

**Wellcom Group Limited (ABN 85 114 312 542)**

**2016 AGM – CHAIRMAN’S ADDRESS**

20 October 2016

**Introduction**

Good morning ladies and gentlemen and a very warm welcome to this our 2016 Wellcom Group Limited, Annual General Meeting.

If you could please make sure your mobile phones are switched off or on to silent, during the presentation it would be appreciated.

On behalf of my fellow directors, Mr Kerry Smith, Mr Charles Anzarut, and our recently appointed Non Executive Director, Ms Janette Kendall, thank you for your support and for joining us here today.

I am Wayne Sidwell, Executive Chairman of the Wellcom Group Limited. Being 10:30am, and as we have a quorum, it is with great pleasure that I now declare this AGM open.

As well as my fellow Board Members, we are joined by our CEO, Mr Steve Rees, and our Company Secretary, Chief Financial Officer and Global Chief Operations Officer, Mr Andrew Lumsden.

Also in attendance is our company auditor, Mr Jude Lau, Partner, HLB Mann Judd, and a warm welcome to you Jude.

I would like to take this opportunity to formally introduce Ms Janette Kendall.

Janette has vast experience in both marketing and digital communications, spending a number of years in the Asian market. Such experience adds a new dimension to our Board.

Janette’s contribution will complement the Board’s professionalism with Charles’s expertise in legal and corporate advice, and Kerry’s expertise in corporate compliance, financial accounting and audit.

We welcome Janette to her first Wellcom AGM, and Janette will formally address this meeting later.

I am pleased to report that we have had another successful year.

The contribution has been impressive across the entire Wellcom Worldwide Group.

The result has demonstrated the rewards that come from following a well-defined strategic plan.

Previously we have been predominately an Australian centric business with extensions into the global market.

We are now a truly global business, with significant contributions from our US, UK and Malaysian businesses.

The game-changer has been the contributions of the executive management teams in identifying and promoting global change management and growth opportunities. This has culminated in significant contributions that I will talk to later.

We have expanded our creative and digital services in the US; we have grown our London operation, we have further developed our ‘Centre of Excellence’ in Kuala Lumpur and of course, expanded our digital offering and creative services in Australia.

## Financial Highlights 2015-16

Before I review and talk to our future direction and strategy, allow me to take you through the financial highlights of 2015-16.

Beginning with Statutory revenues from continuing operations, this increased to \$156.24 million, up 35% on prior year.

Our net revenues (excluding pass through costs) increased to \$103.38 million, up 20% on prior year.

Earnings before interest and tax increased to \$16.44 million, up 18% on prior year.

Net Profit after tax, increased to \$11.1 million, up 14% on prior year.

We have no debt in the business, with cash equivalents in excess of interest bearing liabilities by \$7.51 million. Cash flows from operating activities of \$13.59 million were generated during the year.

Our Earnings per share rose to 28.33 cents up 14% over the previous year.

Once again we offered our shareholders a fully franked, full year dividend of 22.5 cents, this is an increase of 10% on 2014-15.

We are pleased to outline these results to you.

They have been 'across-the-network' contributions that fall in-line with our strategic aims and objectives.

Furthermore, they have been derived from:

- our investment in people
- our continued investment in technology
- increased offering of creative and digital services, and
- the way we deliver them through our global network.

Twelve months ago, I reported that we spent a good deal of investment in training and developing our staff – especially middle management. This journey has seen many of these managers lift to take on more senior roles that are reflected in the USA and UK results. New management – new ideas – improved results. These are the foundations for Wellcom's next generation.

We have expanded our products and services and have worked through a total creative content upshift.

To accelerate this shift we sought out acquisitions with the style of creative development we required.

These included creative production businesses 'thelab' in New York, 'ThinkBone' in Sydney, 'Addictive Pixel' in London and more recently, 'Dippin' Sauce', again in New York.

Our creative and digital services have become central to our core offering, and this is further reflected in our organic growth and new business gains for 2015-16.

To further prove we are genuinely global and not Australia-centric, I want to lead the overview starting with Wellcom USA.

## **Wellcom USA**

We have had an excellent year complemented by the incorporation of the 'Dippin' Sauce' business. Our Wellcom New York President David Bridges, has integrated both thelab and Dippin' Sauce successfully. This combination intensifies Wellcom's American creative credentials.

So what's a 'Dippin' Sauce'?

Dippin' Sauce is a leading creative retouching business that enhances photography, illustration, animation and video.

It is for this reason that Dippin' Sauce crosses the divide between clients including direct corporate clients; fashion houses; advertising agencies; world's most prestigious magazines; film directors and film producers.

Dippin' Sauce clients include, Hugo Boss, Levis, Rolex, Tommy Hilfiger, Yves Saint Laurent and Stella McCartney.

Dippin' Sauce adds creativity to original content.

Our global creative business philosophy has been taken to new heights through the Wellcom USA network with many of their clients de-coupling their marketing. This has seen major clients give thelab campaign briefs for either press or print, digital, video, or a combination of all these media disciplines.

Furthermore, Wellcom New York and the other Wellcom US offices have established a creative reputation and portfolio that is opening opportunities for new client engagement.

Thelab new business wins were all international brands with emphasis on digital and video.

This is the high ground we are achieving across the entire Wellcom global network.

Michael Kors has now engaged thelab for their TVC and content creation work.

French label Pernod Ricard, makers of the world's leading spirits and wines, awarded thelab their entire web development and digital business.

Another international brand, Luxottica is one of the largest fashion eyewear companies in the world. New York has already created and produced a suite of superb videos aimed at the client's international audiences.

Here are two samples of the video work coming out of thelab. In terms of creativity, I believe they are superb pieces of product advertising, designed for TV and social media.

Wellcom USA is looking very positive for 2017 and we have plans for possible expansion of Wellcom Ohio, which will be mentioned later.

We are also looking at digital opportunities in Los Angeles. This will likely take the form of purchasing a digital business to harness the potential that has been identified in LA.

We also intend to launch our Dippin' Sauce business into London.

I believe the US business model will definitely lead to new business opportunities globally.

## **Wellcom London**

Wellcom London was our first major acquisition with the purchase of Keenes Repro in 2007. It also included a re-location to their new headquarters in London and re-branding and re-positioning the business.

We transitioned the operation from a conventional pre-press company to a content creation and digital operation.

We began a business re-structure programme starting with the promotion of Chris Grawe to Managing Director. Chris had been personally responsible for significant content creation change and new business wins, and wanted to lift the London operation into higher end creative.

But Chris still had a dual role as the cross-Atlantic account director, overseeing global brands and managing director of the London business.

Chris prepared a business plan for managing global brands.

Chris's trans-Atlantic model was critical to future growth and already he had identified future new business opportunities.

In response, the Board considered the matters and authorised some management and major re-structural changes. The first was the promotion of Chris to the official position of Global Creative Services Director, which was identified as a crucial role for the future global business.

The second initiative was to action the London re-structure plan.

Andrew Sidwell was appointed Managing Director of Wellcom London.

This role was of strategic importance and Andrew identified four critical strategies

- firstly, take costs out of the business without impeding services and delivery;
- secondly, re-structure the management, sales and account service channels to work closer with our clients and win new business;
- thirdly, take a far more proactive and sales focused position in the rollout of Knowledgewell technologies into London;
- and finally, to promote the de-coupling model and hub strategy to prospective clients, through speed to market and cost effective design and content creation.

This was a bold two year plan and on the back of significant wins including Canon, BASF, Patek Philippe, Tesco, UK Trade & Investment, Audi, Mothercare, Michael Kors, creative advertising agency Lucky Generals, and high fashion brand Whistles.

Wellcom London also formulated the service offering of Global Brand Management which is a world leading global asset creation and distribution offering.

I'm very pleased to announce that the London operation has grown considerably, and well done to the London team who all contributed to this important turn-around.

Now into the new financial year, the London operation has (in partnership with international advertising agency Bartle Bogle Hegarty), taken over the Tesco account with three hubs.

For those not acquainted with the Tesco brand, it is the biggest retailer in the UK and spans 11 other countries.

The Tesco business is our biggest hub structure in the world, and to help service the account we acquired the digital business, Addictive Pixel, to service Tesco and BBH's online and digital requirements.

Client UK Trade & Investment has asked Wellcom London to begin the implementation of production facilities across the globe to put them into local markets. Our Malaysian 'Centre of Excellence' handles the Asian production and distribution, and Wellcom Ohio handles the North American production and distribution.

Another first for London will be the launch of Dippin' Sauce into the UK market in November 2016. This will add weight to the creative reputation of Wellcom London.

Gary Meade, Wellcom's head creative retoucher, who has led our creative team at BBH, will manage Dippin' Sauce London.

The new operation will also facilitate overflow work from our New York business. This new state-of-the-art facility will be overseen and supported by Jared Domow, President of Dippin' Sauce, New York.

With Knowledgewell now firmly entrenched in London, we are able to fully demonstrate our hubs model to the market.

Our London digital team is experiencing significant growth, and the knowledge and digital expertise gained by the Addictive Pixel purchase has been invaluable.

We are now going to run for you, two examples of Addictive Pixel's portfolio, each is a social media banner production.

It has been a year of growth and improved profitability for Wellcom London and I believe the future looks exciting for our UK business.

### **Wellcom Australia/New Zealand**

Wellcom Australia and New Zealand have had a very pleasing year with new blue-chip business gains.

Significant business process improvements have been achieved, throughout the Australasian businesses, and these were implemented under the stewardship of CEO Steve Rees.

Steve had a big job in the 2015-16 year being given the task of staff development and multi-skilling.

The end benefit has enabled us to overlay a major portion of our new business wins across existing production teams through the Group's forward planning and commitment to ongoing staff development. The net result has continued to protect our margins.

I want to stress the excellent job Steve Rees has done in growing our Australasian businesses and making them the profitable and successful businesses they are today.

The first half of the year delivered to budget, but we were then slowed down by the collapse of Dick Smith Electronics. A long standing iconic brand that many thought was too big to fail, took us and many others by surprise. Wellcom's exposure, while relatively small, in comparison to other suppliers, nevertheless had an impact on earnings.

Importantly, the DSE example underscored the significance of Wellcom's operational governance, strong debtor management, and constant drive to attract new sources of growth.

As our full FY16 financial results demonstrate, we fought back well with major blue-chip account gains. Particularly pleasing was that a large proportion of this was centred around our growth areas of technology, video production, digital and social media communications.

The very positive organic growth from existing major clients came as a result of the introduction of additional creative services across the majority of our hubs.

Our technology, whilst constantly evolving, has matured and in the Australian marketplace is delivering significant time and cost savings to clients in every market sector.

Our new business development team, ably led by Michael Bettridge, has done a very professional job in securing major blue chip accounts.

New business wins included the Telstra account, across their catalogue, point of sale, graphic design and digital production requirements.

This was followed by a major piece of organic growth from existing client Coles, where we took over the graphic studio production and their print management.

On the strength of our UK relationship with BASF, Wellcom Australia won the Asian arm of the

BASF account for their graphic design and digital production.

Other new business included NBC Universal for local video content creation.

The trend towards de-coupling has been evident and none more so than the Telstra business win. Further examples of de-coupled organic growth came from existing clients Stockland, Freedom, Snooze and Merck Sharpe and Dohme.

Melbourne has also launched the new automated robotic photographic system. This new system, can shoot product without the requirement of a photographer.

In the image behind me, you see a stylist in front of the flat-bed. She simply arranges the product, then using the digital dashboard on an iPad, shoots, contours and adds metadata in the one process.

The time and process savings are enormous and this means online image capture is both affordable and of the very highest quality, including video solutions.

I'm pleased to report that each of our Australasian businesses has performed well with Sydney, in particular, delivering a very solid result.

As mentioned previously, Melinda Phillips and her print services team also did very well winning the Coles print business.

Similarly Gianni Carraro and the Digital House team have also been strong contributors in their specialised digital print business.

Wellcom New Zealand also produced another positive result.

Our Knowledgewell technology is continuing to develop. It is growing our business in Australasia and with the updated modules will offer tremendous scope for new business and potential upsell for organic growth to existing clients.

The strength of the Australian hubs market remains the single greatest revenue earner for the Group and there is still massive new business opportunity.

A new focus on Wellcom Melbourne will be undertaken in 2017 and the design and digital capability will be further enhanced.

I believe Wellcom Australia/New Zealand is looking to another positive result for 2016-17.

## **Wellcom Asia**

The Asian market is our closest and strategically important future market.

It is underpinned by our Group's 'Centre of Excellence' in Kuala Lumpur.

This is the global resource for all Wellcom Worldwide offices.

Grant Glover leads our talented team in Malaysia. Grant has done a wonderful job, establishing and growing our 'Centre of Excellence' into the successful business it is today.

I'm pleased to announce that due to the growth now generated through our KL operation, we are now employing around forty graphic artists, digital specialists and creative re-touchers in KL.

As a consequence, the 'Centre of Excellence' handles a much larger proportion of service offerings than ever before, and gives the Group a 24 hour business window based on international time zones.

I'm pleased to say that we have an office in Hong Kong. This is our toe in the water and we have the business plans laid out around a partnership or acquisition approach.

Across the Group, we have many retail and manufacturing clients who want to be in a position to capture images of their products well in advance of their existing timelines. Having their product photographed close to their manufacturing centres has already generated interest from existing Wellcom clients.

With the addition of Knowledgewell software, image capture, storage and meta data application can be performed in the single process and be distributed to online or print catalogue outputs.

Again I believe the potential for Wellcom in Asia for 2017 is exciting.

## **Outlook**

Importantly, our Knowledgewell technology continues to evolve, and we just completed a number of important updates to our:

- Digital Asset Management module,
- Online Approval,
- Local Area Marketing,
- Automated Page Building,
- Online Photographic Briefing,
- Marketing Resource Management.

While the Australian market has embraced Knowledgewell, there is still much potential to be developed.

I have stated the case for partnerships in Asia to co-sell Knowledgewell and these are progressing.

I have expressed my thoughts on print catalogues and it would come as little surprise that we have noted a drop-off in catalogue production demand.

Given that this represents a large part of our offering, it's important to note that the shift from printed product to digital / on-line does not impact Wellcom. The content (photography and retouching) is required for digital, in the same manner for the printed medium. Digital and social media will grow and will generate additional work and we will take maximum advantage of this trend.

We are therefore expanding on our digital resources and digital capacity. This includes the combination of online catalogue production; image capture for online shopping carts; Knowledgewell storage and process management, as well as online catalogue building, social and Facebook media production.

Our total creative offering transcends all media – good creative carries through to print, digital, social and video.

Globally, the business is about content creation. Those who can creatively make content and then be able to re-purpose it quickly, and economically, will remain the leaders.

De-coupling continues to drive new business and organic growth. It is a global phenomenon and not isolated to any region as has been demonstrated by the many opportunities that have been won across our network.

Digital growth is the future. We will consider acquisitions in this area, but regardless, we will invest in digital at every opportunity. Already the investment made in the 'Centre of Excellence' has delivered resounding results.

Global Brand Management is now a reality for the Wellcom Group, with accounts including BASF, Patek Philippe, UK Trade and Investment, Canon and DKNY, using our global network.

All forms of social media have to be fed – demand for content for commercial consumption continues to grow.

The social media demand is for video, static images, animation, illustrations, graphics and applets. This is what advertisers want, what consumers demand and what Wellcom delivers – quickly and competitively.

We continue to look for complementary acquisitions globally, with particular emphasis around content creation and digital production.

Cultural fit and right market segment is our primary focus.

## **Conclusion**

This has been another very satisfactory result and the outlook for 2016 -17 is looking positive.

But we take nothing for granted in what remains a very fluid global market. We keep our feet on the ground. We keep working hard.

In the UK we remain cautious about BREXIT and any after effects; in the US we remain aware of any potential negative fallout from the presidential election next month; and in Australia we have some concerns around political paralysis and intransigence that may inhibit the Australia economy.

Such developments do not diminish my optimism for continued growth in 2016-17.

We as an organisation understand how to recognise market forces and how to manage varying situations. We have learned to do it efficiently, effectively and quickly.

With proceedings coming to a close, I would like to take this opportunity on behalf of my fellow directors, Mr Charles Anzarut, Mr Kerry Smith, Ms Janette Kendall, our CEO, Mr Steve Rees, and our CFO Andrew Lumsden, to again thank our management team, and our hard working staff and their families across all of the Wellcom worldwide networks.

Their fine work, loyalty and dedication have contributed to another fine result.

Sincere thanks must also go to our clients, whose loyalty and faith in our ability to constantly deliver has kept us where we are today.

Finally, I would like to thank you, our shareholders and say it is with pleasure that we have again passed on another strong fully franked dividend.

On behalf of your Board of directors, I would like to thank you for your time today.

There is a Wellcom gift package from our clients for you to take with you as you leave. I now hereby formally close the 2016 Wellcom Group Annual General Meeting. Thank You.