Annual General Meeting

Chief Executive Officer's Address

21 November 2024

Thank you Peter. Good morning shareholders and guests.

When I stood here before you a year ago, I knew that the future for SKS Technologies was very promising. Based on our revenue performance to that date, we believed that we could achieve revenue of approximately $100 million for FY24. This target was around 20% higher than FY23, which was appropriate given the significantly increasing revenue base of the previous few years.

We ended up tripling that, to achieve a 63.7% increase. Our efforts and investment to enter the Australian data centre market have resulted in some very valuable contract awards, at a stage where the market is still in its early days. This has meant that we've been able to prove our expertise and gain an early mover advantage as a highly credible player in that space. Notwithstanding that, revenue in our traditional sectors has also grown. We're now targeting a doubling of revenue, albeit off that significantly higher base, to $260 million for the current year. I can tell you that it's been a very exciting and rewarding time, and we have built the foundations to establish the business success that we know SKS Technologies can achieve in the future.

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Business Overview

SKS Technologies is a national leader in electrical converged technology solutions for a blue-chip client base. We offer a set of discrete systems and services in the audio-visual, electrical and data communications space that can be packaged up into a fully integrated solution and delivered to customers with a national footprint.

As you can see, we are not limited to any particular sector. We target work across the full spectrum of commerce in Australia, from data centres, mining and resources, to retail, education, defence, banking and finance, and healthcare.

And while we target all sectors in all branches of our business, we also focus on the sectors that are prevalent in each branch region. For example, we target mining and resources work in Western Australia, defence work in the Northern Territory and South Australia, and data centres in Victoria and New South Wales, where we have been particularly successful more recently. Having said that, we remain very focused on building our traditional work on hand load, with projects spread across the full range of market sectors.

Financial Performance

During the year, our P&L metrics all experienced a significant up-swing with double, and even triple, digit percentage increases. Sales revenue increased by 63.7% from $83.27 million in FY23 to $136.31 million in FY24. The year-end marked our fourth consecutive revenue increase with the average compound growth rate sitting at just over 50%.

Similarly, EBITDA increased by 232.9%, which was obviously working from a low base, but is clear evidence that the turnaround period is behind us and the future is all about growth and consolidation. Profit before tax increased by a multiple of 12.3 times to $6.50 million while profit after tax increased by 10.5 times to $6.62 million. Our before tax margin grew from under 1% to 4.8% and we believe that we can reach a 6.5% margin for FY25. This would translate into a before tax result of $17 million. Earnings per share reached 6.04 cents per share compared with 0.58 cents per share the previous year.

While a large portion of this growth is due to the large data centre contracts that we have secured over the past 12 months, we have not taken our eye off winning and performing work in our traditional market sectors, such as retail, corporate and government. You can see here that much of the difference between the $100 million revenue forecast at the commencement of FY24 and the actual result of $136 million is attributable to data centre revenue. You can also see that the 26.5% increase in revenue derived from work completed in our traditional sectors to $105 million is not far off the $100 million originally forecast for the year.

Cash from operations increased by just over 188% from $2.92 million in FY23 to $8.42 million in FY24, leading to a turnaround in net cash flow of $3.39 million and a significant boost to working capital.

During these years of realignment, when cash demands on the business as it funded rapidly increasing work on hand were high, we progressively reduced our debt from $3.26 million in FY20 to zero in FY24. As a result, our balance sheet is clean, with no long-term debt and a solid level of working capital, supported by increased bank facilities, combined with the business' ability to generate strong cash flows from internal sources.

Strategy

As Peter noted earlier, our strategy hinges on growth and consolidation concurrently. When work is won at the rate at which it has been for the past few years, it's easy to focus only on the next project, rather than looking ahead to anticipate the needs of forecast workloads in the next half year or full year. One of the greatest risks to our business is in selecting the right people to fit a culture of attention to detail and relationship-based customer servicing. To date, we have been successful in building the right teams to deliver excellence, but it remains a constant focus. Another close focus for us is on margin preservation, ensuring we manage our cost base on a project-by-project approach. Rapidly expanding businesses also need larger and more comprehensive systems and processes too, and that too has remained a priority for us.

Without these foundations, our business would undoubtedly falter at some point, given the extreme level of compounding growth that we have achieved over the past few years. Our $260 million revenue target for FY25 shows that we do not intend to rest on our laurels and take our foot off the accelerator. We plan to advance our organic growth plan, not only with a focus on the data centre market, but also continuing to pursue increases in work in our branches and across all sectors by building our base of national customers. While we're not averse to acquisitive growth, any opportunity would be assessed as it arose for its ability to accelerate our growth expectations, which, as an example, could be for its potential to develop new or existing markets with a bolt-on service offering.

The current economic landscape in Australia is subject to a diverse range of drivers that will offer a range of options for our business to expand and adapt ahead of markets to remain relevant to our broad customer base.

Operational Performance

Another metric that indicates our extraordinarily rapid growth is work on hand, which more than doubled between FY23 and FY24 from $45 million to $96 million, and today sits at $185 million. I would also note that other than a small acquisition in FY21, our growth has been completely organic. We began FY21 with $7 million, won another $9 million of contracts and then acquired a business which brought another $10 million with it, resulting in the $26 million order book at the end of FY21.

An analysis of our order book also shows our progress in winning work in the sectors we set out to capture several years ago. With the drive to secure work in identified market sectors that began in FY22, an increasing amount of data centre work has been won with contracts ranging between $20 million and $90 million. The effect of these substantial dollar-value contracts has skewed the work on hand profile towards data centres, which now constitute 63.4% of work on hand with the remaining 36.6% spread across the business's traditional market sectors.

The forecast values of the Australian data centre market continue to be revised upwards, with the latest one from a credible source recently rising to $40 billion over the next four years. Since embarking on our plans to secure a portion of this market, we have built two substantial specialist data centre teams and won more than $200 million of projects, some of which are now successfully completed.

On a lesser scale, our efforts to secure defence work have also been rewarded with contract wins, and despite the effect of the data centre contracts, has still achieved a position of almost 7% of total work on hand.

Excluding the effects of the large data centre contracts, the work on hand by sector profile changes dramatically, with significant portions of the order book in the areas of government, aged care and healthcare, corporate and defence. These sectors constitute 84.7% of traditional work on hand. Again, we do not intend to narrow our focus to the data centre market. We have a vibrant business that is in the enviable position of being relevant across the full spectrum of industry, and we will continue to capitalise on the breadth of our value.

Our pipeline for work remains extremely strong with $413.5 million of work currently in open proposals across all market sectors. The process to identify opportunities for tender rests on a rigorous set of criteria, that have translated into projects that have been completed with lower risk profiles and higher returns, leading to a higher quality of earnings from a base of large, stable customers. As noted earlier today, we are more aggressively pursuing work for our state and territory branches according to the industry profile of those areas. For example, we are targeting a greater share of the mining and resources sector in Western Australia and the defence sector in South Australia and the Northern Territory.

To give you a better sense of some of the work we do, I'll briefly take you through a couple of projects which are currently underway in different parts of Australia.

The first one is in the Northern Territory, where we perform work for the Australian Defence Force. At the Tindal RAAF base, we were engaged to undertake a range of electrical and communications infrastructure projects. The complexity in this project comes with the laying of 180km of fibre optic cable across the entire site. Another challenge was to design and install specialist communications systems to ADF standards in secure concrete bunkers. It's projects such as these where we can really demonstrate our expertise and innovation in solving difficult problems for our customers.

Another project that reflects our core expertise is the international hyperscale data centre that we are working on with Built, a contract now worth $115+ million for SKS Technologies, which follows a smaller project on earlier works at the site. As is often the case, we were then awarded the larger contract, reflecting the market's confidence in our ability to deliver superior electrical systems that are critical to the reliable operation of a data centre. Once completed, the facility will be one of the largest data centres in Australia.

Growth

Considering such phenomenal growth, this chart illustrates our progress well, mapping the work on hand level with which we began each year against the actual revenue at the end of that year. The work on hand is shown as a percentage of revenue at year-end. So when we had $7 million of work on hand at the beginning of FY21, that represented 20% of the revenue that we achieved during that year.

Ironically that 20% is the lowest percentage shown, despite the rapidly increasing bases from which these percentages are calculated. For the current year, using the $260 million revenue forecast, we had 37% of expected revenue in work on hand on 1 July. Despite the leaner profit years, we've always been able to focus on where our next round of work will come from, pitch for it successfully and execute it according to our plans and budgets. As simple as it sounds, that has been a key basis for our success.

Safety

Our safety performance stems from our relationship approach, arming our employees with the skills and the trust to adhere to important practices and do a job well. Despite the productive hours increasing sixfold over four years, there have been two LTI's. We've also not had a serious injury in the ten years that we've been operating SKS Technologies.

SKS Indigenous Technologies

I'm pleased to tell you that our Indigenous business has been a great success and is now winning and performing work on a national basis. And that may, in part, be because it's a business that works for everyone - us, the Indigenous community and the clients. The commercial gains need no further explanation than what you see here on the screen, given the milestones that have been achieved in just over two short years.

But it's the impact that we can have on the wider Indigenous community. Our MD, Chris Johnson, has been instrumental and unerring in his vision and commitment to creating a business that builds stronger communities at a grass roots level, starting with individuals who can give back and help others in turn, and building the foundations of economically sustainable communities.

On the other side of the transaction, the clients not only contribute to the economic empowerment of Indigenous communities, they advance their own sustainability performance while procuring a service or project implementation with the utmost commitment and excellence.

With SKS Indigenous Technologies, we truly believe that we have built a model for the achievement of dual social and commercial aims.

Outlook

In the context of Peter's comments on the external environment, the future of the business is both exciting and dynamic. We have shown the market that we can achieve what we set out to achieve in the timeframes we commit to, and, more importantly, we can do it extremely well. We're now in the position where we have a business:

- that is in demand in all market sectors in a buoyant environment,
- that has a robust operating platform,
- that generates strong cash flows to boost working capital,
- that has access to bank financing facilities that increase alongside the growth of the business, and
- that has a proven track-record with a blue-chip client base.

We have all the components necessary for further compounding advancement in our business. From a broader perspective, we can also consider the external economic drivers and incentives to change the way we inhabit the planet by reducing human impact. These initiatives will, no doubt, be a catalyst for continual evolution of the business, as we adapt to capture new market opportunities.

Finally, I echo the chair's sentiments and words of gratitude to all those who have been a part of the exciting, and sometimes arduous, years of restructuring and reshaping to get us to the advantageous position that we're in today. No-one is an island, and I think we're a great example of that sentiment. The SKS Technologies Board and management are fully aware that the success of the business is due to many, many people, and we never forget our good fortune to have the team we have today.

I wish you all a safe and happy festive season and look forward to keeping you updated on our growth in FY25.

Thank you

Matthew Jinks
Chief Executive Officer