



## ASX Announcement

25 February 2021

### Financial Results and Update for the Half-Year Ended 31 December 2020

**Melbourne, Australia:** Engineering product and solution provider, Synertec Corporation Limited (ASX: SOP, “Synertec” or “the Company”) provides the Company’s financial results and update for the half-year ending 31 December 2020.

#### Highlights

- **H1 FY21 positive net operating cash flow of \$0.4 million, a \$3.2 million improvement from H1 FY20**
- **Group revenue of \$3.5 million and EBITDA loss of \$0.6 million heavily impacted by COVID-19**
- **Revenue from Engineering Consultancy Services increased by 26% making CY20 the strongest 12-month period of Engineering Consultancy Services**
- **Gross margins doubled across CY20 as Synertec continues to focus on higher-value consultancy opportunities from its Tier-1 customer base**
- **Synertec continues to execute its technology-led growth strategy, with encouraging progress in the Company's partnerships with GreenTech and multiple global partners working to commercialise Synertec's patent-pending LNG Custody Transfer System**
- **Synertec enters CY21 in a strong financial position with operating cash of \$3.4 million following a successful share placement raising \$1.3 million in July 2020**
- **The Group continues to operate with no working capital debt or covenants from its bank**
- **Retirement of Non-Executive Director, Mr. Kiat Poh**

#### Financial Results

The Company has risen to the challenges of the ongoing COVID-19 pandemic and its restrictions which presented trying conditions in Victoria and across Australia during H1 FY21. The Company generated positive net operating cash flow of \$0.4 million during the period, representing a \$3.2 million improvement from the prior comparable period (pcp) H1 FY20 (a net operating cash outflow of \$2.8 million).

The revenue of the Group for the period was \$3.5 million and the result from operations was an EBITDA loss of \$0.6 million. This result, which includes corporate development costs of \$0.2 million associated with key strategic growth initiatives, largely reflects the impacts of the COVID-19 pandemic, with at least \$2 million in project deferrals identifiable with existing clients shifting revenue into future periods which had been expected in H1 FY21. The prior comparable period having included \$2.9 million in revenue from the final stage of one of the Company’s largest pharmaceutical vaccine facility construction projects, which was completed by mid-FY20.

Revenue from the Engineering Consultancy Services for the period increased by 26% to \$2.2 million. This made CY20 the strongest 12-month period of Engineering Consultancy Services revenue, and this is expected to continue to build through CY21 as work in hand and the near-term pipeline continue to develop.

The Company achieved significant revenue contributions from each of the Water, Rail, Energy and Pharmaceutical sectors, demonstrating the importance and value of well diversified revenue channels and long-term customer relationships in sectors in which Synertec's expertise is highly regarded.



Synertec has experienced a natural increase in the cost of remote service delivery through the COVID-19 pandemic, as the heavy restrictions imposed on the Australian public (especially Victoria) and industry impacted the efficiency with which some projects and services could be delivered to customers, particularly engineering projects that involve significant team collaboration. These factors are reflected in the results across CY20. While overhead savings in most areas have been achieved over the past year, this was counteracted by a significant rise in the cost of professional indemnity insurance, as experienced across the engineering sector.

Despite this, the Group doubled its gross margins across calendar 2020 as the Company continued to focus on higher-value new consultancy opportunities.

The operating result also reflects the expenses related to several significant strategic investments across Synertec's target sectors which the Company expects to deliver sustainable long-term profitable growth such as large national critical infrastructure and oil and gas project bids, and further investment in the technology-led growth strategy with partners such as GreenTech and in the development of its patent-pending LNG custody transfer system technology.

Synertec's balance sheet remains strong and the Company has continued to diligently manage working capital and focus on maintaining liquidity. The Company's net asset position as at 31 December 2020 of \$3.6 million includes cash of \$3.4 million which was enhanced during the period by positive net operating cash flow and a fully subscribed share placement raising net proceeds of \$1.3 million in July 2020. The Group continues to operate with no working capital debt or covenants from its bank.

The near-term focus during CY20 for Synertec has been getting through the crisis with an eye to the future, continuing to execute and invest for the medium-to-long-term benefit of our customers, people and ultimately our shareholders by delivering the long term strategy. While the Board remains confident and optimistic about the long term strategy of the Company and the economic fundamentals of the target markets in which the Company operates, given the prolonged environment of high uncertainty caused by COVID-19 and the sharp decline in oil prices which has impacted heavily upon the global economy over the past year and for the foreseeable future, the Board resolved to act prudently in de-recognising the carry forward tax losses previously held as a non-current deferred tax asset. This adjustment is reflected in the tax expense of \$0.7 million and after tax result of \$1.6 million loss.

## Investing in Technology-Led Growth Strategy

Synertec continued to develop strategic inorganic growth opportunities during H1 FY21 that offer attractive scope and scale in the Company's target markets.

### **GreenTech**

The Company's partnership with Sichuan GreenTech Environmental Co., Ltd ("GreenTech") continues to develop positively. Synertec has provided critical funding to allow GreenTech to complete multiple pilot programs with major Chinese State Owned Enterprise (SOE) customers, expected to validate the commercial potential, cost competitiveness and environmental benefits of GreenTech's unique hydrocarbon drilling mud treatment technology, Composite Dry Powder ('CDP').

In continuing to develop this potentially transformational opportunity, Synertec entered an exclusive technology license with GreenTech during the period and this has contributed to the Company's ongoing assessment of the market opportunities for GreenTech's CDP technology both in China and other major global oil and gas markets, such as Australia and North America.

Further key developments in the partnership since 31 December 2020 include;

- Synertec has received two tonnes of CDP and is currently testing the technology in Melbourne, Australia to confirm its transferability and global scalability by Synertec;
- All pilot program work completed by GreenTech to date has been fully invoiced and the majority paid by its SOE customers;
- GreenTech is arranging to repay the first tranche of loan funds extended by Synertec to GreenTech;
- Two Chinese SOE customers have indicated their intention to proceed toward long term Strategic Alliance Agreements (SAAs) with GreenTech; and



- Broader applications of CDP technology are in development, following the first successful trial of CDP modified by GreenTech to process underground tunnelling construction sludge.

### **Liquefied Natural Gas (LNG) Custody Transfer System (CTS)**

Synertec continues to see a sizeable growth opportunity in the strategic niche market of LNG CTS and related products and services. The Company expects that planned industry spend in the hundreds of billions of dollars on new and existing facilities over the next decade will continue to create a large addressable market, which Synertec is well-placed to serve having delivered several highly successful LNG CTS projects in Australia.

In November 2020, Synertec executed a Memorandum of Understanding (MOU) with a major global independent owner of LNG carriers and floating vessels to collaborate on design and deployment of Synertec's patent-pending low pressure LNG sampling system for marine application. The project will expedite commercialisation of Synertec's patent-pending CTS, which based on modelling is shaping as a leading technology in marine LNG metering and sampling systems.

Work and collaboration on the design commenced immediately in November 2020 and the Company expects the major scope of the design to be complete during H2 FY21, after which class approval of the LNG Sampling System will be sought from the world's major maritime standards bodies.

Synertec anticipates substantial revenue opportunities from this development given the strong pipeline of floating LNG vessels to be built over the next 5 years. With strong foundational relationships now in place with large global LNG and marine-related partners, Synertec is building the CTS to ensure it can provide best-in-class results in all conditions, across a wide range of vessel types, while complying to all shipping class requirements.

To deliver the growth targeted in Synertec's strategic plan, the Company will continue working through these and other current technology opportunities which have diverse global applications and fit within the strategy to commercialise replicable and scalable solutions which enhance industrial clients' profitability, efficiency and safety, while reducing their environmental footprint.

### **Outlook**

The Company's strategy to augment organic growth through globally scalable IP-protected tech-driven solutions is progressing well, with significant project and collaboration opportunities arising both domestically and internationally during H1 FY21. The strategic international partnerships secured over the past year have bolstered Synertec's access to;

- Bid and serve large international projects more efficiently;
- Scalable technology with a commercial application globally; and
- Target growth markets overseas.

The impacts of COVID-19 have resulted in delays to some of Synertec's existing projects and deferral in award of new projects and this has substantially impacted its financial results. However, the Company is beginning to see some of these projects restart in 2021 and expects project awards to flow in its target markets as conditions improve.

Synertec believes that with;

- The Company's strong financial position;
- A continuing program of careful resource allocation and intensive sales-driven initiatives;
- Its established direction as a technology-led high growth business with scalable global IP application in the large and growing energy market focused on efficiency and environmental impact; and
- An innovative and highly regarded multi-disciplined engineering team of industry and technology experts in its chosen target markets;

the Company remains on a firm and deliberate path to delivering its long term strategy and profitable and sustainable growth for its shareholders.



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## Retirement of Non-Executive Director, Mr. Kiat Poh

The Company wishes to advise of the retirement of Mr. Kiat Poh, effective from 31 March 2021.

Mr. Kiat, based in Singapore, has served as an independent Non-Executive Director with the Company since 2012, and made a significant contribution to the successful transition of SML to Synertec Corporation Limited in 2017. During his time Mr. Kiat oversaw the successful sale of key mining assets and payout of the Redemption Note scheme to SML shareholders in 2018.

Synertec's Chair, Ms. Leeanne Bond said;

*"With his strong ASX and international business experience over 30 years and his outstanding advice and counsel, Poh has provided excellent service to the Company. Since being one of the foundation Directors involved in the Company's original listing on the ASX, Poh has been an integral part of the Company and its transformation with Synertec. On behalf of the Board and Synertec's shareholders, I would like to thank Poh and wish him the best with his future endeavours."*

**-ENDS-**

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This ASX announcement is authorised by the Directors of Synertec Corporation Limited (ASX: SOP).

### About Synertec:

Synertec Corporation Ltd (ASX: SOP) provides mission-critical engineering products and solutions to complex, high-risk and highly regulated industries. The Company targets industry segments with high barriers to entry and high client reputational risk, including Pharmaceuticals, Critical Infrastructure, Oil & Gas, Water and Defence. Synertec has delivered 25 years of growth and development as a multidisciplinary and integrated consulting business, delivering end-to-end proprietary engineering products and solutions which leverage the Company's ability to develop commercial intellectual property through innovative partnerships with a portfolio of blue-chip customers.