

ANNUAL GENERAL MEETING

CHIEF EXECUTIVE OFFICER'S REPORT

17 NOVEMBER 2022

Introduction

Thank you, Chairman. Good morning shareholders and guests.

It's been three years since we were able to gather in the same room for an AGM and much has evolved and developed in our business since that time. It is now a little over 12 months since Australia's borders began to reopen to international travel and a little under 12 months since they were fully opened up. Yet, while the immediate health risk of the pandemic has receded, and our economy has initially rebounded sooner and more strongly than expected, it has left in its wake much continuing economic uncertainty, as we navigate a different economic landscape. We have seen continuous interest rate rises, increasingly high inflation, widespread skills shortages, and highly disruptive supply constraints.

Against this backdrop, we have continued to grow with work on hand rising rapidly, the opening of new offices and the strengthening of others, an excellent earnings performance and \$8 million of new bank debt facilities to more efficiently support our growth in a marketplace with an attractive pipeline of opportunities.

While there have been many successes, the business has not been immune from the effects of the global supply chain issues, with longer lead times for supplies that have in turn delayed project completions. However, fortunately, SKS Technologies has not been hampered by the current workforce shortages that are being experienced across the economy. While suitably qualified and

experienced technical people are scarce, this was a problem before the onset of Covid and one that we habitually manage.

Financial Performance

In terms of financial performance, all of our earnings metrics reflected material gains compared with FY21 as a baseline. Sales revenue grew by 89% since last year to \$67.3 million and over the past four years has delivered a very healthy compound annual growth rate of 39%. In fact, we completed the year with a revenue run rate in excess of \$90 million against the previously stated \$80 million annual revenue target for FY23.

Before the end of the first half of FY22, we notified the market that we forecast a higher level of earnings than previously anticipated due to strong market demand as well as the additional earnings derived from the APEC Technologies business that was fully integrated into the business by 1 April 2021. The APEC acquisition has proved to be a valuable addition to the business, and validates the exhaustive due diligence framework by which we assess all opportunities that emerge for the company.

Earnings before interest, tax, depreciation and amortisation rose to \$3.45 million, representing a 73% increase compared with the previous corresponding period, while profit after tax was \$3.02 million, a 73% increase on the \$1.74 million achieved in FY21. Since FY20, after-tax profit has turned around by approximately \$4.28 million.

Perhaps the best measure of our turnaround is our earnings as measured on a per share basis. The number of shares on issue has increased by slightly more than two and a half times between 1 July, 2018 and 30 June, 2022, due to corporate activity including acquisitions and restructuring. However, sales revenue has outperformed this increase, while profit metrics have significantly

outperformed both the register and sales increases, underlining the quality of the earnings and the cost control exercised in the business. More stringent cost control has enabled the business to engage in a number of growth projects including the opening of new offices and other growth initiatives, which have necessitated increased expenditure in the current year. We expect these expenses to continue as we upscale and expand to continue our growth trajectory.

Despite our continuing investment in growth, we have maintained a rigorous focus on debt reduction, reducing debt by \$5.4 million or just over 80% from FY19 to FY21. The increase in debt over the past year is due to the growth in revenue and a consequent increase in the financing facility.

Working capital has consistently improved since the restructure and has improved by over \$1 million since 2H20 as the business has grown. Cash flows have been influenced by supply chain constraints, delaying invoice issuing and hence cash receipts. However, the first quarter of this financial year has delivered a strong result with just over \$2 million of cash flows from operations.

We're also pleased to report that we secured an \$8 million bank debt facility with CBA last month, which will further support our growth and enable us to more efficiently manage working capital.

Overview of Operations

SKS Technologies offers a highly diversified suite of integrated, advanced technologies and services that can be acquired as individual products or packaged into bespoke systems that enable a range of functionality, including audiovisual, communications and electrical systems as well as building

management solutions, energy management and ongoing maintenance and essential services.

While we have been diligent in executing our growth strategy, we have also been in the fortunate position of having gained something from the pandemic. And that is widespread recognition that what we offer has become a critical component for managing risk in organisations - risk associated with the requirement to operate a disparate workforce and how people communicate to keep the business wheels turning, as we have all just experienced with Covid, for one, as well as other risks, such as those associated with building management, data management and the efficient use of essential resources, such as energy and water.

If you look at a map of Australia, you can see that we are in every state and territory in the country, except for Tasmania, which we service very effectively from the Melbourne office. Since opening our Melbourne office in 2014, we have completed our aim to build the business into a national systems and services provider with the opening of the Darwin and Canberra offices in FY22. The rationale for the Canberra office is to concentrate on capturing more of the defence market and other Federal Government work, while the move into the Northern Territory is designed to underpin the newly formed SKS Indigenous Technologies business, as well as to secure further work in the defence sector. Furthermore, restructured operations in the Brisbane and Perth branches will strengthen our ability to win new work in those regions off the back of greater capability and capacity.

The order book continues to expand at a rapid rate. In two years, it has increased more than six-fold, from \$7 million in FY20 year-end to \$43 million in August this year. This increase reflects a combination of healthy markets

and the strength of our ability to win work and deliver excellent quality projects and services. In some ways our growth is not surprising given the large and reputable stable of clients from which we enjoy a 96% repeat business level. Our relationships throughout the supply chain as well as our end-use customers are the reason that we have been able to turnaround so quickly and expand so successfully. Our focus is very firmly on managing our substantial level of growth as we have over the past few years.

As you can see, we have a diverse stable of customers who continue to return to us to solve their problems with our broad range of advanced systems and solutions. We enjoy a repeat business level of 96% from listed and unlisted, private and government, large and small clients across the full spectrum of industry sectors.

Nationally, we have progressed a drive to secure direct, end-user work with the aim of being contracted by the ultimate client. As part of our geographic expansion plan, we have been pursuing relationships with large retailers where we can become directly involved in identifying the underlying client requirements and drivers for our systems and services, and design more tightly tailored solutions under continuing subscription arrangements. I look forward to updating you on our progress in the coming months.

Projects that we completed recently include:

- the audiovisual fitout and collaboration spaces for Westpac's Sydney office;
- a complete audiovisual installation and video conferencing solution facility-wide for the Youth Justice Centre and Lara Prison security system infrastructure, both for the Department of Justice, Victoria; and

- the façade lighting upgrade for Adelaide Railway Station for the Department of Infrastructure and Transport in South Australia.

Other projects currently underway include:

- audiovisual and way finding solutions for Victoria's largest ever health project, the new Footscray Hospital, for Western Health;
- audiovisual installation and control centre operations for the Australian Federal Police Melbourne operational centre;
- the supply and installation of upgraded security systems for Marvel Stadium; and
- a packaged end-to-end solution of audiovisual, electrical and communications systems for a 10-storey office refurbishment for the Department of Home Affairs.

Environmental, Social and Governance

In FY 22, our safety record was zero lost time injuries, which aligns with our safety performance in previous years. I am pleased to say that we achieved this result in spite of a 67.5% increase in our total workforce. Keeping our people safe is a critical focus for our business and one that we mandate to any person or organisation who performs work on our behalf.

As we continue to grow, we aim to operate as professionally and productively as a large-cap company, and to this end, we have spent time and resources over the past year structuring and communicating our environmental, social and governance program. In the area of sustainability, we recycle waste, procure and use energy and water efficiently and sustainably, reuse materials and supplies where possible and avoid using single-use plastics.

One of the prominent characteristics of our business is the way we form and manage relationships with people. For many years now, we have enjoyed the benefits of a culturally diverse workplace. Our employees originate from many parts of the world and practice many different religions, and they bring the benefits of different perspectives, new ways of thinking, and greater employee engagement. While we operate in a largely male-dominated area, we are actively encouraging the women we employ, offering the necessary training and development to help them progress in their careers. At present, women represent approximately 6% of the company, but management is concentrating on increasing opportunities for women and was recently pleased to hire two female apprentices. We have also established a new Indigenous business that I will talk more about later, which will also bolster cultural diversity with the hiring of more Aboriginal employees as the business grows across Australia.

Strategy

Our strategy over the past few years has served us well. We have made a smooth transition from the thinking and activity of the restructuring program undertaken in FY19 and 20 to the innovation and tight control that underpins the enormous level of growth we have enjoyed since that time.

And while we are maintaining a diligent focus on our existing suite of systems and services, we have also established a specialist data centre team to capture a share of the rapidly evolving data warehousing market. With increasing role of business intelligence and analytics, and data-driven decision making to improve business performance, the function of data warehousing is forecast to reach approximately \$51 billion by 2028, with a compound annual growth rate of almost 11% for the preceding eight years. With the merging of economies

as trading relationships and logistics have become more sophisticated, Australia will no doubt see proportionate growth in this market, and we are already seeing large firms purchasing large tracts of land on the outskirts of cities to build warehousing facilities to host data. SKS Technologies is well placed to capture the opportunities that evolve from this fast-developing market.

We are also expanding into offering and maintaining converged networks in intelligent buildings, as set out in our strategy, and recently secured our first such project in South Australia.

However, it is important to note that a mere two years ago, the business achieved a total of \$26.6 million of revenue, compared with the \$90 million revenue target for the current financial year. Furthermore, this growth has largely been achieved organically with an important, albeit modest contribution from the APEC Technologies business. It has been achieved without the instant revenue growth that comes with a major acquisition.

Our organic growth strategy is founded on securing end user clients, such as major banks, large corporate data centres, major retailers, as well as large operators in mining and defence. However, the pursuit of this work requires significant upfront investment and will continue to do so, impacting profit in the short-term. This investment is needed for the recruitment of people, the opening of new interstate offices and the implementation of improved systems, all of which will facilitate the long-term profitability of the business. While we have already made solid progress in attracting some of these large end-user clients, some of which are currently being onboarded. We are

confident that this investment will create a sustainable profit platform for the future.

Another arm in our strategic plan is the newly formed SKS Indigenous Technologies, formed through a relationship with high-profile indigenous identity, Chris Johnson, who owns 51% of the business while SKS Technologies Group owns the remaining 49%. While we believe that there is a strong commercial rationale for this new business, we are now thrilled to be able to further diversify our culture and offer opportunities to first nations people under a more formal structure. Since launching the business in August this year, we have won two projects totalling approximately \$200k.

The Future

The board and management at SKS Technologies are excited about the future, in particular, that the fundamentals of our strategy are delivering the growth, if not at a slightly higher level, that we set out to achieve with our strategy to realign, consolidate and expand over the past three years. We believe the company can continue to grow at the current rate, albeit with careful management of working capital, a high level of discretion in assessing acquisition opportunities and a rigorous approach to our organic growth, both in terms of winning work and completing projects. Just as an underperforming business must be closely managed, a business experiencing rapid and significant growth, taking it to the next rung on the ladder, must be tightly controlled, such that a considered and analytical approach is taken for all potential contracts and other opportunities that are attracted by a prospering business.

We will continue to invest in our growth, building a large and continually increasing order book and a skilled and innovative workforce to deliver what has been, and continues to be, a significant turnaround story.

SKS Technologies is now a well-established player in a highly attractive marketplace. Our ability to win work and significantly increase our order book has been excellent. We have a suite of technologies and services that can be integrated to deliver a system that is greater than the sum of the parts to a blue-chip client base. We have a national presence and the benefit of a buoyant market. Not least, we have the working capital to fund our aggressive organic growth strategy.

The past few years have been challenging, but also extremely rewarding and exciting. I'm looking forward to expanding on our progress as we achieve more milestones over the coming year.

Thank you.

Matthew Jinks
Chief Executive Officer