

CHAIRMAN'S ADDRESS



ANNUAL GENERAL MEETING

31 OCTOBER 2019

Introduction

Good morning ladies and gentlemen, and thank you for joining us today. I'm Peter Jinks, the Chairman and Managing Director of Enevis Limited, and I'd like to welcome you all to the 2019 Annual General Meeting.

Given we have a quorum, I now declare the meeting open.

I'd like to begin by introducing my fellow board members. With me today I have Executive Director, Greg Jinks, Non-Executive Director, Terence Grigg, Non-Executive Director, Thomas Krulis and Chief Financial Officer and Company Secretary, Paul Miller. As we announced to the market earlier today, Paul is leaving us to pursue the next stage of his career and we thank him for his efforts over the past few years. Paul has been instrumental in our turnaround to date and we wish him well in his future endeavours.

Today I'd like to tell you about our FY19 performance, the highlights of the year and some of the challenges we have addressed, and continue to address, to grow our business and create sustainable shareholder value.

Financial Performance

The last financial year marks the first full year of trading under our new corporate identity ENEVIS, accompanied by the tagline 'Energy with Vision'. It also marks a solid reversal in earnings from previous years with a \$3 million turnaround in net profit to slightly above

breakeven, and a positive EBITDA of \$854,000, reflecting our ongoing strong sales momentum.

Our sales revenue was up by more than \$14 million over last year, at \$41.2 million, an increase of almost 52%. This figure includes the first contribution from the Lumex business which was acquired in August 2018. The business, excluding the Lumex acquisition, has generated a compound annual growth in sales of 33% year on year between 2016 and 2019. If we include the Lumex operations, the compound annual sales growth rate was 39%.

Gross profit reached \$10.2 million, a \$3.42 million or 50.6% improvement on last year, and I will talk a bit more later on the current cost structure of the business. We ended the year with a positive net cashflow of \$677,000, representing a \$2.84 million improvement on FY18. Our cash from operations, however, was negative and was largely the result of an increase in current inventory of \$2 million, and current receivables net of payables of \$1.3 million. These costs reflect the expansion of the business.

Consistent with previous years, the board has not declared a final dividend in order to meet the business's short-term working capital requirements.

Operational Performance

Our consistent growth in revenue over the last four years is testimony to our people, our products and our services, and is underpinned by a high level of repeat business.

You'll also notice a new brand called Enegrow which we established in April this year to lead our endeavours in the new field of horticulture using our existing skill base and resources, and I'll update you further on that business shortly.

SKS Technologies

In the SKS Technologies business, we entered the South Australian market and achieved break-even in six months instead of the expected 10 months, with revenue exceeding expectation. We have also seen encouraging signs from our Queensland market entry during the year, completing the footprint for a national business.

A huge 93% of work was derived from existing customers with the excellent level of customer service maintained throughout the operations. Equally, 86% of revenue emanated from the existing customer base. We work hard on our customer relationships and as a result continue to secure and complete major projects such as works associated with the Joan Kirner Women's and Children's Hospital, the State Library of Victoria and Mill Film, a global film production studio.

Urban Lighting Group

The Urban Lighting business integrated the Lumex acquisition into its operations as well as securing distribution rights for high-end European commercial lighting product ranges. The development and introduction of a new product range under its own brand, Forlite, built up our intellectual property assets while filling a gap in the market for high quality, efficient architectural lighting.

The Group has completed major projects for Justco, a major co-working office space business in both Melbourne and Sydney, Advancing Clean Energy Schools Rollout for the Queensland Government, and SBS Broadcasting in Melbourne.

Energrow

In May this year, we announced an exciting new opportunity for Enevis. It slots into our knowledge base, business platform and corporate strategy adding a new dimension to the business with new,

but related products in new markets. We were selected by US grow lighting manufacturer LumiGrow to exclusively market its sophisticated LED grow lighting solutions in Australia, New Zealand and parts of Asia.

The LumiGrow technology, which we will sell under our new Enegrow brand, is industry transforming and opens up an exciting opportunity for our company to be at the forefront of the next horticultural revolution. The benefits of grow lighting to growers include yield increases, quality improvement, lower costs in land, pesticides and herbicides, and ultimately higher returns for farmers. This new opportunity also helps to optimise our cost base given we can largely rely on existing resources and structures to commence operating in this space. The application for this technology is wide and varied, and Enegrow is currently pursuing a number of exciting prospects, about which I hope to inform the market over the next 12 months.

Achievement Against the FY19 Strategy

With a return to profitability, we now need to de-risk our business by building our revenue to better fit with the current cost structure of the business, which is the first of our strategic objectives. We recognise that while our revenue streams are growing, the value of that growth is not completely flowing through to the bottom line, and on that point, I would like to make some observations:

1. during FY19 we experienced increased operating costs due to our expansion into the South Australian and Queensland markets
2. however, I assure you that we are always seeking efficiencies in our operations, whether they be in headcount, inventory or other operational costs, and lastly,
3. we must always assess these efficiencies in the light of our short-term revenue expectations, and more so, with an acute

awareness of our revenue targets and the significant prospects that we believe will flow from the exclusive supply agreement with LumiGrow. Often cost cutting measures cost money themselves, and we are constantly weighing up the timing of making efficiencies and changing our cost base with the timing of new and larger existing revenue streams from the business units.

We are confident that, with the recent review of our cost base, we are well-positioned to achieve an appropriate level of return for our shareholders. In terms of seeking new avenues for growth, we have achieved a list of successes, not least the LumiGrow supply agreement, which I have just outlined.

I'm proud to say that we are continually praised by customers who appreciate our attitude and commitment in delivering high quality, efficient solutions to their problems, and lastly, we have successfully entered several new markets this year, and as also outlined earlier today, they have been successful, even outperforming expectations in some cases.

Conclusion

In summing up our turnaround year, I am pleased to be able to say that while we have a lot of work in front of us to capture and deliver on the array of opportunities, we can do so with a much stronger operational platform.

As we draw a line under FY19 with this AGM, I am confident that Enevis is a rejuvenated business. We have:

- **more discipline** – with a continuous focus on extracting maximum efficiency from our cost structure
- **more diversity** – with a national footprint and an additional business unit to harness the opportunities in the grow lighting space using the existing business foundations and resources, and

- **more rigour** – with a stronger balance sheet and a deeper understanding of the strategic mandate to grow the business.

Add to that the opportunities we believe will come with the new Enegrow business and I believe we have all the skills, the experience, the products and services, the operating platform and the national footprint to navigate through the immediate growth challenges we face, and take advantage of a diversity of related markets that are expanding rapidly.

I am proud of our team in their commitment to effect this turnaround, and I thank each one of them for their dedication and effort. I look forward to updating you on future progress as we move the company to a sustainable and consistently growing positive earnings position.

Thank you again for joining our annual general meeting this morning.

Peter Jinks