

Data#3 responds to challenging market conditions

1H4 overview:

- Revenue and earnings for the six months ended 31 December 2013 (1H14) in line with guidance provided on 20 December 2013
- Revenue down 2% to \$399 million
- Gross profit down 7% to \$57.5 million
- NPBT down 62% to \$3.7 million
- NPAT down 62% to \$2.6 million
- Strong balance sheet with no material debt
- Interim fully franked dividend of 1.5 cents per share
- Continuing investments in people and infrastructure support new offerings and provide leverage in an improving market
- Several strategic wins in outsourcing and cloud solutions

BRISBANE, Wednesday 19 February 2014: Australian business technology solutions leader Data#3 Limited (ASX: DTL) today announced its results for the six months ended 31 December 2013 (1H14).

Compared to the previous corresponding period total revenue was down 1.8% to \$399.1 million with product revenue decreasing by 1.7% to \$332.7 million and services revenue decreasing by 2.3% to \$65.1 million.

Reflecting the competitive nature of the market and changes in some partner incentive programs, total gross margin decreased from 15.2% to 14.4% and total gross profit (excluding other revenue) reduced by 6.8% to \$57.5 million.

Product gross profit decreased by 11.7% to \$28.7 million due to weaker software sales in Queensland and reduced hardware sales in Western Australia compared to 1H13. Services gross profit decreased by 1.3% to \$28.8 million as the services mix changed slightly.

Commenting on the company's performance, Data#3 Managing Director Mr John Grant said: "We are very disappointed not to have achieved our budgeted performance for the first half. We were on plan until December but, as is the unpredictable nature of today's market, some forecasted deals slipped into the second half and we came in short," he said.

"While the product sectors are particularly challenged, we have recorded a number of strategic wins with outsourcing and cloud services at Brisbane Airport Corporation, AstraZeneca, Worley Parsons, McInnes Wilson Lawyers and Vale Australia that strongly endorse our Hybrid IT strategy. The benefit of these wins will start to flow in the second half and our pipeline remains strong albeit still taking more time than we'd like to convert," added Mr Grant.

Staff costs increased reflecting both the increasing cost of doing business and the need to retain capacity at competitive levels in all locations. Operating expenses also increased due to additional rent, depreciation and amortisation costs associated with the infrastructure, systems and property investments. Their impact on lower gross profit resulted in net profit after tax decreasing by 62.3% to \$2.6 million.

“It is difficult to make substantial changes to our cost structure particularly those that offer leverage in a growth oriented environment. We have certainly driven them down where we can through a number of rounds of fine tuning of staffing levels and a major restructure in July, but we believe that further large scale cost reductions would be more damaging than beneficial at this stage. We are more focused on driving the top line in the knowledge that small gains in revenue can deliver substantial increases in profit,” Mr Grant said.

Reflecting the company’s strong balance sheet and cash flow, Data#3’s directors declared an interim fully franked dividend of 1.5 cents per share, representing a payout ratio of 89.9%. The interim dividend will be paid on 31 March 2014.

Commenting on the company’s outlook, Mr Grant said: “We are very focused on achieving our original second half targets but with the shortfall in first half performance it will be very difficult for the company to achieve its original full year target. Having said this, the pipeline is building and we will keep shareholders advised as the second half progresses,” he concluded.

Data#3 Chairman Richard Anderson commented: “Like so many businesses today, we are expecting the market to improve. The timing for this is unpredictable and we are reluctant in the interim to reduce significantly the capacity of the business to respond to such improvement.

“Over the longer term, we continue to be very well placed to generate growth in shareholder value. We have a strong business, no material debt, long term customer relationships, committed supplier partnerships, and a great team. We are strategically well positioned to grow revenue and profit as our customers continue to transition to Hybrid IT, the combination of on premise, outsourced and cloud services,” he concluded.

	1H14 \$'000	1H13 \$'000	% Change
Revenue by segment:			
Product	332,747	338,647	-1.7%
Services	65,113	66,629	-2.3%
Other revenue	1,234	937	+31.7%
Total revenue	399,094	406,213	-1.8%
Total gross profit	57,469	61,646	-6.8%
Total gross margin %	14.4%	15.2%	
Product gross profit	28,669	32,471	-11.7%
Product gross margin %	8.6%	9.6%	
Services gross profit	28,800	29,175	-1.3%
Services gross margin %	44.2%	43.8%	
Total expenses	55,016	52,763	+4.3%
EBITDA	3,906	9,917	-60.6%
EBIT	2,632	9,046	-70.9%
EBIT margin %	0.7%	2.2%	
NPBT	3,687	9,820	-62.5%
NPAT	2,569	6,819	-62.3%
	1H14	1H13	% Change
Earnings per share	1.67 cents	4.43 cents	-62.3%
Dividend per share	1.50 cents	3.45 cents	-56.5%

ENDS

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About Data#3

Data#3 Limited (ASX: DTL) is one of Australia's leading business technology solutions companies servicing customers across a wide range of industries throughout Australia and the Asia Pacific.

The company was established in 1977 and listed on the ASX in 1997.

Working with customer's business and technology teams, Data#3 addresses the **Hybrid IT** environment from **on-premise to outsourced to cloud**, through its software, infrastructure and managed solutions. These solutions leverage market-leading technologies from global vendors and Data#3's knowledge, expertise and experience to accelerate the achievement of customer business objectives:

- Software Solutions: for software licensing and deployment; asset management; and business productivity
- Infrastructure Solutions: for hardware lifecycle management; maintenance; and datacentre, network and desktop infrastructure
- Managed Solutions: for staffing; outsourcing; essential support; 'as a service'; cloud brokerage; and consulting.

Data#3 has approximately 900 employees, is headquartered in Brisbane, and operates from 12 locations across Australia.

More information about Data#3 and its solution offerings is available at <http://www.data3.com.au>