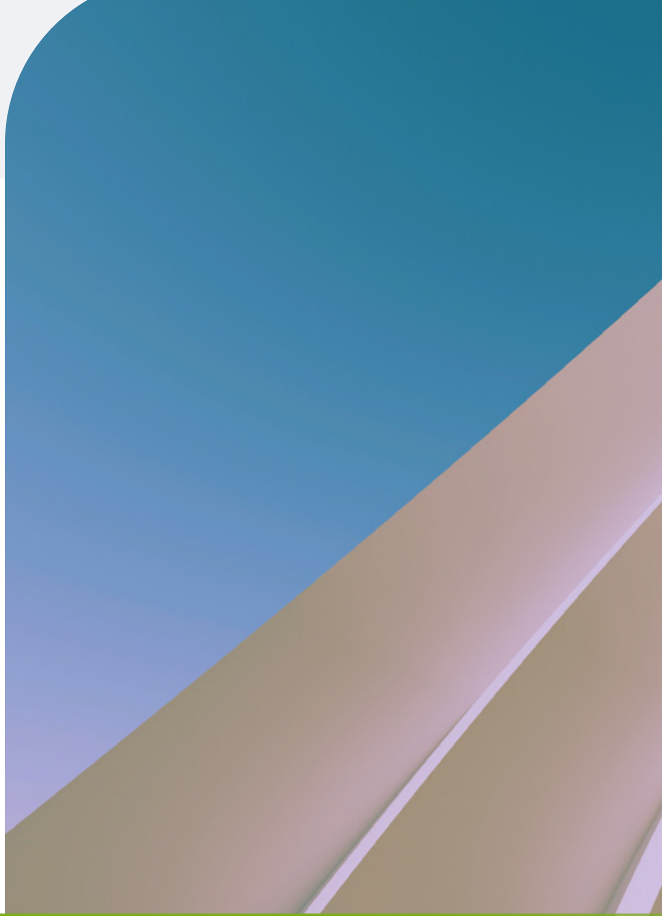
Management Discussion and Analysis



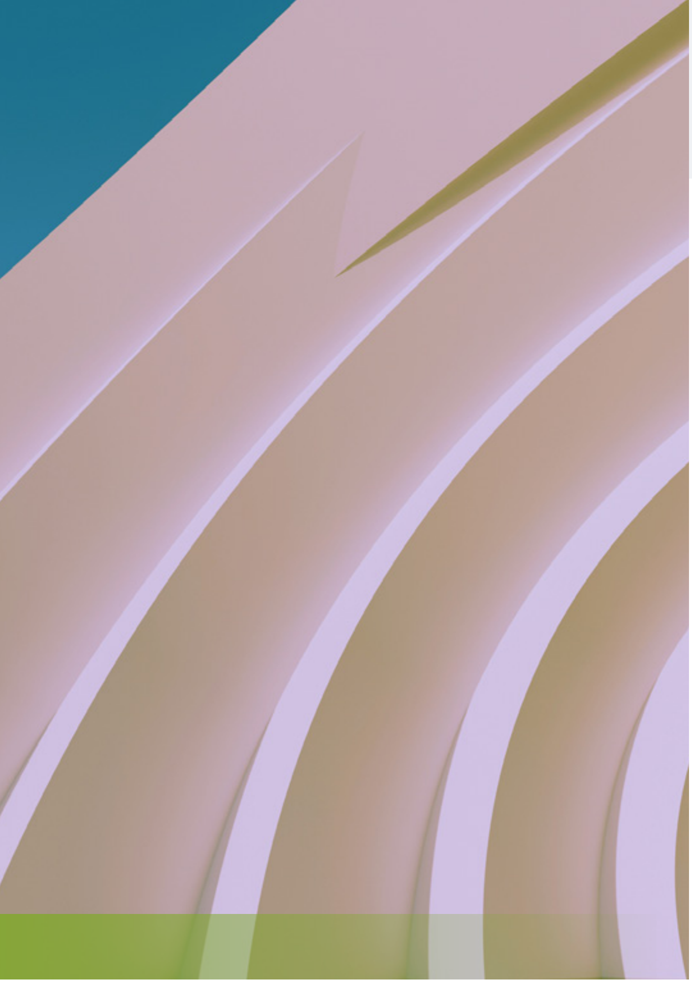
FY2026
Result Overview

Solution Dynamics Limited ("SDL" or "Company") recorded a net profit after tax of $0.38 million for FY2026 (FY2025 $2.62 million). FY2026 earnings per share was 2.7 cents (FY2025 17.8 cents). The two main factors that accounted for the decrease were the loss of a major customer contract during FY2025, plus the development and launch costs for SDL's new product, nGAGE, initially aimed at the UK dental market.

The Company's revenue declined to $31.4 million (down 24.0% from $41.3 million). The reduction was primarily in Software & Technology, although, predictably for its market segment, mail house print also came under pressure, partly offset by an increase in low-margin postage revenue. Pleasingly, revenue from the top ten customers increased by 11% excluding postage, reflecting a mix of both digital and print growth. Digital revenue increased 4% year on year, a product of some client onboarding in this segment, though also indicating continued overall customer migration from print and mail to digital channels.

Domestic print and mail house operations continue to operate within a declining market, exacerbated by ongoing significant postage price increases from NZ Post that are incentivising customers to move further to digital communications. Importantly in this segment, SDL has gained additional work from key accounts in the local authority sector and expects to gain additional volumes from a number of new council-owned water entities that are now required to operate as stand-alone operations with separate billing.

International business saw revenue reduction, primarily from the full effect of the loss of a material client in FY25; this was a key factor in Software & Technology revenue reducing 44.0% to $13.5 million. SDL's new nGAGE product, which commenced as a project in August 2025, continues to see focus and resource applied to bring a suite of enhanced digital products to market in the immediate term, but due to its position in the development cycle, saw minimal revenue for FY2026. The North American marketing



services operation, also added during FY25, saw slightly lower than expected revenue and was a modest drag on earnings for the year.

Importantly, to ensure expenses are right sized to the effects of the markets in which the company operates, significant cost restructuring was undertaken over FY2025 (mainly in 2H) which saw Selling, General & Administration (SG&A) costs fall by 23.8% in FY2026. This decline is net of adding additional resources in the UK to develop and launch nGAGE.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") declined 74.5% to $1.13 million (FY2025 $4.45 million). Gross Profit was 39.5% lower, with the fall partly offset by a general price increase across most New Zealand customers at the start of FY2026.

Cash flow from operations was an outflow of $0.46 million (FY2025 inflow of $4.30 million) and the net cash and short-term deposit position at year end was $7.71 million (FY2025 $11.19 million). The prior year cash position was assisted by unusually positive year-end accruals (paid early FY2026), while current year cash was affected by slightly higher than usual receivables – the normalised year end cash position was close to $8.0 million (approx 55 – 56 cents per share). FY2026 saw around $1.3 million of capital expenditure (print inserter equipment) and $0.3 million on share buybacks.

The Directors have declared a final dividend of 2.0 cents per share (FY2025 3.0 cents), bringing total cash dividends for FY2026 to 4.0 cents per share (FY2025 3.0 cents) with all dividends fully imputed. The total FY2026 dividend of 4.0 cents brings the FY2026 payout ratio to 153.7%.

Governance

In H1, Patrick Brand advised the Board that as a result of a serious family medical issue, he would be unable to continue as CEO. Given Pat's extensive experience, knowledge of the US market, and connections to a key North American client of the company, and on the request of the Board, Pat agreed to remain with the company in a director role from January 2026. Susie Watts, SDL's CFO was appointed Acting CEO from 1 January 2026. Susie has been with SDL since late 2021 and has been instrumental, not only in improving the Company's financial and operational systems, but also in wider leadership and culture responsibilities for the International Group.

Business
Description

SDL operates in the global Customer Communications market, providing a comprehensive suite of software technology, professional services, and managed services to facilitate the digital transformation of customer communications. SDL operates primarily in New Zealand, North America and the UK. The Company's products and services are represented by two revenue streams: Services (split into Digital Print & Document Handling, and Outsourced Services); and, Software & Technology.

Services covers the New Zealand business where SDL operates its mail house activities. Within Services, Digital Print & Document Handling revenues are generated from digital printing and mail house processing for two categories of mail items: transactional, such as invoices and statements; and direct marketing/promotional mail. Outsourced Services such as envelope printing and postage are typically bundled as part of the total solution, albeit at low margins.

Software & Technology covers the international business, principally in North America and the UK, which provides a suite of cloud-based customer communications solutions. Primary components of the SDL technology stack include:

- **Document management & processing** – digital document management, workflow, integration, scanning and archiving;
- **Distribution and print** – multi-channel digital and print distribution, with global print integration across more than 50 countries;
- **Content and personalisation** – digital asset management, document composition and content personalisation;
- **Campaign management** – digital and print campaign optimisation, enhanced by AI applied to document processing; and,
- **Data and Insight** – data quality and enhancement, dashboards and analytics.

In FY2026, SDL's software product offering was extended into a new category for the Company, with the launch of nGAGE into the dental sector.

nGAGE Progress

SDL commenced development of nGAGE – AI-assisted marketing communications platform for dental groups – in August 2025. The MVP (minimum viable product) was first demonstrated at an industry conference in November 2025, followed by the initial product launch into a customer trial in early 2026. nGAGE connects natively to Dentally, a dental practice management software package from the largest global software supplier to the sector.

nGAGE leverages rich dental patient data to drive measurable practice growth and strengthen ongoing patient engagement and retention. As a material upgrade to SDL's traditional communications dental solution, nGAGE delivers essential customer communications and marketing capabilities beyond that provided by core practice management systems within the clients business. It tightly integrates with patient information, enabling precise, targeted campaigns assisted by and built in AI. The AI engine supports campaign creation, patient analysis, cross sell identification, operational queries, and continuous performance feedback.

Built on three core pillars

Every feature, every insight and every recommendation is designed around three fundamental principles — working together to create a comprehensive growth ecosystem for your practice.

PILLAR I

New Patient Acquisition

Intelligent targeting and personalised campaigns that attract the right patients to your practice, turning prospects into loyal patients through data-driven insights.

PILLAR II

Existing Patient Growth

Maximise the lifetime value of your current patients through intelligent treatment recommendations, automated follow-ups and personalised care journeys.

PILLAR III

Improve Your Reputation

Build trust and credibility through transparent outcome tracking, automated review management and showcasing your practice.

All marketing communication data and patient behaviour feeds into an AI/LLM layer, allowing SDL and the client to learn from campaign performance across the platform and continuously improve how future campaigns are targeted and shaped. AI supports nGAGE across multiple dimensions, including analysing patient data to recommend targeted campaigns, such as specific treatments, lapsed patients, resolving operational and support queries, providing campaign performance insights, identifying cross sell opportunities, and monitoring key practice metrics.

For further product details, refer to https://www.n-gage.ai/

To date nGAGE has been well received by both individual practices and corporate dental clients. The latter, particularly the larger groups are expected to have longer sales cycles, meaning most sales to date have been to smaller corporate groups and individual practices.

The data architecture underlying nGAGE means the product can be readily adapted for vertical markets aside from dental, although the UK dental market is where SDL's primary sales focus will be applied over the coming year.

Importantly, this is the first software solution SDL has provided that is an "out of the box" solution with the ability to scale, a key strategy now for the Company going forward. From the first trial site in February, nGAGE has now signed around 140 sites, of which over 40 have been onboarded. Additional resourcing and automation are being applied to the onboarding process, and the pipeline remains strong. SDL has recently reached agreement to market nGAGE in Australia and New Zealand to practices that use the Dentally software package, although only modest APAC revenue is expected for FY2027.

The cost to design, launch, market and support nGAGE in FY2026 was over $0.4 million (pre-tax), with minimal revenue that only commenced during Q4. Note this cost excludes local developer resources in New Zealand (are all expensed).

Business Performance

FY2026 was another demanding year for the SDL team to accommodate the settling in of the extensive H2 business restructure conducted in FY2025, alongside a leadership change as Susie took up the position of CEO following Pat's announcements.

In summary, and while the New Zealand new business fell short of budget, the UK performed well, as did the Pitney Bowes partnership which supports SDL's software transition towards a recurring revenue model. US click volumes rose 17% year on year and EU click volumes were up 5%, although professional services revenue remains under pressure.

While FY2026 provided a multitude of challenges, the Company continues to focus its energies to specific areas of recurring revenue, fully supported by a lower expense base, to ensure the transition from domestic print and mail volumes is managed profitably.

Services

Services is the Company's New Zealand operation that provides mail house solutions to high-volume postal mail users in the business-to-consumer sector. Services operates leased, high-speed digital colour and monochrome printers. In addition to digital printing, Services also provides the ancillary document handling operations such as automated envelope inserting and flow-wrap.

New Zealand continues to face significant headwinds from declining mail volumes with customers increasingly sensitive to the materially higher postage rates from NZ Post. From 1 July 2026, NZ Post increased its standard medium-sized letter retail pricing by $0.70 to $3.60 a rise of 24% (on top of a 15% increase the prior year).

NZ Post appears to be following a strategy to drive volumes down to a point where it can switch residual mail activity over the courier network and eliminate "posties" albeit this will likely be more a political than business decision. Offsetting that is Freightway's strategy of building out its DX Mail postal delivery network, which we expect operates at significantly lower cost than NZ Post's, albeit without the same level of certainty around timing of delivery.

NZ Post's FY2025 annual report noted around a 15% mail volume reduction (on top of a similar decline the prior year). While SDL's 11% decline in mail lodgements confirms its ongoing market share gains, the cumulative effect of successive NZ Post postage rates increases is seeing customers now more actively seek non-mail solutions.

Everything that can be digitised eventually will be. Albeit some communications, notably marketing/promotional material, may be more effective as physical communications given the degree of digital (email/SMS) overload "noise".

Services revenue also includes Outsourced Services, which encompasses a variety of outsourced functions or components such as postage, third party offset printing, freight, paper and envelopes, and digital channel delivery. The Company has an access agreement with NZ Post and also utilises an alternative carrier, Freightways' DX. The gross profit margins on many of these outsourced components, especially postage, are low but an important component of the total customer solution.

SDL has New Zealand's largest water utility as a long-standing customer. The Company is actively engaged with a range of Councils whose new water entities require billing communications and has gained new business, although these provided little to no revenue impact in FY2026.

On the digital communications side, SDL's New Zealand volume of customer emails rose about 2% (following a 12% increase in FY2025 and a 19% increase in FY2024). Email volumes now exceed physical mail volumes for SDL. However, the economics are very different with revenue and gross profit per item for an electronic communication significantly lower than for the same physical print and mail item.

SDL Services Revenue Breakdown (all figures $000)	FY2026	FY2025	Percentage Change
Digital Printing and Document Handling	4,001	4,512	-11.3%
Outsourced Services & Other	13,896	12,686	9.5%
Total Services Revenue	**17,897**	**17,198**	**4.1%**

While Services achieved revenue growth of 4.1%, this was almost solely the effect of postage rate increases, with underlying postal volumes showing a decline.

SDL Software & Technology

Software & Technology generated revenue of $13.5 million in FY2026, a decline of 44.0% on the prior year's revenue of $24.1 million.

The decline solely relates to the prior year major customer contract loss. Outside of that, North American click volumes at Pitney Bowes increased around 19% (although associated professional fees fell).

Software & Technology revenue is increasingly platform based, typically under SaaS (Software as a Service) arrangements, although there is one UK customer where the platform drives physical mail revenue. Digital Subscriptions were up 3% on prior year which represents 42% of the total revenue. Click charges represent 15% of total revenue and were up 17% in the US and 5% in Europe.

SDL communications software enables organisations to drive down the cost of customer communications while improving client engagement. Leading global brands rely on the Company's software to simplify sending of complex global customer communications through both print and digital channels. While the secular decline in mail continues, SDL's software platforms provide an omni-channel approach that allows the Company's customers to flexibly engage with their customers.

Financial Performance

SDL's deterioration in FY2026 financial performance was primarily the effects from the loss of a major customer contract in FY2025, plus a pre-tax earnings impact in excess of $0.4m from developing and marketing nGAGE.

A broad-based price increase at the start of the year helped offset inflationary cost pressures.

Gross Profit declined 39.5%, the result of the above factors, and the Gross Margin declined from 34.6% to 27.5%. Following the restructuring in FY2025, SG&A costs reduced 23.8%.

EBITDA declined 74.5% to $1.13 million (FY2025 $4.45 million).

Summary Financial Performance[1] (all figures $000)	FY2026	FY2025	Percentage Change
Total Revenue	31,415	41,324	-24.0%
Less: Cost of Goods Sold	22,779	27,038	-15.8%
Gross Profit	**8,636**	**14,286**	**-39.5%**
Gross Margin (%)	27.5%	34.6%	
Less: Selling, General & Admin (SG&A)	7,503	9,840	-23.8%
EBITDA	**1,133**	**4,446**	**-74.5%**
EBITDA margin (%)	3.6%	10.8%	
Depreciation	945	861	9.8%
Amortisation	60	60	0.0%
EBIT	**128**	**3,525**	**-96.4%**
Net Interest	-86	-123	-30.1%
Income Tax	-168	1,029	n.m.
Net Profit after Tax	**382**	**2,619**	**-85.4%**
Tax rate	-78.5%	28.2%	

The following table highlights first and second half performance for the last two financial years. The timing of a small number of particularly large customer jobs during the year can materially alter the split of first and second half earnings.

SDL Half Financial Years (all figures $000)	2H FY2026	2H FY2025	Percent Change	1H FY2026	1H FY2025	Percent Change
Total Revenue	14,323	15,233	-6.0%	17,092	26,091	-34.5%
EBITDA	443	731	-39.4%	690	3,715	-81.4%
EBITDA margin	3.1%	4.8%		4.0%	14.2%	
Net Profit after Tax	168	276	-39.1%	214	2,343	-90.9%

1 *This table contains a range of non-GAAP measures the Company uses to help assess performance. Refer to the Financial Statements for GAAP.*

Balance Sheet, **Liquidity** and **Debt**

SDL closed the year with net cash (i.e. cash plus short-term deposits less interest-bearing debt) on hand of $7.71 million (FY2025 $11.19 million although this amount was flattered by a large, favourable working capital position over year-end). This net cash figure excludes debt liabilities relating to Right to Use Lease Liabilities arising from the Lease Accounting standard; these liabilities are approximately offset by Right to Use Assets.

The Directors will maintain a prudent approach to balance sheet management but continue to review acquisition opportunities.

The Company maintains an overdraft arrangement from ANZ Bank with a $0.2 million limit. This was unused during FY2026.

Selected Balance Sheet and Cashflow Figures (all figures $000)	FY2026	FY2025	Change
Net Cash/(Debt & Borrowings)	7,712	11,193	-3,481
Other Non-Current Assets	2,852	1,646	1,206
Right of Use Assets	1,006	1,354	-348
Net Other Assets/(Liabilities)	245	-1,490	1,735
Lease Liabilities	-1,049	-1,387	338
Net Assets	**10,766**	**11,316**	**-550**
Cashflow from Trading[2]	1,024	3,501	-2,477
Movement in Working Capital[2]	-1,481	792	-2,273
Cash Inflow from Operations	**-457**	**4,293**	**-4,750**

Capital expenditures for the year totalled around $1.3 million (FY2025 $0.1 million), almost all for replacement inserter equipment (existing hardware was end-of-life by the supplier, so no longer supported) plus a minimal amount of IT hardware. The Company does not capitalise software development and all costs associated with the development and launch of nGAGE were expensed.

Net assets include intangible assets of around $1.1 million (no change from FY2025), which is all goodwill and subject to an annual impairment test.

SDL operates with a largely neutral working capital balance, meaning growth typically does not require additional investment of capital.

2 Non-GAAP measures. Refer to Note 3.6 in the Financial Statements for GAAP performance measures.

Taxation, Dividends and **Share Buyback**

SDL pays full New Zealand tax on locally generated earnings. In FY2026 the Company earned a tax credit of $0.17 million. This tax gain stemmed from a $0.13 million Research and Development Tax Incentive (RDTI) that provides a 15% tax credit on eligible R&D.

SDL pays dividends only to the extent that it can fully impute them and also subject to the Company not experiencing any one-off requirements for abnormal capital expenditure or any significant acquisition or investment activity. SDL will pay a FY2026 final dividend of 2.0 cents per share, making a total of 4.0 cents per share for the year.

Earnings and Dividends per Share	FY2026	FY2025	Percentage Change
Closing Shares on Issue ('000)	14,214	14,720	-3.4%
Reported Earnings per Share (cents)	2.7	17.8	-84.9%
Dividend per Share (cents)	4.0	3.0	33.3%
Dividend Proportion Imputed	100.0%	100.0%	
Dividend Payout ratio	153.7%	16.8%	

The final dividend of 2.0 cent per share will be fully imputed and paid on 25 September 2026.

The number of shares on issue declined as SDL continued its share buyback during FY2026. The Company has no outstanding ESOP rights at year end (FY2025: outstanding rights to 0.59 million shares).

SDL's share buyback acquired 0.49 million shares over FY2026 for a total cost of around $0.3 million. This reduced the outstanding share count by 3.4% to 14.2 million shares. The Company is unable to undertake share buybacks when it is in possession of material, non-public information or during the "black out" periods between interim and full year ends and reporting interim and annual results respectively. Should the share price remain around or near current levels and there is no material, non-public information available to directors, the Directors intend to continue the share buyback programme.

The current programme which commenced on 24 March 2026, is limited to 5% of SDL's outstanding share count, meaning only a further 0.47 million shares can be acquired up to March 2027 (unless shareholder approval is obtained to expand the buyback programme).

Risk **Factors**

Mail volume in New Zealand, in line with global trends, continues to decline, with NZ Post continuing its ongoing significant annual increases in postage rates. The Company has several key domestic contracts that, if lost, could place material pressure on local profitability although much of this is under contract for the next two years. Consolidation in the New Zealand print market is inevitable. The Company emphasises it will not participate – the case for allocating further capital to a declining market seems difficult – unless there is clear value enhancement for shareholders.

SDL's largest five customers accounted for 43% of revenue (FY2025: 55%). Loss of one or more of these top five customers would cause financial results to change materially.

The Company's software provides critical document management, distributed print, and storage functions for its clients. SDL needs to ensure it continues to maintain appropriate levels of software development and quality control, along with well-trained staff for software delivery and support. Cyber and data security has been a known high-risk area which is difficult to fully mitigate and the risk has increased with the rise of increasingly sophisticated AI models. SDL maintains ISO270001 and SOC2 certification and reviews its IT and data security arrangements (including through the use of external consultants).

The Company operates a single site facility for its New Zealand print and mail house production, with an offsite for data and server backup, although most data and operations are now hosted in the cloud. The Directors are conscious of the operational risk a single site implies for digital imaging and mail house operations. SDL has a reciprocal disaster recovery ("DR") plan with another printing company, although capacity constraints may limit the effectiveness in meeting customer service level agreements.

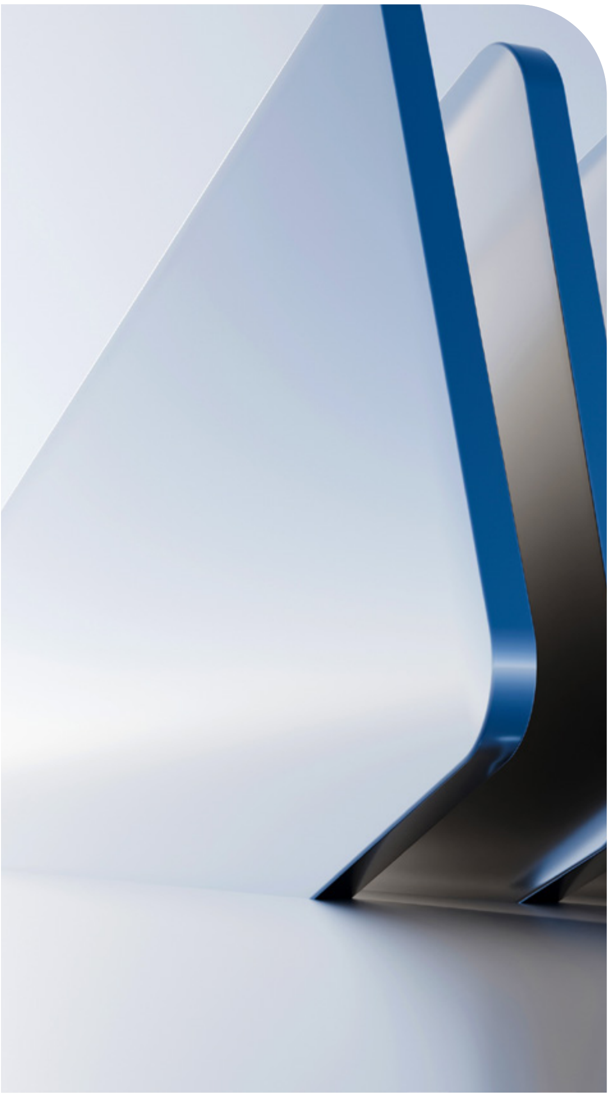
The Company relies on distribution channel partners to market some its software products internationally, although nGAGE in the UK is marketed directly to dentists by SDL's locally-based staff. This means SDL has little or no contact with some of the end user customers of its products. While these channel partner arrangements are currently stable there is no guarantee these arrangements will continue. SDL aims to ensure its software meets ongoing channel partner requirements.

While the risks noted represent ongoing challenges and headwinds, the market opportunities to help organisations with their global customer communications digital transformation can be significant. SDL holds a strong position in global postage management and distributed print, capturing significant savings as the first step in the digital transformation journey.

Leading customers and channel partners rely on SDL's digital document management platform and the Company's sales and marketing efforts enable growth in key vertical global markets. Nevertheless, current headwinds in the global environment, especially relating to macroeconomic conditions and Middle East hostilities, are producing significant uncertainty and this could materially affect the Company's results.

FY2027 **Outlook**

In New Zealand, we estimate SDL continues to grow market share, although this has been more than offset by the ongoing decline in postal volumes (noting the significant increases in postage rates by NZ Post). In FY2027, we expect to gain new business as Council-owned water authorities commence billing. The combination of increased business from several customers, some modest new business wins during FY2025, plus new water utility billing, should see SDL's New Zealand operations continue to deliver a positive result in what remains a challenging environment.



The primary international revenue growth opportunity is converting and onboarding the UK dental practice pipeline. However, a full year of UK support costs will largely offset expected revenue growth and result in a similar impact on earnings for FY2027. There are further dental markets for nGAGE, including Australia and New Zealand, where SDL expects to commence sales activity in FY2027.

Additionally, the nGAGE software architecture means it is adaptable to other vertical markets. SDL's challenge is to profitably scale nGAGE firstly in the UK dental sector, which remains the primary focus, and then expand into other regions and verticals.

SDL continues to invest in software development, with agentic AI now assisting the speed and effectiveness of the development team; further productivity gains are expected in FY2027. AI is both a threat and opportunity in the customer communications market. It is fully embedded into nGAGE and utilised to assist in marketing campaign recommendations.

SDL is forecasting a net profit for FY2027 in the range of $0.4 million to $1.0 million (after a pre-tax impact of around $0.5 million from nGAGE).

The Company notes that significant volatility in results is possible and a number of factors, especially macroeconomic headwinds and Middle East hostilities, are outside the Company's control. Political instability remains elevated, which, along with domestic New Zealand conditions, makes forecasting difficult.

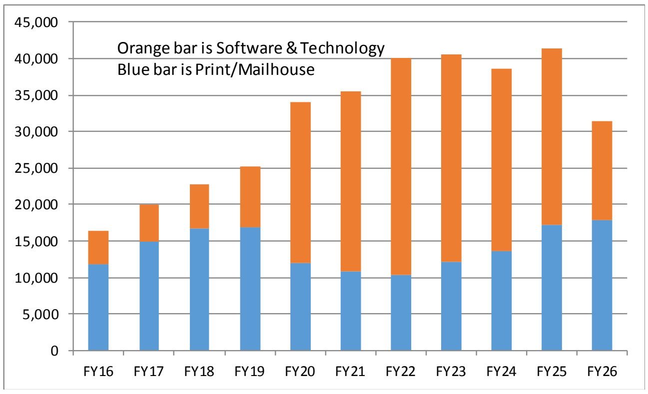
Key **Financial Trend** Metrics

Revenue ($ 000)

Revenue CAGR (10 year) 6.8%

Software CAGR (10 year) 13.1%

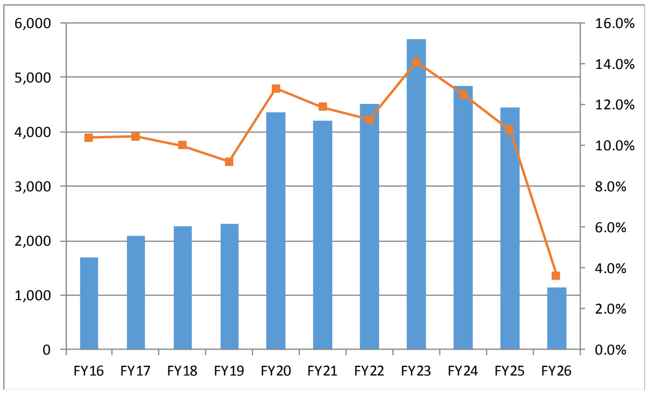
Print/Mail CAGR (10 year) 4.7%



EBITDA ($ 000) & Margin (%)

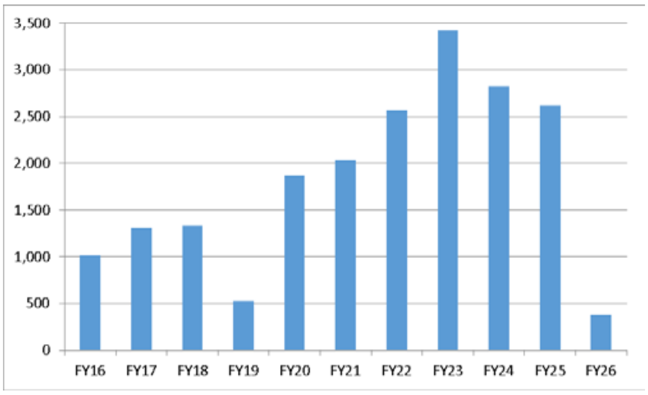
CAGR (10 year) -3.9%

EBITDA is as reported in financial statements, noting this is affected by the change of accounting standard to NZ IFRS 16 (accounting for leases) in FY2020 (increases reported EBITDA) so FY2020 onwards is not comparable with prior years.



Net Profit ($ 000)

CAGR (10 year) -9.3%



Dividends (cents per share)

CAGR (10 year) -2.7%

Chart excludes imputation credits.

All dividends are fully imputed.

Total dividends last 10 years:
– 79.3 cents per share (cash)
– 110.1 cents per share (incl imputation)