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Lodgement of Market Briefing**

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Market Briefing

DWS CEO provides update on company evolution, current trading conditions, and strategic outlook

Interview with Lachlan Armstrong (CEO & Managing Director)

In this Market Briefing interview, Lachlan Armstrong, DWS' CEO & Managing Director, discusses the company's strategic direction under new management and current trading conditions, including:

- *Key priorities under the new management*
- *Current operating environment for the IT services sector*
- *New partnership with large US business*
- *DWS' acquisition strategy*
- *FY2014 trading update.*

Market Briefing

Lachlan, you commenced in the role of CEO for DWS at the start of March 2014. What have been your main priorities since moving into the role of CEO?

Lachlan Armstrong

The Board and I agreed from the outset that stability was of paramount importance over the first few months, so the main priority has been exactly that. I've been spending time with each member of our Management Team around the country and developing strong relationships with as many of our senior client stakeholders as possible.

On top of this I've been working with the other members of our Executive Team on the formulation of a strategic plan for DWS. I've been spending time with our partners at the Massachusetts Institute of Technology (MIT) Centre for Information Research who have been an invaluable source of information on global IT trends, and they've helped me shape our direction.

Importantly though, DWS' business is strong, and it's critical that all stakeholders understand that my mandate from the Board is to build on what we have by making targeted investment decisions for organic growth, and where appropriate, complement these with acquisitions.

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DWS and many of its listed competitors have not delivered earnings growth in recent years. Why do you think this is, and where do you see growth coming from?

Lachlan Armstrong

There is no doubt that the sector has been under pressure for a number of years. I think there are probably three main reasons for the lack of earnings growth. Firstly, as with many other sectors, the IT Services sector is now operating in a global market place, and this means we need to become globally aware and competitive. It is widely acknowledged that the cost of employment in Australia is higher than in emerging countries such as India, China and Philippines. A lot of IT work that used to be done in Australia has gone offshore as part of business process outsourcing and other cost reduction initiatives. Accordingly, Australian companies need to diversify and specialise in order to grow.

Second, and importantly, the Australian economy has been pretty flat over the last few years and this has hampered capital investment, especially in the corporate sector. Many of our corporate clients have been restructuring and conducting significant cost-out initiatives in order to maintain their own profitability, and this has seen lower capital investment on IT. This has presented challenges and opportunities for us, but overall I'm optimistic that we're coming out of this 'lull' and the investment cycle will pick-up in FY15.

The third factor, in my view, is technological change. I think we are in an unprecedented period of technological advancement and this has required business and government to evolve their product and service offerings to cater for these technology driven changes. Some might argue that this factor is always a consideration, and I'd probably agree, but it's the speed at which technology is evolving which is really fascinating and provides huge opportunities for businesses like our own to become truly innovative, and present some really exciting solution offerings to our clients.

Whilst DWS' profit margin has declined in-line with the market conditions, we still retain above average margins which puts us in a relative position of strength. Clearly a major focus for our strategic direction going forward will be on achieving profitable top line growth.

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What is the strategic direction for DWS? Do you expect to make any significant changes to this given the current industry conditions?

Lachlan Armstrong

We recently had our Management Team meet in Melbourne for a couple of days to discuss our strategic objectives. We've made a few changes to the composition of the Management Group in the last six months and so it was great to have everyone together for this session.

While our strategic plan remains a work-in-progress, the major theme is on repositioning DWS as an *Innovation Partner* for our clients. My view is that our clients want more than just 'skilled IT professionals' from us these days; they want proactive thought-leadership in our various chosen areas of core competency. They want us to understand their business and come to them, proactively, with value-adding, innovative solutions which enhance their own business.

This over-arching philosophy will guide virtually all aspects of our strategic agenda, and seeks to not only enhance our reputation, but also reposition DWS' offering to our clients. We have come up with

a series of clever strategies which don't require a large amount of capital or investment, but will require a very determined management approach. I'm confident our team has this.

We also agreed that there are several other tactical adjustments we can make in order to enhance the business more generally over the next few years.

In all, the Management Team and I believe it's going to be an exciting journey.

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Since commencing in your role, have you made any operational changes to the business? Can you please provide some detail around these changes?

Lachlan Armstrong

Yes, we have actually, but they aren't of a capital nature and therefore aren't highly visible. We've been actively working to change the mix of skills we have across our business to match those required to deliver our strategic plan. The areas we've started building capability in are the future high growth sectors of Cloud, Digital, Mobile, and Big Data. We've also started to beef-up our collaboration with key partners like Microsoft, as well as our smaller specialist partners. On top of this, we have been investing in repeatable IP generation for our most successful programs of work so that these can be iterated across our other clients.

Over the next few years, we'll be able to combine these exciting offerings for our clients, and take some really innovative solutions to them which will see them ultimately become more successful, which is also great for DWS.

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DWS have previously mentioned that it had been assessing various acquisition opportunities. What is DWS' acquisition strategy?

Lachlan Armstrong

While we are always looking for opportunities, acquisitions aren't high on my list of priorities at the moment. My first priority is to agree the strategic plan with my Board, and then execute that. If we happen to find a business which can accelerate our delivery of that plan, particularly in the high growth sectors I mentioned, then of course we'll look at it. The major things we will seek must be a strategic fit at a reasonable price, a good cultural fit between our respective management teams and other staff, and the target's ability to continue working relatively autonomously but synergistically with our own business.

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You mentioned that the IT services industry has been experiencing some headwinds. How would you describe trading conditions at the moment?

Lachlan Armstrong

Trading conditions aren't great. Having said that, we're doing OK. We made some tough decisions during FY13 and during the first half of this year to reduce excess consultant headcount, which is never an easy decision, but this has meant we've protected the business from the cyclical downside risk which many companies have been exposed to.

Pleasingly, we're recruiting again in most regions and I hope this is a sign that we're going to be well placed for a stronger FY15.

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What impact has the decision not to include DWS as a preferred IT services supplier to Telstra had on the business?

Lachlan Armstrong

While the panel decision last year was disappointing, we're not dwelling on it. We have still been working closely with Telstra and expect to continue to work with them, albeit on a different basis. I've had several constructive meetings with Telstra representatives over the last few months and I believe that our relationship at Telstra will remain relatively stable due to the nature of the engagements.

Perhaps more importantly, we've also been fortunate enough to partner with a large US-based business who are on Telstra's new preferred supplier panel. They approached DWS on a preferred-partner basis to provide ICT services to Telstra alongside their own team.

This is an exciting opportunity for DWS and I'm confident that this will enable our strong relationship with Telstra to continue for many years to come.

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What is your outlook for the remainder of the 2014 financial year?

Lachlan Armstrong

While our headcount remains materially lower than last year, utilisation is slightly ahead of where we were at this time last year. As I noted earlier, we are recruiting in most regions to meet the demand we are seeing and I'm optimistic this will continue through the remainder of Q4.

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Thank you, Lachlan.

For further information, please contact DWS on +61 3 9650 9777, or visit www.dws.com.au

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