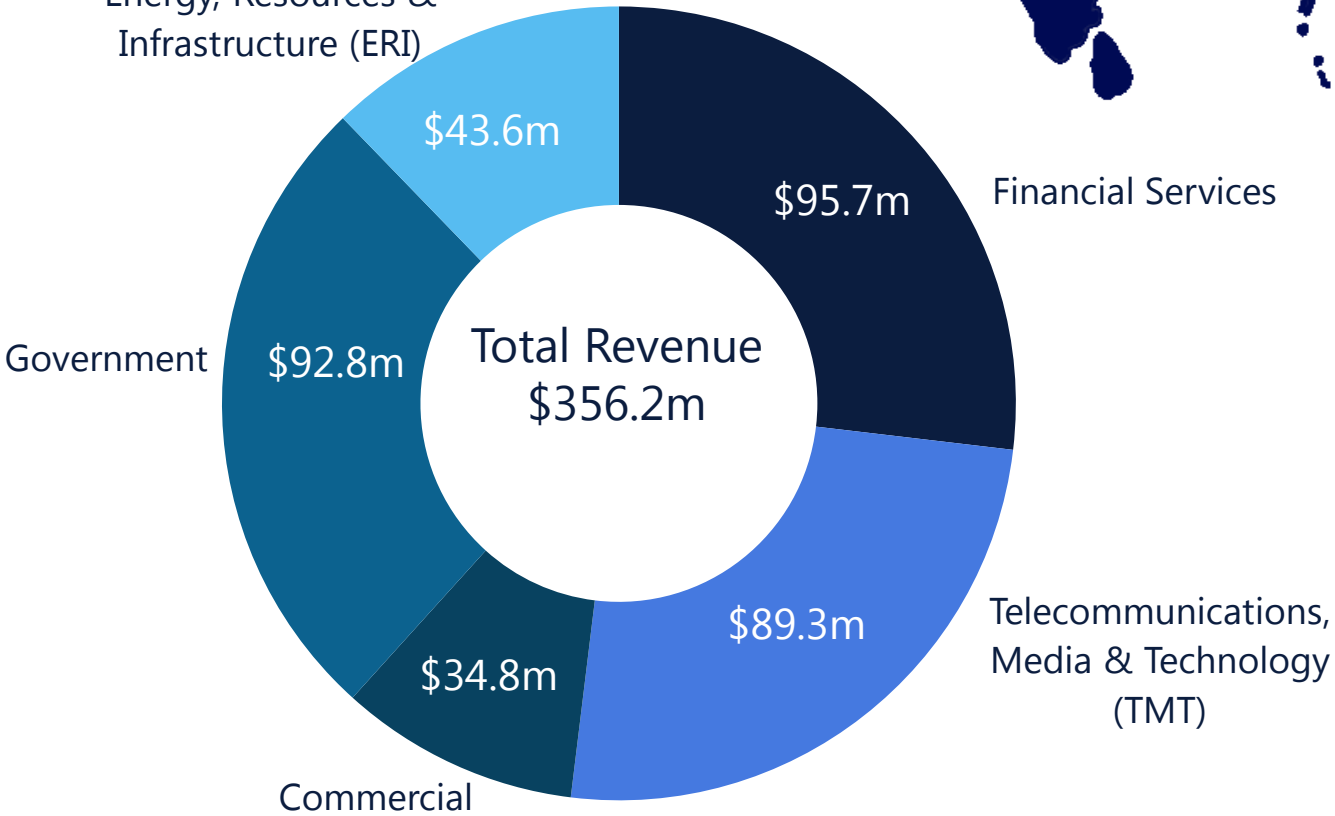


# FY15 Results Highlights

Over 1,600 staff

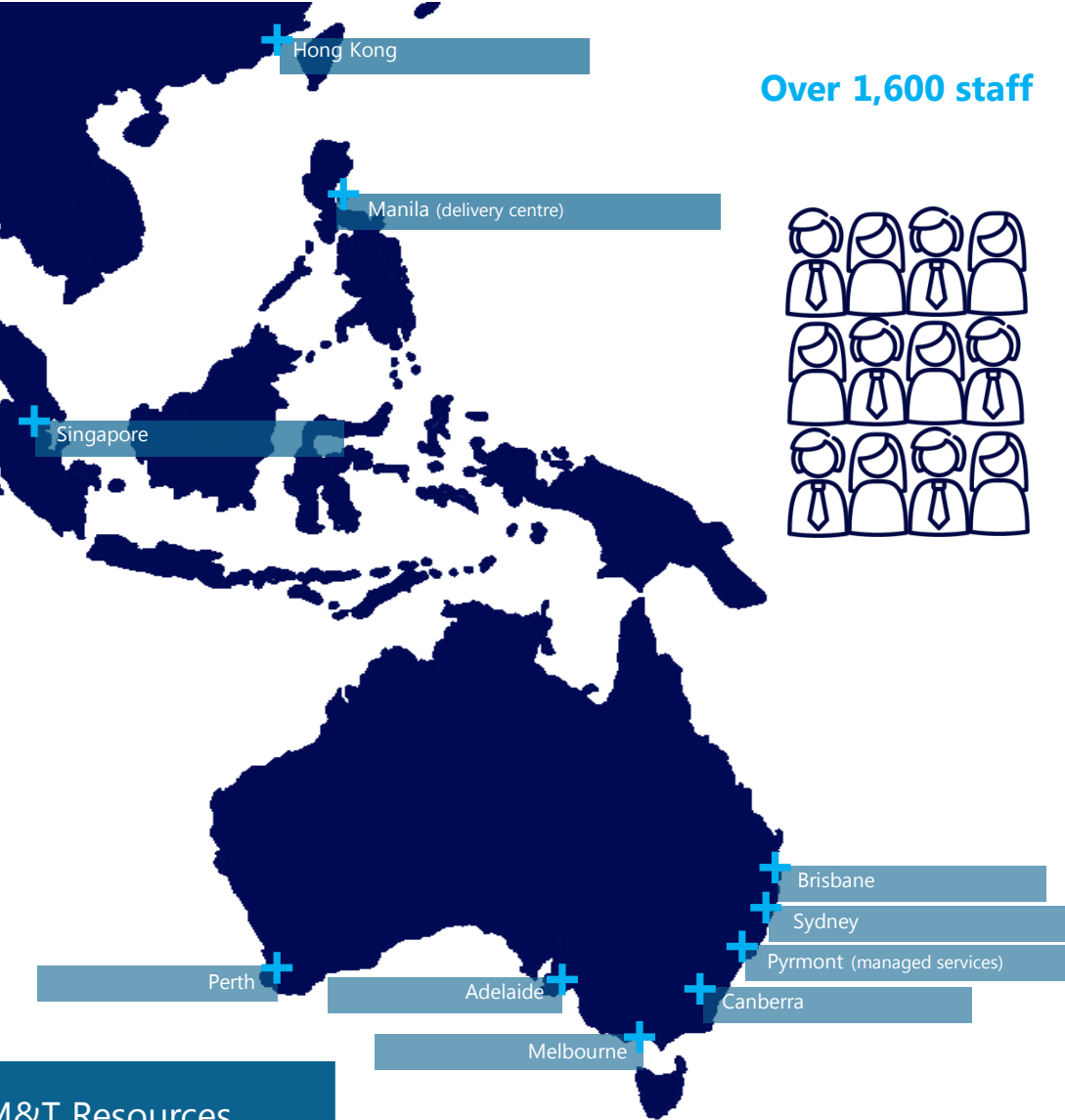


Energy, Resources & Infrastructure (ERI)



Financial Services

Telecommunications, Media & Technology (TMT)



	SMS Consulting (Design-Build-Operate)	M&T Resources
Revenue	<b>\$271m</b> up 14%	<b>\$85.2m</b> up 11%
EBITDA	<b>\$40m</b> up 32%	<b>\$5.1m</b> up 42%

# The Changing Environment and Client Demand

Speed of technology advancement



## Customer Experience

- › Insights and analytics
- › Customer experience improvement
- › Customer relationship management



## Digital Enhancement

- › Social media and collaboration
- › Enterprise mobility
- › Digital agility



## Business Analytics

- › Simplify business operations
- › Big Data
- › Cost reduction
- › Insight operationalisation



## Mobile Solutions

- › Enterprise mobility strategy
- › Mobile workforce enablement
- › Enterprise and customer applications



## Cloud Computing

- › Infrastructure
- › Process automation
- › ICT as a service
- › SaaS
- › Capex to Opex

# The Changing Environment and Client Demand (cont)

Changing buying patterns and decision makers





# The Changing Environment and Client Demand (cont)

Competitive landscape & globalisation



# Setting SMS up for Future Success

## Change in Organisation Structure










From:



To:

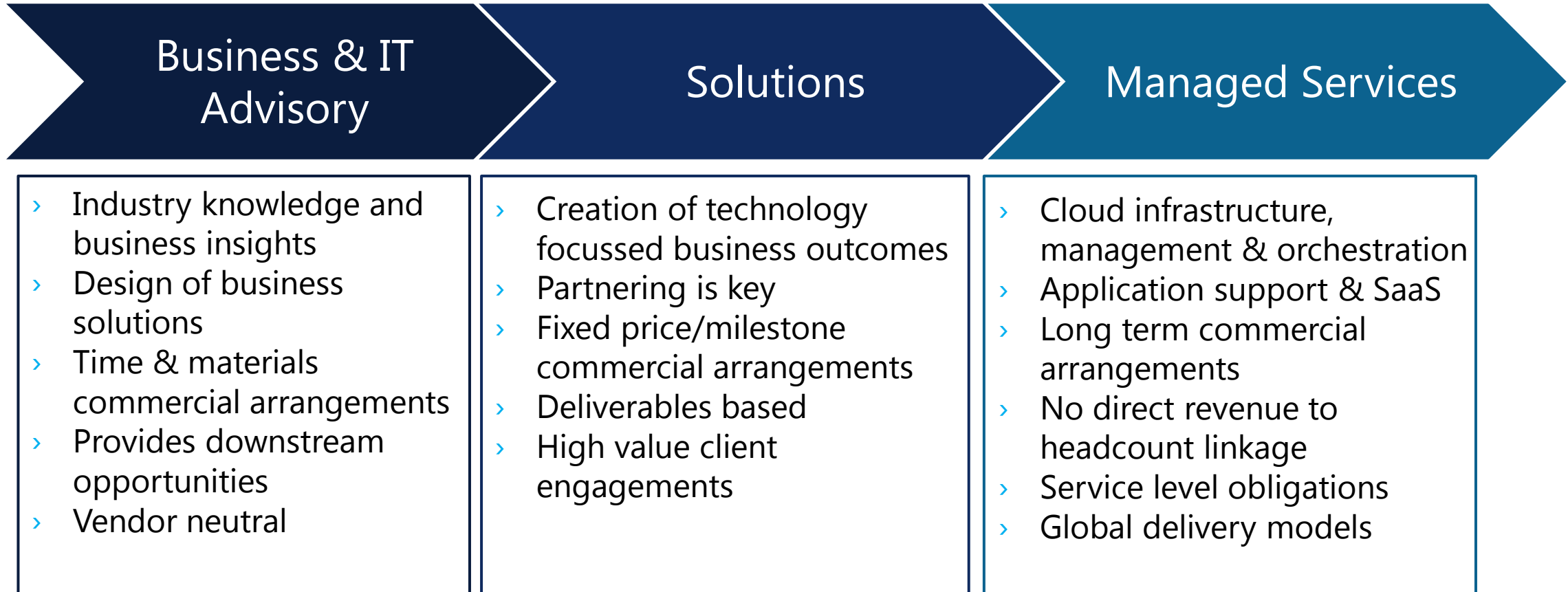
National Industry Led Sales  
National sales team for specific industries and clients

National Delivery Model  
Centralised management of delivery with local focus

Commercial	Energy, Resources & Infrastructure	Financial Services	Government	TMT	Solutions Sales
	Business and IT advisory				
	Solutions				
	Managed Services				
					

# Setting SMS up for Future Success (cont)

## Design-Build-Operate Strategy



# Setting SMS up for Future Success (cont)

## SMS Executive Team



**Jackie Korhonen**  
Chief Executive Officer



**Rick Rostolis**  
Chief Financial Officer



**Phil Heggie**  
Managing Director,  
Sales



**Nick Kiosoglou**  
Managing Director,  
Delivery



**Chris Sandham**  
MD, M&T Resources  
and Director, People  
and Culture



**Anna Gorton**  
General Counsel &  
Company Secretary



**Merlin Allan**  
Managing Director,  
Strategy & Business  
Development



**James Foster**  
Chief Marketing  
Officer



# Current Trading Performance & H1 Outlook



First 4 months of current financial year impacted by slowdown in project based work, delays in timing of open bids and change in organisational structure

+ Significant investment made in bidding for major long-term contracts



Forecast H1 EBITDA expected to be 15%-20% down on H1 FY15 reported EBITDA of \$13.5 million



Strong pipeline of work provides confidence for improved H2 financial performance



SMS will continue to focus on the execution of its defined strategy

# Focus Areas to Deliver Growth



> Win larger, longer, more complex deals

> Ensure the skills of our staff are relevant for the future

> Operational effectiveness

> Proactive acquisition strategy



# Derek Young

## Chairman

# Resolution 1 – Remuneration Report

## Proxy Votes

> For	36,371,542
> Against	1,567,098
> Abstain	306,619
> Open Proxies	398,313

# Resolution 2 – Re-Election of Director: Derek Young

## Proxy Votes

> For	37,225,877
> Against	1,330,007
> Abstain	21,863
> Open Proxies	315,368

# Resolution 3 – Executive Director Performance Rights

## Proxy Votes

> For	37,652,113
> Against	379,422
> Abstain	305,809
> Open Proxies	306,228

# Resolution 4 – Appointment of Auditor

## Proxy Votes

> For	36,887,144
> Against	1,623,090
> Abstain	67,513
> Open Proxies	315,368





Close

[www.smsmt.com](http://www.smsmt.com)