

For personal use only



DWS Limited

Proposed Acquisition of
SMS Management &
Technology via Scheme of
Arrangement

May 2017

Transaction Summary

A transformational transaction for shareholders.

- On 27 February 2017, DWS Limited (**DWS**) announced that it executed a Scheme Implementation Agreement to acquire SMS Management & Technology Limited (**SMS**) via Scheme of Arrangement (**Transaction**)
- Offer of \$1.00 in cash and 0.39 DWS shares for each SMS share (**Scheme Consideration**)
 - Implied value of Scheme Consideration of \$1.61 per SMS share¹, representing total transaction enterprise value of \$120m², to be funded by \$79m new debt and 26.7m new DWS shares
 - Additional value to those SMS shareholders able to realise the full benefit of franking credits of up to 4.4 cents per share in connection with a potential special dividend of up to 10.2 cents per share for eligible SMS shareholders³
- Attractive offer for SMS shareholders with immediate cash proceeds and the opportunity to participate in the ongoing performance of the combined entity
- The Transaction will be transformational for DWS, giving rise to significant benefits including material cost synergies, operational efficiencies and a broader service offering for clients
 - Estimated \$5m near term synergies with further synergy potential from cross-selling of products and services and operational improvements
 - Materially EPS accretive for DWS shareholders in year 1
- The Independent Expert, KPMG, has concluded that the Transaction is both fair and reasonable, and is in the best interests of SMS Shareholders
 - Assessed underlying value of SMS of \$1.52 to \$1.76 per share
- Scheme Booklet was released to the ASX on 5 May 2017, with shareholder meeting to be held on 14 June 2017
- If approved, the transaction to be implemented on 3 July 2017



Notes: (1) Based on DWS share price as at the Last Practicable Date of \$1.555. (2) Based on SMS net debt of \$10.3m (excludes finance leases and bank guarantees) as at 31 December 2016 and SMS total issued shares of 68.5m. Enterprise value excludes SMS and DWS transaction costs. (3) The cash component of the Scheme Consideration will be reduced by the amount of any such special dividend which is at the discretion of SMS Directors.

Melbourne | Sydney | Canberra | Brisbane | Coolangatta | Adelaide



Benefits to DWS and SMS Shareholders

For personal use only



Ownership in a leading Australian IT services provider



Increased scale of the combined businesses, with ability to better compete in Australian IT services sector



Anticipated material synergies, operational benefits and cross selling opportunities



DWS's experienced Executive team to lead the combined businesses to deliver improved profitability



Attractive dividends – Merged Group intends to maintain fully franked final dividend of 5.0 cps for FY17 and 5.0 cps fully franked interim and final dividends for FY18¹



Greater relevance to equity investors through increased market capitalisation



Positive broker reaction to transaction announcement²



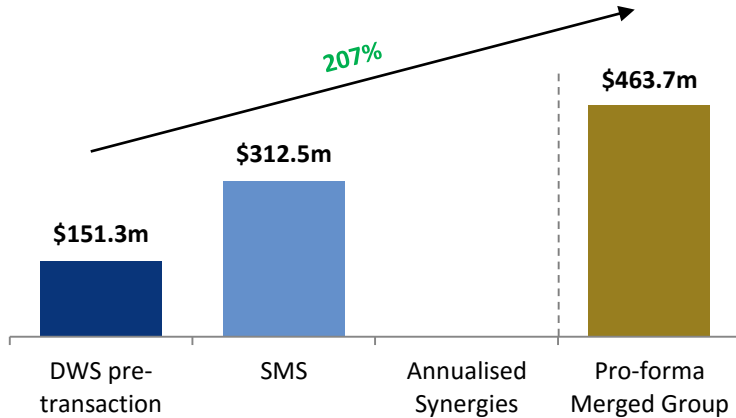
Note:.. (1) After taking into account the Merged Group's financial performance and future capital requirements. (2) Based on CCZ and Ord Minnett broker reports dated 28 February 2017
Source: SMS Scheme Booklet dated 4 May 2017.



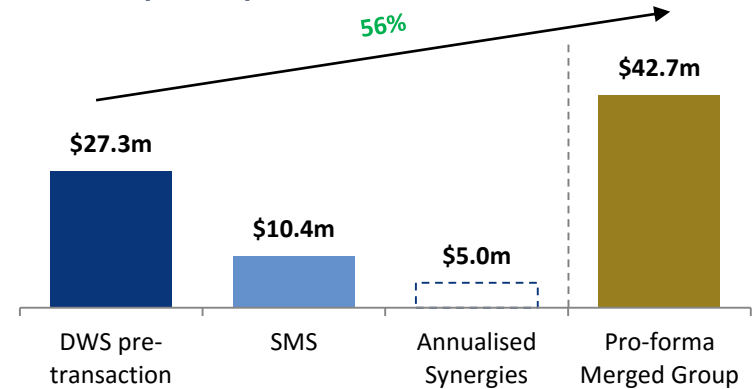
Transaction Impacts – Key Metrics

DWS will have significantly more scale post transaction.

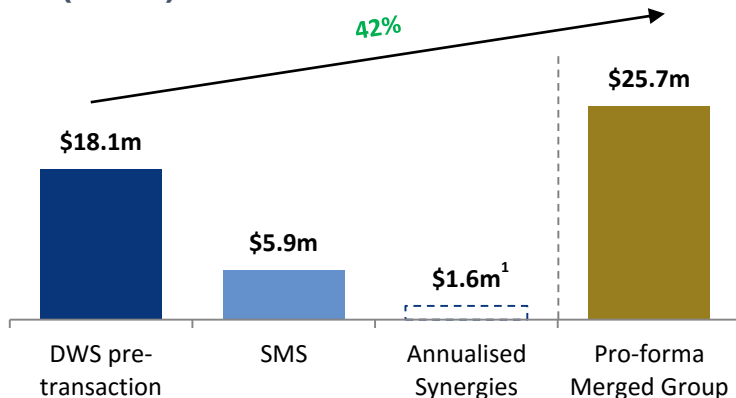
Revenue (CY16)



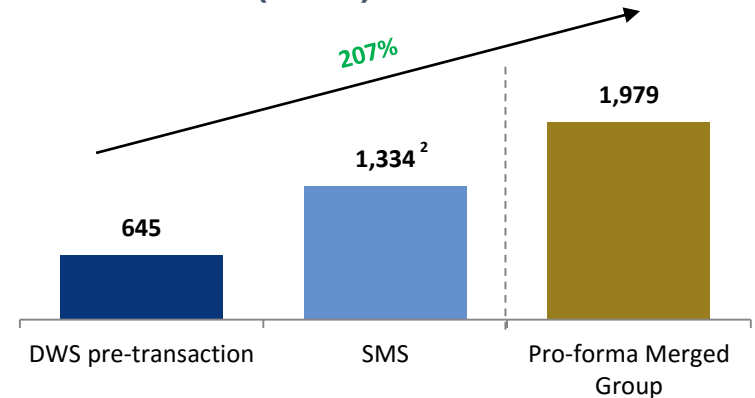
EBITDA (CY16)



NPAT (CY16)



Billable Staff (CY16)



Notes: (1) Synergies net of transaction adjustments (i.e. additional interest and tax). Does not include one-off costs of achieving synergies. Differences (if any) due to rounding. (2) Includes 471 M&T contractors. Source: SMS Scheme Booklet dated 4 May 2017.



For personal use only

Transaction Impacts – Earnings Accretion

For personal use only

A financially attractive transaction for DWS shareholders.

- ✓ Transaction materially EPS accretive to DWS shareholders in year 1
- ✓ In excess of \$300m of revenue for total transaction enterprise value of approximately \$120m
- ✓ Potential synergies from cross-selling of products and services and operational improvements are expected to deliver further value upside in the medium-term
- ✓ Leverage DWS's operational expertise to achieve operational improvements

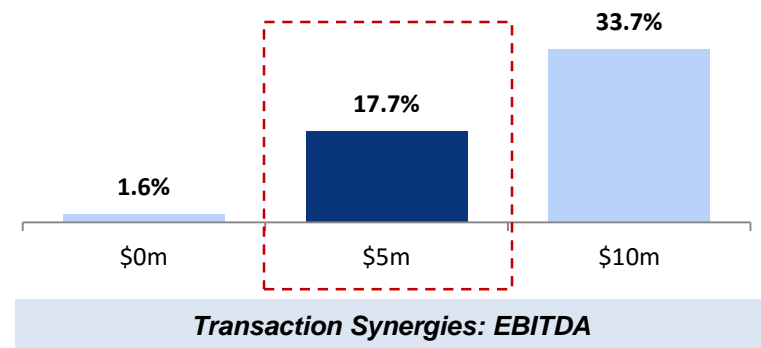
- SMS 1H17 EBITDA Margin: 3.3%¹
 - SMS Consulting 1H17 EBITDA Margin: 9.6%^{2,3}
 - SMS M&T Resources 1H17 EBITDA Margin: 8.0%²
 - Unallocated SMS Group corporate costs of \$8.8m¹

- DWS 1H17 EBITDA Margin: 18.5%¹

See page 12 for further details on transaction synergies

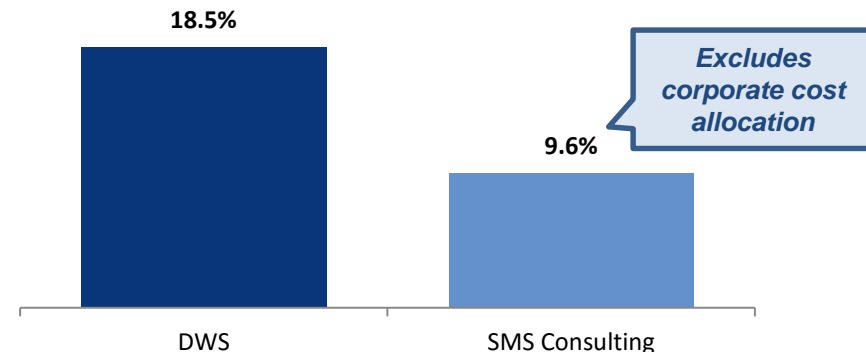
Pro-forma EPS Accretion (CY16)

Illustrative EPS Accretion @ Various Synergy Levels



Source: Based on figures in Scheme Booklet dated 4 May 2017.

1H17 EBITDA Margins (%)



Notes: (1) Excludes any one-off cost. (2) Divisional EBITDA pre corporate cost (per SMS 1H17 Results Presentation). (3) SMS Consulting includes earnings from Managed Services. Source: SMS Scheme Booklet dated 4 May 2017, SMS 1H17 Result Presentation.



Transaction Impacts – Capital Structure

Post Transaction, DWS expects to generate significant cash flows to pay dividends and reduce debt.

CY16 Debt Metrics

1

Pro-forma CY16 Net Debt: A\$102m¹

2

Pro-forma CY16 Net Debt / EBITDA: 2.4x¹

3

Pro-forma CY16 Interest Cover: 9.4x^{1,2}

Capital Management

- ✓ DWS intends to maintain fully franked final dividend of 5.0 cps for FY17 and 5.0 cps fully franked interim and final dividends for FY18 (approximately \$15.9m total dividends in FY18)³
- ✓ DWS intends to use surplus funds after paying dividends to repay debt³
- ✓ Pro-forma Net Debt / EBITDA materially below bank covenant at implementation
- ✓ Material deleveraging expected in the medium term
- ✓ Funding secured from NAB on terms superior to existing facilities



Notes: (1) Includes \$5m of EBITDA synergies and A\$1.6m one-off cost to realise synergies. (2) Interest cover ratio defined as EBITDA / interest expense.(3) After taking into account the Merged Group's financial performance and future capital requirements. Source: SMS Scheme Booklet dated 4 May 2017.








Melbourne | Sydney | Canberra | Brisbane | Coolangatta | Adelaide



Industry Overview

An overview of listed IT market participants in Australia is set out below.

Listed Australian Peers¹

Company	EV	Market Cap	CY16 Revenue	CY16 NPAT ²
 DWS (ASX:DWS)	\$217m	\$205m	\$151m	\$18m
 SMS (ASX:SMX)	\$101m	\$88m	\$312m	\$6m
 Data#3 (ASX:DTL)	\$249m	\$265m	\$1031m	\$15m
 MELBOURNE IT (ASX:MLB)	\$240m	\$220m	\$168m	\$14m
 citadel group (ASX:CGL)	\$204m	\$208m	\$91m	\$11m
 RXP (ASX:RXP)	\$122m	\$119m	\$137m	\$12m
 Empired (ASX:EPD)	\$90m	\$67m	\$168m	\$1m

Industry Evolution

- Whilst the Australian IT services market is expected to grow at 4.5% p.a. between 2015 and 2020³, there continues to be structural changes, reflecting impact of emerging technology trends, changing buying patterns and intensified competition (primarily from global competitors)
- Scale and breadth of offerings has become increasingly important in order to compete and succeed
- Ability to provide scale and invest in higher demand areas necessary for continued success
- Diversification of client base across sectors (including targeting broader ASX300 clients) needed to assist in stability of earnings
- Industry changes have negatively impacted SMS
- DWS has successfully adapted to a more competitive procurement environment
- DWS has been able to actively change workforce profile to meet industry needs

Notes: (1) SMS metrics based on undisturbed share price as at 22 February 2017. Metrics of DWS and other comparables as at 28 April 2017. (2) Excludes one-offs (if any). (3) Gartner estimates, as presented in SMS Scheme Booklet dated 4 May 2017. Source: Company releases, press articles, FactSet as at 28 April 2017.



Merger Rationale & Benefits

Leveraging DWS's operational expertise to create a leading Australian IT solutions provider.

1

Increased scale



2

Broader market offering



3

Cross-selling opportunities



4

Enlarged and diversified customer base



5

Anticipated material cost synergies



6

Enhanced capabilities to drive growth



7

Increased financial relevance

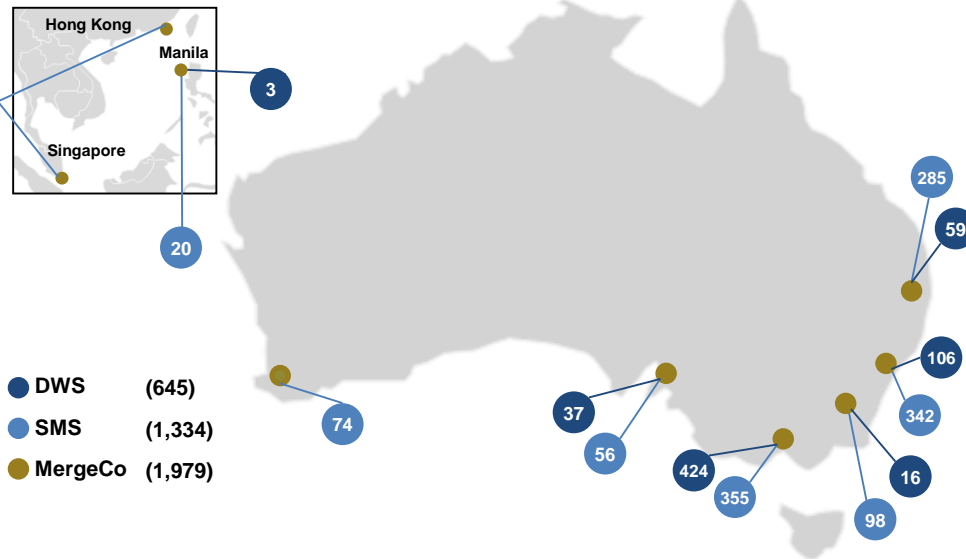


For personal use only

Merger Rationale & Benefits (cont.)

1 Increased scale with stronger presence in all major Australian cities

Merged Group billable workforce by geography (pro-forma as at 31 December 2016)



Benefits

- ✓ Billable workforce of c.2,000 across major Australian cities, Hong Kong, Singapore and the Philippines
- ✓ Better positioned to bid for and seek to win larger projects that may not have been possible for SMS and DWS separately



For personal use only

Merger Rationale & Benefits (cont.)

2,3 Broader market offering with further cross selling opportunities

Products and services of the Merged Group

Product / Service	DWS	SMS	Merged Group
IT Consulting	✓	✓	✓✓
IT strategy and architecture	✓	✓	✓✓
Application development and integration	✓	✓	✓✓
Business procurement optimisation	✓	✗	✓
Infrastructure consulting	✓	✓	✓✓
IT Solutions	✓	✓	✓✓
Support and maintenance	✓	✓	✓✓
Digital services	✓	✓	✓✓
Managed Services	✗	✓	✓
Recruitment	✗	✓	✓

Benefits

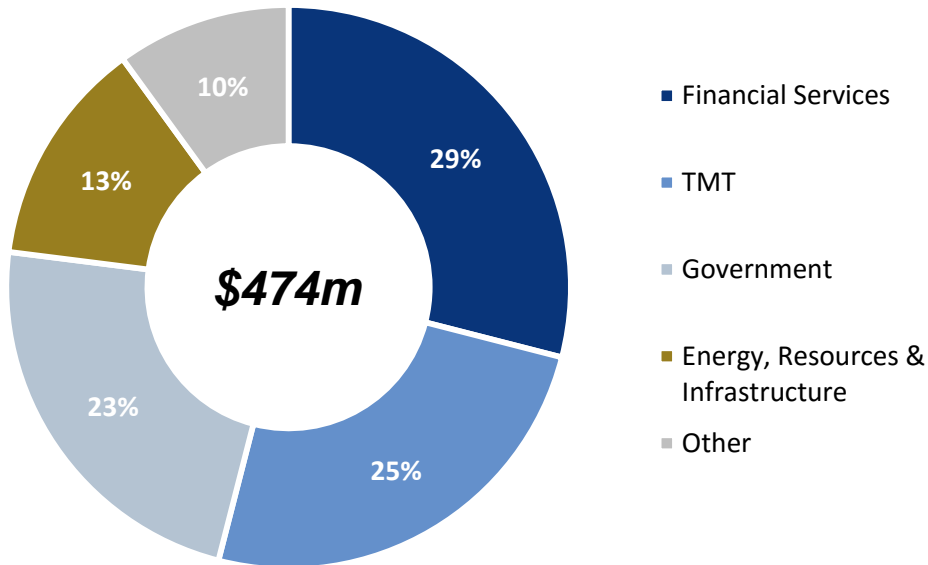
- ✓ Merged Group will be able to offer the combined services of DWS and SMS to clients
- ✓ Ability to offer end-to-end integrated IT solutions
- ✓ Cross selling opportunities
- ✓ Merged Group better placed to tender for work with clients where a sole provider of all services is required



Merger Rationale & Benefits (cont.)

4 Combined customer base provides diversification across key industry verticals

Pro-forma Merged Group revenue by key industry verticals (FY16)



Benefits

- ✓ Limited impact from overlap of existing clients
 - ✓ DWS and SMS tend to offer different services to common clients
- ✓ Broader range of services can be offered using deeper pool of skilled consultants
- ✓ Greater revenue diversification

Merger Rationale & Benefits (cont.)

5 Material synergies and benefits

For personal use only

Estimated \$5m p.a. (first 12 months) ¹	Additional synergies	Approach to realising synergies
<ul style="list-style-type: none">• SMS Board costs• Duplication in senior management roles• Regulatory and listing costs• Insurance costs• Back office costs	<ul style="list-style-type: none">• Additional synergies and benefits may be realised from the following areas:<ul style="list-style-type: none">– Leased office occupancy costs– Revenue benefits from cross selling opportunities– Revenue / cost benefits from operational improvements	<ul style="list-style-type: none">• Integration project team to oversee integration and identify further synergies• Representatives from both DWS and SMS• Initial focus on synergies from duplication of roles and back office functions

Merger Rationale & Benefits (cont.)

For personal use only

6 Enhanced capability to fund growth initiatives

- ✓ Merged Group is expected to have greater flexibility with respect to funding options than SMS or DWS do as standalone companies
- ✓ Greater flexibility to pursue organic and acquisitive growth opportunities as and when they arise in the future

7 Larger expected market capitalisation with potential for S&P/ASX 300 index inclusion

- ✓ Greater relevance to equity investors through increased market capitalisation relative to both SMS and DWS on a stand-alone basis
- ✓ Merged Group may be eligible for entry to the S&P/ ASX300 which is likely to attract a greater level of investor interest and trading liquidity



Next Steps

For personal use only

Indicative Timing

Scheme Booklet dispatched to SMS shareholders

15 May 17

SMS Scheme Meeting

14 June 17

Second Court hearing

19 June 17

Implementation Date

3 July 17



Disclaimer

For personal use only

The information contained in this presentation prepared by DWS Limited (“DWS”) is not investment or financial product advice and is not intended to be used as the basis for making an investment decision. This presentation has been prepared without taking into account the investment objectives, financial situation or particular needs of any particular person. Potential investors must make their own independent assessment and investigation of the information contained in this presentation and should not rely on any statement or the adequacy or accuracy of the information provided.

To the maximum extent permitted by law, none of DWS or its subsidiaries or any of their respective directors, employees or agents accepts any liability including, without limitation, any liability arising out of fault or negligence, for any loss arising from the use of the information contained in this presentation.

In particular and without limitation, no representation or warranty, express or implied, is given as to the accuracy, completeness or correctness, likelihood of achievement or reasonableness of any forecasts, prospects, statements or returns contained in this presentation. Such forecasts, prospects, statements or returns are subject to significant uncertainties and contingencies. Actual future events may vary from those included in this presentation.

The statements and information in this presentation are made only as at the date of this presentation unless otherwise stated and remain subject to change without notice.

