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Inventis Limited (ASX: IVT) ~ Chairman's Address

Annual General Meeting ~ Friday, 28 November 2014

Good Morning Shareholders. Welcome to the 2014 Inventis Limited Annual General Meeting. Last year I outlined the painful series of events that adversely impacted the sustainability of the Inventis Group. I also spoke of the personal commitment for the benefit of all our stakeholders - shareholders, employees, customers, and suppliers alike - to implement, lead and administer the business back to profitability. It is against this backdrop that I am pleased advise the substantive reforms we have been undergoing, are expected to conclude in 2015.

It has certainly been a tough road to hoe, but despite the considerable resistance we faced in seeking to change the corporate culture and reduce costs, we are almost at the stage where the business can be said to be on course for business advancement, growth and success. Through persistence and unwavering commitment to excellence and not accepting “No” for an answer; and by aligning the core values of the Company with the desired culture, we now have a team that is customer-centric, Company focussed on innovation (with global application) as well as growth and profitable results, for the benefit of all stakeholders.

As a customer-centric business, we are continuing to improve our competitiveness by adopting best practice principles and encouraging performance and an enhanced focus on service; as well as concentrating on the identification, penetration and exploitation of new business opportunities, both domestically and globally, through proactive sales and marketing, backed by superb product design, development and innovation.

Results for the Year Ended 30 June 2014

During the year under review, the economic climate remained relatively unchanged; the expected uplift in local market conditions did not materialise post the Federal Government election and the release of the 2014 Federal budget. Furthermore as previously advised, the cash flow constraints resulting from delays and extensions pertaining to the capital raising impacted sales, gross profit margin and the overall efficiency of the operations across both divisions. As a consequence, the Board undertook further foreshadowed streamlining of the operations to align the Company’s expenditure with the trading environment. This has led to ‘one off’ and non-recurring expenses incurred this year, as part of the long term cost savings and back-office streamlining of Divisional and Group expenses.

The Board is now implementing the next phase of its strategy focused on generating additional sales revenue, across both the Furniture and Technology Divisions to ensure positive outcomes in the 2015 financial year. As part of this, both Australian Divisions are being consolidated operationally, so as to build depth and breadth across administrative, marketing, operational and support functions, with reduced overall expenditure. This should also lead to further reduced occupancy costs and general overheads; and most importantly, enable the group to be managed by a single CEO, as opposed to the previous structure of two Managing Directors in Australia and one in New Zealand. As part of this consolidation, the Board is presently considering various options for co-locating the Technology and Furniture Divisions into a single facility. The plan is essentially a multi year re-structure of our cost base across all areas of the business, to bring the Group to sustainable profitability into the future.

From an operational perspective, the losses for the year under review, excluding 'one of' and non-reoccurring expenses, is attributable entirely to the poor performance of our New Zealand Subsidiary. Consequently since the financial year end, the Company entered into discussions with a potential buyer and subsequently with the then Managing Director for a management buyout of its New Zealand operations. However, agreement could not be reached with either party on terms acceptable to the Board, for the benefit of the Company's stakeholders. Therefore, the Board has been working diligently to resolve the continuing impact on the group, and recently announced the restructure of the Company's New Zealand operations to achieve sustainable profitable results. This restructure includes,

- aligning expenditure with income;
- ensuring on time delivery of goods and services to our clients;
- protecting our supply chain by working more closely with its suppliers and other stakeholders to increase Gross Profit Margin;
- reducing staff to those necessary for the business to deliver on its value proposition to customers; and
- relocated the business into more suitable premises, which not only provides a more efficient working environment, but one that substantially reduces occupancy costs.

These changes are expected to halve our break-even point as at 30 June 2014 and set the New Zealand operations on a path for growth and success. Furthermore, the Board will continue to explore all opportunities to ensure shareholder value is maximized and stakeholder interests protected.

Furniture Division

The Furniture Division's revenue (Australia and New Zealand) for the year ended 30 June 2014 was $11.4m as compared to $12.4m for the previous financial year.

EBITDA is a loss of $1.2m as compared to a loss of $0.6m in the previous financial year.

The reduction in revenue and EBITDA loss is attributable to the New Zealand operations. As outlined previously, the Board is implementing a strategy to eliminate this negative impact.

Our Gregory Commercial Furniture Division in Australia is improving with the period 1 January to 30 June 2014 showing substantive improvement over the previous year, in its bottom line result. Importantly, benefits are continuing to flow from increasing sales revenue and enhanced performance procurement, product rationalisation and cost control strategies, which have and will continue to improve bottom line results. This underlying growth and strengthening of the bottom line is underpinned by our ergonomic product strengths.

New Patent Registration: Demonstrating the development of a new forwarding thinking Corporate culture, today, I am also pleased to announce the return of Gregory Commercial Furniture to the leadership and innovation role that made its name synonymous with seating ergonomics and led to it being the only Australian seating designer and manufacturer of ergonomic seating to win two Australian Design Awards.

Our latest seating innovation, which is the subject of Provisional Patent Number: 2014904704, is being unveiled in early 2015. The new design will not only capitalise on its Dual Density predecessor, but will also redefine ergonomics, just as our Award winning technologies have done for almost three decades. Importantly for the future of our business, it was a cross-disciplinary team from Gregory Commercial Furniture Division that considered, researched, developed and designed our market leading next generation. It is that same team that will take it to market in each level of procurement, manufacture, sales and delivery, all with a true customer focus.

Technology Division

The Technology Division's revenue for the year ended 30 June 2014 was $5.4m as compared to $8.0m for the previous financial year.

EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) for the year was a profit of $0.2m as compared to $0.8m for the same period last year.

The decline in revenue is substantially attributable to 'end of life' products from the PNE range the SafeZone product. However, despite this reduction in revenue, bottom line results, including 'one-off' costs associated with the restructuring is $0.6m below last year. This reflects the benefits derived from the restructuring to date and the strategy of focusing on 'direct-to-market' products from the EAS, SafeZone, Impart and Opentec range; enhanced supply chain; and partnership formation with quality local and overseas suppliers to enter new markets.

The foreshadowed sales revenue increases from the UK Rail project did not eventuate as anticipated. This is despite having had our UK agent sign a preferential supplier agreement with UK Rail. We expected that this would start to generate revenue in 2014, but have since been informed that UK Rail is not yet ready to commence funding this project and that certain documentation is required from our Technology division prior to the product being accepted. Subsequently I have communicated with the team working on the project in the UK and instructed our Engineers to put steps in place to meet the additional expectations, so as to enable product roll-out, when UK Rail and/or other European organisations wish to utilise our SafeZone technology. To date, we have not been awarded a definitive quantitative supply contract, nor given a definitive date as to when that is likely to happen as we understand that this will depended on UK Rail funding in the near future. We will keep you posted with further developments, but in the interim, we have removed this project from our revenue projections.

Notwithstanding the set-backs experienced by the Technology Division, the Board is of the view that the successful completion of its restructuring and streamlining program during the first half of the 2015 financial year will further strengthen the position and ongoing performance of the Technology Division.

Prospects for the Year Ending 30 June 2015

The Board is implementing strategies to consolidate its operations under the leadership of a single CEO, at a single head office and manufacturing facility, which will not only improve and streamline the management of the business and permit leveraging to take place for greater growth, but is also expected to deliver a further cost saving of around $0.5m per annum; Divest non-performing and/or ‘end-of-life’ products; and create and procure new innovative technologies for both Furniture and Technology Divisions, to complement our current market offering.

The strategy to increase group sales with the appointment of additional key experienced individual Business Development Managers in zones across Australia to enhance our market share and to launch our innovative new products into 2014/15 is working to plan at present.

Results for the First Quarter, Ended 30 September 2014:

- Sales Revenue is up 4% as compared to same period last year; and
- Gross Profit Margin is up 9% as compared to the same period last year.

As is evident from the year-to-date performance, the sales and marketing focus and procurement strategy are starting to translate into increased sales and gross profit margin.

EBITDA expectations for the year ending June 2015 are expected to be close to Break Even. This includes the recognition of $0.3 million of unrealised foreign exchange loss on related intercompany loans between Australia and New Zealand.

Acknowledgements

Once again, I want to acknowledge the incredible effort by the hard working and extremely flexible and adaptive team of personnel that makes up the Inventis Group of companies. With their inherent belief and trust in the actions of the Board, together with the unwavering support of our shareholders, we are able to look to a brighter profitable future for the benefit of all stakeholders.

I sincerely thank you, our shareholders, for your patience and support in bringing about the necessary reforms to expected future profitability.

Tony Noun
Executive Chairman