ANNUAL GENERAL MEETING

CHIEF EXECUTIVE OFFICER'S REPORT

23 NOVEMBER 2023

Introduction

Thank you, Chairman. Good morning shareholders and guests.

I'd also like to begin by acknowledging the traditional owners of the lands on which we are meeting today and pay my respects to elders past and present.

The last financial year can be characterised as one of significant growth as designed under our ambitious organic growth strategy. I know the word strategy is much used by businesses and can sometimes sound a bit hollow in terms of its practical use and value. But since restructuring this business several years ago, our strategy has been a living, breathing document that has steered the substantial growth of our business from a state-based, audiovisual specialist, to a national leader in converged technologies solutions for a blue-chip client base.

When I updated you at the 2021 annual general meeting, I set out our plans to offer audiovisual and information technology systems on a common infrastructure that brought efficiencies in cost, time and risk mitigation. The experience of Covid had accelerated the movement towards this technology convergence, so we built the capability and acquired the resources to capture these imminent gains, as the world returned to normal operating conditions.

Then, at the 2022 annual general meeting, I informed shareholders that we were progressing an initiative to secure direct, end-user work with the aim of being contracted by the ultimate client. I also updated you on our geographic expansion progress, as well as detailing an initiative to pursue relationships with large retailers in order to identify and better understand the underlying client requirements and drivers for our systems and services, and design more tightly tailored solutions for those businesses.

Today, after a hefty investment to support our growth plans, I am pleased to report that we have achieved what we set out to do. We've secured work for end-user clients, as well as in the targeted sectors of defence, converged networks and data centres. More pertinently though, we have secured some very large contracts in some of these sectors, which demonstrates the cut-through we have made in a short space of time at the larger end of these market sectors.

Financial Performance

Our revenue for the year reflected these expansion initiatives, with an increase of 23.7% to $83.27 million, from $67.29 million in FY22. As you can see, we've had compounding revenue growth for a number of years, as well as increasing the quality of our revenue. Overall, we have compound annual growth rate of almost 35% over the last four years. All earnings metrics were positive with EBITDA of $2.71 million and before-tax profit of $0.53 million, albeit lower than last year as a result of the investment required to execute our aggressive organic growth plans.

To that end, we have invested approximately $3 million back into the business to fund a number of initiatives designed to realise our growth objectives. We've hired people with the talent, relationships, and skill sets to expedite entry into attractive markets as identified by our strategy.

We've established a fully national network of branches to cater to specific market concentrations in certain states and territories, and we've completed endless processes associated with gaining entry into those markets, such as the necessary security clearances, certifications and accreditations as determined on a customer-by-customer basis.

I'm pleased to report that the unaudited performance for the first four months of this year is showing improvements in all earnings metrics. Up to the end of October, on revenue of $34.5 million, we achieved EBITDA of $1.8 million and profit before tax of $1.04 million.

I am sharing these results with you to provide some indication of the returns from the investment made over the past couple of years in expanding the business. The upfront costs that have been carried are now beginning to translate into the upside that we anticipated.

During the year, our balance sheet was strengthened with cash flows from operations of $2.92 million in FY23 compared with ($0.90) million in FY22. This improvement represents a turnaround of $3.82 million, enabling a net reduction in short-term borrowings of $0.90 million as well as the full retirement of the R&D liability of $0.73 million. As a result, we now have no long-term debt, with short-term debt fluctuating according to sales and working capital needed to fund projects.

Working capital improved significantly to a surplus of $0.10 million from a deficit of $0.45 million in FY22, representing a $0.55 million turnaround. Net tangible assets per share increased by 19.7% to 1.76 cents from 1.47 cents in FY22.

These cash flow and balance sheet improvements have been achieved against a backdrop of the inevitable funding pressures that accompany rapid growth and are a testament to the rigorous cost control and financial management exercised to successfully support this expansion.

I'm also pleased to tell you that we've been able to increase our new debt facilities to accommodate our vigorous growth funding requirements. In addition to our current $5 million overdraft facility, CBA has supported an increase in our bank guarantee facility from $3 million to $5million, as well as a new $2 million equipment finance facility to support our growing fleet of vehicles required to service our clients. The additional funding will enable further growth and is a further vote of confidence in the future of our business by CBA just 12 months after we were successful in securing the initial financing facilities.

Strategy

As noted earlier, the growth in our business over the past few years has been exponential. I also noted that the success of this growth, in terms of how we closely managed cash flows to fund it and resources to win and complete it, was guided every step of the way by our strategy.

With the aim of further optimising our core offering to diversify into valuable, new market sectors, we developed new capabilities and expanded our range of systems and services. Ultimately, the purpose of our endeavours was to change the mix of business from a number of perspectives. While continuing to pursue work with contractors, we identified advantages in building relationships with end users, such as higher margins and greater prospects for further work in the form of additional projects or services and maintenance.

Our strategy also sought to develop new markets, diversifying the work on hand mix to capitalise on valuable opportunities as well as mitigate risk. You will see in the chart the difference between our work on hand profiles by customer type and by market sector between now and 15 months ago.

Of particular note, as the Chair highlighted, is the shift in work on hand for the Data Centre and Technology sector. The new $30+ million contract for a data centre takes current total work on hand to in excess of $80 million. These differences show new trends emerging and the increasing momentum in winning work in our targeted sectors.

Since August 2022, we've increased our work in new market sectors from zero to almost 12% in Data Centres and Technology, not including the large new contract, and 10.5% in defence. These increases are also off the back of an expanding work on hand base, and are tangible evidence of the success of our strategy and our ability to execute it.

Equally, we've diversified our customer profile to increase work for end user customers from zero in August 2022 to almost 16% as of this month. And not only does going direct to the end user have higher margins, a key benefit is the opportunity to build the relationships, which combined with excellent project delivery, yield further work on a direct basis without many of the financial commitments required by contractors. When we complete work for end user clients, we are often sought out for further work based on relationships that are forged during the project and the quality of our project execution. Furthermore, if you consider the frequency of corporate relocations upon the expiry of, on average, five-year leases, and the subsequent fit-out requirements of the new premises, it's a space that generates an ongoing cycle of work, and one that we are beginning to penetrate.

In short, our strategy is working, and I'm looking forward to keeping you updated on the exciting opportunities ahead.

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.

Our systems and services offer clients the ability to increase productivity, reduce business continuity risk, and enable clear insight into the use and management of critical business inputs and resources.

I'm pleased to note that the issues of labour shortages and wage increases, which are currently being addressed in many businesses, do not pose unexpected challenges for SKS Technologies given the business is continually recruiting, training and working on retaining the highly skilled employees necessary in our sector. Similarly, wage increases are made in annual increments, avoiding the impact of quantum increases in one financial period. Previous supply chain constraints resulting from the pandemic are now resolved, having worked their way through the system.

As you can see, SKS Technologies performs work for a stable of large and credible clients with household brand names, which are located around Australia and extend across all industry sectors.

I've spoken a lot about the growth of the business, but one of the most tangible measures of that growth is work on hand, which, as you can see, has increased exponentially each year, from June 2020. Apart from the APEC Technologies Group acquisition in April 2021, which delivered a $10 million uptick in our order book, our expansion has been organic, as noted when I talked about strategy a few minutes ago.

You will also see that what our business offers is in demand by every market sector in Australia and that we have a good spread of work across those sectors. More recently, we have seen large increases in the data centre and smart buildings work on hand with successful bids for a few very large contracts.

The reason that we're winning these projects is solely based on our efforts to recruit technical and sales specialists with the profound sector knowledge and valuable relationships to diversify into targeted market sectors. We're now reaping the benefits of the long-lead times for these processes and the costs that have to be carried along the way. The quality and size of some of these contracts also shows that we've achieved a solid level of market penetration and brand awareness in a relatively short space of time. During the year, we also secured and completed contracts with a number of large global customers in the retail, IT, banking and online marketplace sectors.

Our current pipeline of opportunities shows the work we are doing to secure contracts that further our strategic objectives, and continue to diversify our work on hand and revenue profiles. With $236.5 million of projects in our pipeline, there are no signs of reduced momentum in the opportunities to keep expanding our business. You'll note that a large portion of our tendering effort is directed at securing more work in the Defence, and Data Centre and Technology sectors.

Another worthwhile commercial decision was the establishment of SKS Indigenous Technologies, which began trading in August last year. Having gained the necessary Supply Nation accreditation to operate, the business exceeded revenue and work on hand expectations for its first year. Not least, it entered the new financial year with a sizeable order book of $10 million, having won a number of significant projects in several states and territories across a range of industry sectors. Furthermore, we expect SKS Indigenous Technologies to make a profit in its second year.

SKS Indigenous Technologies not only provides employment, training and opportunities to advance the careers of Indigenous people, it offers large corporates and governments with publicly stated diversity policies, objectives and targets an avenue to advance their performance by contracting the services of a properly set up, Supply Nation certified, Indigenous business. So in providing more opportunities for a broader section of the community, we have also unlocked opportunities to grow the SKS brand more widely.

Safety remains a constant priority, and when you're working with electricity, it becomes even more critical. A key element of the SKS Technologies' culture is safe work practices, and vigilance and strict adherence to correct procedures in any circumstance are instilled into every employee from the time of their induction. It is a testimony to our culture that we have completed 510,000 hours of work without a single lost time injury in the 2022 calendar year, and achieved five years with zero lost time injuries during a rapidly escalating growth phase.

Environmental, Social and Governance

The principles of ESG are also built into our business. Environmental efforts involve reducing carbon footprints, conserving resources and adopting eco-friendly policies. Not only do we practise a range of processes to achieve these ends in our own operations, we endeavour to assist our customers achieve the same ends wherever we can.

Fostering diversity, equality and inclusivity in the workforce and contributing to local communities is equally important, and I'm pleased to say we enjoy the interaction of a workforce that is diverse in age and ethnicity. We are continually seeking to increase our female participation across all roles-and currently have 20 females employed in the business. We are also active in the local communities of our branches, supporting children's sport and other important initiatives.

Good governance ensures transparent, ethical business practices, with strong oversight and accountability, practices that are critical to the success of an aggressive expansion such as ours and without which we could not have managed the risks and steered the process as well as we did.

The Future

So while there has been a greater level of economic speculation in our post-Covid world, with much commentary on unemployment levels, cost of living, inflation and interest rate rises, we're not seeing any indication of a slow-down in demand for our systems and services.

We have an order book that seems to sustain the position of 'record high', and the pipeline continues to offer up opportunities in our traditional areas of operation as well as in the newer target markets.

SKS Technologies has undergone a wholesale transformation over the past three to four years, from consolidation to growth to acceleration in that growth. Over that time, an enormous body of work has been undertaken to develop the frameworks that underpinned the success of each of those stages, as well as a significant funding commitment over the past few years. Now, with the more sophisticated operating base, and the investment largely complete, our first four months earnings performance gives us a glimpse of the future benefits of that investment. For the current financial year, we are aiming to achieve a revenue target of approximately $100+ million.

In closing, I would also like to add my thanks to our shareholders for sharing our vision, and to our innovative teams of employees for their commitment and passion. You are both utterly critical to the realisation of the potential of our business, and so far, we've achieved some extraordinary milestones. I believe that it's the combination of our commitment to customer excellence, technological innovation and respect for everyone around us that sets us apart in our space.

Thank you all again for joining our meeting today.

Matthew Jinks
Chief Executive Officer