SKS Technologies

ANNUAL GENERAL MEETING

CHIEF EXECUTIVE OFFICER'S REPORT

25 NOVEMBER 2021

Introduction

Thank you, Chairman. Good morning shareholders and guests.

It's been an interesting first year in the CEO position, although I have been a member of the executive team as COO for a number of years. At our last AGM, I did not expect to be reporting against the continuing backdrop of Covid-19 and all the restrictions and lockdowns that it has triggered. But our response since the onset in March 2020 has been a persistent and inspiring collaboration between employees, suppliers and customers to find ways to achieve what we intended to achieve without the hindrance of the pandemic. Our response from the outset has been swift and inventive. With the help of government support, we continued to pay our staff and have maintained our stable of skills and expertise, thus enabling us to meet the increasing level of demand in our markets.

But importantly, the pandemic has accelerated momentum in our core market, hastening the convergence between AV and IT to more efficiently connect disparate workforces and streamline business processes. Every organisation must now account for a pandemic in its disaster recovery plan. Every employee must be able to connect with teams and other co-workers to achieve parallel productivity in a situation that dictates disparate working arrangements.

So as with every disruptive force in a commercial environment, the negatives can be presented as opportunities, and we have been quick to not only recognise those opportunities positives, but to take action to harness their benefits.

Financial Performance

In terms of our financial performance, the turnaround in so many of our metrics validates our strategy to restructure the business in FY20 and is in spite of the disruption to the business owing to Covid lockdowns and restrictions, particularly in Victoria.

I'm pleased to inform you that we exceeded our reported earnings forecasts as announced to the market in May this year. While we forecast an increase in revenue of 25% to account for the additional revenue from the APEC Technologies acquisition, our revenue increase was, in fact, 34% above the previous year, with $35.6 million this year compared with $26.6 million in FY20. Similarly, while we expected after-tax profit to turnaround by $2.4 million, we actually achieved a $2.9 million turnaround with $1.7 million this year compared with a loss of $1.2 million last year. EBITDA from continuing operations was $2.0 million compared with a loss of $0.38 million in FY20.

Cashflow from operations resulted in another significant turnaround of $1.55 million, from a negative of $0.12 million in FY20 to a surplus of $1.4 million this year. Working capital remains adequate with a $3 million credit facility that was undrawn at year-end and the business has no borrowings.

These results have been achieved with the external pressures that come from a highly uncertain economic landscape and are proof the company's turnaround. They underpin the confidence we have in our future growth aspirations.

Overview of Operations

Our operational performance over the year was excellent. The positive reputation and the impressive bank of experience and expertise that we offer clients continued to secure us large projects for a range of blue-chip private and public sector clients. Over the year, we performed projects for Thiess' new Brisbane head office, the refurbishment of Adelaide Railway Station for the South Australian Government, the Youth Justice Centre for the Victorian Government, a distribution centre for Australia Post, and the Australian Federal Police's Melbourne office. The calibre of these projects and end-user clients is testimony to the work we do and relationships that underpin it.

Our work on hand position, which is perhaps the greatest indicator of our growth prospects, continues to grow at a faster rate than we are completing projects, currently sitting at approximately $30 million. If we compare this level with that of 30 June 2020, which was approximately $7 million, the improvement in our operations becomes clearer. Thirteen million dollars of that $23 million increase is attributable to the significant organic growth in the core operations post the restructure and sales of the lighting businesses. The remaining $10 million of the increase is due to the APEC Technologies acquisition. This work on hand position means that we began the current financial year with an order book that was just shy of four times greater than that of last year.

Another pleasing indicator of our growth is the expansion of our workforce. Twelve months ago, we employed approximately 100 people. Irrespective of the pandemic, we now have double that number at 200 people. Half of that growth emanated from the APEC Technologies acquisition, while the other half was hired to meet continually increasing levels of demand.

Before year-end, APEC Technologies was fully integrated and operating under the corporate SKS Technologies brand. To accommodate the increased workforce, the business relocated to new premises, consolidating three properties in Victoria into one purpose-designed work-space, achieving operational efficiencies as well as greater employee collaboration and connection. The new premises will also accommodate our anticipated growth for some time to come.

It was our first full year of Covid affected operations and I'm pleased to say that the innovations and modifications we implemented at the outset of the pandemic served us well. While there has been the inevitable nervousness in the marketplace, with snap lockdowns and border restrictions, to commit to large investment decisions on major projects, SKS Technologies has forged ahead with its internal operational and strategic mandates and the results have been evident in the performance we are reporting on today.

SKS Technologies' operational performance over the last financial year demonstrated a robustness that positions us well in executing our growth strategy. We now have a clean slate, with all legacy issues resolved, no borrowings, a more efficient operating cost base, an excellent technical reputation and a high level of repeat business, a national footprint from which to expand the business, a plan to achieve sizeable acquisitive and organic growth and the working capital to fund it, and a number of attractive opportunities to expand our business and achieve increased capacity as well as capability.

Market Shift and Opportunities

Some years prior to the onset of the Covid pandemic, the shift towards amalgamating AV and IT to share a common infrastructure that delivered savings and ease of use and maintenance was well underway. The much-used phrase, AV and IT convergence related to a blurring of the line between the two functions, and a migration in language from cables, devices and single-user systems to the utility derived from those objects, such as collaboration, communication and the productivity that comes from using any device from any location.

AV has evolved from standalone devices into an advanced, networked platform with software that integrates with an organisation's IT ecosystem. SKS Technologies and its predecessor businesses have offered sophisticated and progressive AV systems for decades, and during this time have worked alongside IT specialists to design and install AV and IT systems that align and offer maximum utility.

The arrival of Covid drove an acceleration of that movement with the rush to preserve productivity levels with a sophisticated AV and IT system that connected not just several people linking in from remote locations, but an entire workforce operating on a 'never-before', completely disparate basis. And that is the space we are targeting with our proposed complementary, integrated IT solutions acquisition. APEC Technologies delivered scale and capacity. An IT acquisition will bring new skills and expertise that represent a logical extension for our core business, and the demand for these services is already large and increasing. Our market is everyone who uses these technologies. It is businesses who want to increase productivity and collaboration, facilitate workflows and boost communications. The AV/IT convergence often facilitates employee connectedness as a minimum, but can extend to the customer experience and underpin the entire offering of a business.

The opportunities are many in an environment that is developing and proliferating fast, and we intend to expand capacity and build capability to capture the imminent gains.

Strategy

We have said much to the market about our strategy over the past few years, explaining our restructuring program to streamline the business and focus on core operations. The four cornerstones of our strategy that you see in this slide have been the roadmap for streamlining our business and building upon our core expertise. Several years ago, the Board set out this roadmap to refocus the business and pair it back to what it does best. We divested non-core businesses, raised capital, retired debt, reduced inventory, built working capital and implemented a set of efficiency measures across the business. This was the first stage completed.

With that process largely completed, we turned our attention to growing our core operations. The acquisition of APEC Technologies was completed on 1 April with full integration of systems, processes and employee co-location, and new work being won on the basis of the integrated business offering completed by the end of that month. With the similarities and complementary nature of the two businesses in capability, the acquisition leveraged economies of scale, expanded revenue opportunities and built customer networks. Essentially, the acquisition was a tactic to grow existing skills with some new areas of expertise to service a combination of existing and new markets.

Technology expansion is the area that we are currently concentrating on, which relates to the convergence of AV and IT technologies that I outlined a few minutes ago. We have operated on the periphery of this space for some time now, working in collaboration with IT businesses on projects to design and install systems that integrate to create savings and greater ease of use. One such business we've worked with repeatedly and very successfully is Integrated Solutions Group Queensland, which is a specialist provider of IT project management, consultancy and ongoing support services, including cyber security, data hosting and procurement to a client-base similar to that of SKS Technologies.

Under the third cornerstone of our strategy, in August this year, we announced to the market our intention to acquire Integrated Solutions as a play for new capabilities in new and existing markets. As the chair noted earlier, there has been mutual agreement to extend the timeframe for the acquisitive process to allow Integrated Solutions to realise the upside from material workforce investments in the form of higher revenue and to pass through the Covid lockdowns and restrictions which have hampered businesses to date. We remain in close contact with the board and management, and look forward to the time when we can update you again on our progress in this space.

I'd like to add here too, that we employ a very disciplined approach to our acquisition growth, with a set of criteria used to assess potential targets, including no or low debt, no inventory, additional working capital that comes with the business, strong margins, a recurring revenue model, albeit that it may not represent total sales revenue, and excellent growth prospects.

The fourth cornerstone of our strategy involves growing our client-base in the integrated AV and IT solutions space and becoming a go-to supplier of innovative and sophisticated networks in smart buildings. We will also continue to assess the opportunities for bolt-on acquisitions as a way of accelerating our growth aspirations.

1H22 Upgraded Forecast

In April, we informed the market that with the additional earnings derived from the APEC Technologies Group acquisition, we expected to achieve annualised revenue in excess of $50 million and work on hand of $20 million. Last week, however, we provided the market with an update of our first half 22 expectations, which are materially higher, with revenue up by 112% to approximately $28 million, EBITDA up by 25% to approximately $1.3 million and after-tax profit up 36% to $0.9 million. Needless to say, these increases have been achieved against the backdrop of Covid restrictions and lockdowns, which affected how we operated our business, but importantly, impacted the often-large investment decisions our customers were having to make in a highly uncertain economic environment. They were also achieved without any JobKeeper or other Covid-related government incentives and make our year-on-year improvement in performance particularly pleasing.

The Future

With the emergence of the Delta variant this year and the ensuing lockdowns, uncertainty and its impacts on businesses remain at the core of board and management discussions, certainly in our company, and doubtless in most others across the country. With high vaccination rates leading to the easing of restrictions, unemployment forecast to drop to below pre-Covid levels and GDP anticipated to expand significantly next year before returning to pre-pandemic levels, a solid recovery in 2022 should support investment decisions in new projects across the spectrum of markets in which we operate. We expect a solid second half performance for FY22, underpinning the achievement of our targeted $60 million in annualised revenue as stated to the market throughout the year and more recently in our earnings upgrade announced last week.

The Board and management are excited about our future… excited by the level of work in our space, and the scope and calibre of opportunities to execute our growth plans and take the business to the next stage of its development. We are fortunate to operate in strong and growing markets and we have the advantage of an excellent team of people working for us. They have demonstrated their ingenuity and commitment over the past eighteen months, in particular, and their efforts are now evident in the current performance of the business against significant external challenges, as well as in its prospects as we enter a period of strong organic and acquisitive growth. A material part of this success is also attributable to our customers and suppliers, in fact, the whole ecosystem of our business, which has been tested and found to be solid.

As we address you today, we are excited about the growth opportunities in front of us and I look forward to keeping you updated on our progress.

Thank you all again for joining our annual general meeting this morning.

Matthew Jinks
Chief Executive Officer