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ASX Announcement

28 August 2020

FY20 Financial Results: Strategic growth initiatives progressed despite COVID-19 impacts

Melbourne, Australia: Engineering product and solution provider, Synertec Corporation Limited (ASX:SOP, "Synertec" or "the Company") provides the Company's financial results for the year ending 30 June 2020.

Highlights

FY20 revenue and other income of \$11.23 million and operating loss after tax of \$1.26 million, with positive net cash-flow returning in the second half

- Synertec's specialist engineering products and solutions business continues to provide revenue and cash flow from its Tier-1 customer base to fund further development of technology-led growth strategy
- Group substantially improved gross margin from 20% in FY19 to in excess of 30% for FY20 as the business has focused, as planned, on new higher-value consultancy work with existing customers in its targeted industry sectors of Rail, Water, Pharma/Biotech and Hydrocarbons
- Positive net cash flow of \$1.65 million in 2H and positive net operating cash flow in Q4, as anticipated
- Synertec enters FY21 in a strong financial position – bank debt and covenant-free and with operating cash of over \$4 million following a successful share placement in July 2020. The Group is well positioned to execute delivery of the current pipeline and continue investing to fund growth

Continued investment in technology-led growth initiatives during the period

- Partnerships with oil & gas technology developers in China (GreenTech) and the UK (EffecTech) are highly complementary and offer potential for strong revenue synergies
- Synertec has provided GreenTech with a loan facility of \$1 million, fully secured, to fund commercialisation of GreenTech's patent-pending Composite Dry Powder ("CDP") technology
- Synertec agreed to become EffecTech's exclusive Asia Pacific representative for all site activities and calibration services on instruments used in the analysis of gas
- Further technology development in Synertec's Liquid Natural Gas (LNG) Custody Transfer System (CTS) has resulted in a provisional patent application
- Synertec continues to leverage its expertise in complex pharma & biotech manufacturing facility design, working on a research and vaccine manufacturing facility capable of providing a rapid response to pandemics such as COVID-19



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Financial results

While Synertec's core business experienced a revenue and earnings impact from COVID-19 in 2H FY20, the business still managed to achieve positive net cash flow in the second half, significantly improved gross margins and substantially advanced its technology-led growth strategy with important international partnerships and developments in proprietary products.

Synertec's Managing Director, Mr. Michael Carroll explained: **"The Group responded swiftly to the onset of COVID-19 with the health and safety of our people and customers paramount, along with measures to strengthen our financial position.**

"We implemented a range of mitigating actions, including discretionary cost reductions, wage subsidy support where it was offered, and renegotiations of our tenancy agreements to reduce occupancy costs now and in the medium term. We have strengthened our balance sheet significantly through raising equity capital and resetting our banking arrangements, which positions us to take advantage of development and investment opportunities as they emerge.

"Notwithstanding the challenging environment, Synertec substantially advanced its strategic agenda in FY20. Excellent project delivery to our Tier-1 customer base allowed us to secure valuable consultancy arrangements in 2H FY20 with several existing customers in Australia's critical infrastructure sectors of rail, water and pharmaceuticals. This enables us to support projects in the design phase, moving into delivery over the coming few years, as well as some of our hydrocarbon customers who are optimising their operations and investing for the recovery.

"We also forged exciting new partnerships in FY20 with international technology-based companies, GreenTech and EffecTech. Both are highly complementary to our proprietary technologies, customer base and core engineering capability.

"GreenTech, based in China, directly opens Synertec to the benefits of the world's fastest growing economy, which seems to be recovering quickly from the pandemic. Both GreenTech's and EffecTech's customers have interests in Australia too which, combined with our own oil and gas customer base, we expect will help Synertec pilot international technologies in Australian markets and grow local revenues."

Synertec delivered total revenue and other income of \$11.23 million, with 33% growth in Engineering Consultancy Services revenue to a record \$4.07 million. As a result, the Group substantially improved gross margin from around 20% in FY19 to in excess of 30% for FY20. To achieve this overall result for the year, gross margin performance in 2H FY20 was particularly strong and this is expected to carry into FY21 as the Group focuses on new higher-value work.

Although the deferral of some highly anticipated key project opportunities in the global LNG sector impacted financial performance for 2H FY20, Synertec is pleased to report that a significant revenue contribution continued from its highly regarded core consulting expertise in the rail, water, pharmaceutical and biotech sectors. This demonstrates the importance and value of Synertec's well diversified revenue channels and deep customer relationships.

Mr. Carroll said: **"During FY20 we deliberately strengthened our project targeting and contracting strategy, which has seen a comprehensive filter applied to all potential new projects, ensuring we select projects that can deliver acceptable returns for commensurate risk. We believe this approach has already served us well, particularly in the current environment, and should continue to deliver higher quality earnings and greater value from the resources allocated to growing the business."**

Following the implementation of various liquidity enhancing initiatives as outlined, and in line with solid business activity, the Company substantially improved cash flow over 2H FY20 as anticipated, reflected in a return to positive net operating cash flows for Q4 FY20, and an overall positive net cash flow for 2H FY20 of \$1.65 million.



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Product and solution delivery and awards

During the year, the Company completed important projects in Australia's critical infrastructure sector for key customers including Metro Trains Melbourne, Melbourne Water and Jemena. These successful project deliveries translated into further awards with these customers during 2H FY20, as industry recognition builds for Synertec's unique ability to identify and deliver innovative commercial solutions.

Synertec is pleased to have recently been awarded important assignments in rail, with teams of Synertec's engineers now operating at Rail Systems Alliance (RSA) of Metro Trains Melbourne (Metro), and within Metro itself. The Company won these awards based on the expertise and knowledge of the major Melbourne rail project that Synertec developed during automation projects across both the existing underground network upgrade and the \$11 billion Melbourne tunnel project during 2018 and 2019.

Mr. Carroll commented: **“Securing this engagement with RSA represents the achievement of a long-held ambition for Synertec. From our previous work on the existing Melbourne Underground Rail Loop and the Metro Tunnel Project, we saw a close cultural and strategic alignment between Synertec and RSA. Therefore, we are extremely excited for this opportunity and look forward to building on this engagement with a view to gaining greater scale and know-how in Australia's critical infrastructure sector.”**

Business transformation

During the period, Synertec reorganised its business and undertook significant process and system improvements to automate and outsource transactional low-value tasks and inhouse services, enhancing support to its engineering team and customers and enabling a seamless transition to remote working conditions under COVID-19 restrictions.

Migration to more flexible system platforms and the introduction of machine-learning intelligence to various processes will provide greater agility, scalability and efficiency, and better attune the cost-base of the business to different activity levels and revenue sources. Most importantly, it will improve service delivery to customers.

Mr. Carroll explained: **“We are investing more heavily in the development of our team, culture and the structure of the organisation to grow our capability and provide a creative environment where our people feel empowered, are enjoying their work and are always looking for ways to improve what we do. We trust this fosters a setting that develops valuable IP with a strong commercial application, which then goes to improving retention and continuously strengthening our culture.”**

Investing in technology-led growth strategy

Synertec is focused on the shape of the business in future years and by the course needed to achieve it. With that as the guiding principle, and as consistently communicated, Synertec continues to invest ambitiously and expects to benefit from the global economic recovery as it executes on a technology-led growth strategy.

Mr Carroll explained: **“We are excited by the potential of our new Chinese-based technology partner, GreenTech, with whom we are working to commercialise innovative technology that provides an environmentally friendly and cost-effective solution for the treatment of hydrocarbon drilling mud and various forms of waste water.”**

Following formalisation of the partnership in June 2020, Synertec agreed to provide a loan facility of \$1 million AUD, fully secured, to enable the completion of commercial-scale pilot programs with customers for GreenTech's patent-pending Composite Dry Powder (“CDP”) technology. CDP provides a fast, effective and affordable way to process water-based hydrocarbon mud into a non-polluting material which has the potential to be used in a high-strength environmentally-friendly building product. With diverse global applications beyond energy production, this technology fits ideally within Synertec's strategy to commercialise replicable and scalable solutions which enhance industrial clients' profitability, efficiency and safety.



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Mr. Carroll said: **“GreenTech's activities complement those of our technology design and development arm, through which, focusing on our target growth market of LNG, we continue to see significant opportunity in the strategic niche of LNG Custody Transfer Systems (CTS). More specifically, we've identified that our technology also applies to related products and services in floating LNG production and storage. We expect 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 we are now well-placed to serve.**

“We see ourselves as still in the early stages of a global mega-trend in LNG, and very few, if any, businesses globally can provide the systems, products and solutions of the quality which Synertec has delivered. This has been reflected in the discussions we had this year in forming our partnership with EfecTech, considered the global leader in gas measurement, providing accredited inspection, calibration and testing services to the energy and power industries for gas quality, flow and total energy metering. The value which EfecTech adds to its customers' operations is closely aligned with the gas custody transfer and flow metering products and solutions delivered by Synertec.”

Synertec's proprietary fiscal custody transfer systems, delivered in recent years to Australia's largest LNG facilities, were certified by EfecTech and are widely regarded as the world's most accurate LNG fiscal custody transfer systems. Synertec agreed to become EfecTech's exclusive Asia-Pacific regional representative for all site activities and calibration services.

Outlook

Mr. Carroll explained: **“In the year ahead we will continue to pursue our immediate global growth opportunities by commercialising innovative technology, allowing us to deliver into multibillion-dollar markets on the cusp of acceleration. Although the duration of the impacts of the pandemic is uncertain, the Group enters FY21 well-positioned financially to achieve these goals with a robust, cash-generative and scalable platform, backed by the balance sheet strength to grow quickly and opportunistically, particularly following the capital raising that we completed in July 2020.**

“Business resilience and adaptability are critical to navigate uncertainty. We have a tremendous team and pipeline of opportunities and are well placed to drive high quality growth and pursue new opportunities as we emerge from the current economic challenges.”

-ENDS-

For more information and all media enquiries, please contact:

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This ASX-announcement is authorised by the Directors of 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 24 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 customers. The Company has a presence in Melbourne, Perth and Brisbane, working on local and global projects for a diverse blue-chip customer base.