



Synertec Corporation Limited  
ARBN 161 803 032

Level 1, 57 Stewart Street  
Richmond Victoria 3121  
Australia

Ph: +61 3 9274 3000  
Fax: +61 3 9274 3099  
www.synertec.com.au

## ASX Announcement

27 February 2020

# FINANCIAL RESULTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

**Melbourne, Australia:** Engineering product and solution provider, Synertec Corporation Limited (ASX:SOP, "Synertec" or "the Company") provides the Company's financial results for the half-year ending 31 December 2019.

## Highlights

- **H1 FY20 revenue of \$7.3m and operating loss after tax of \$0.7m in line with management expectations**
  - **Significant expansion of gross margin (compared to FY19) as the business pivots towards new, higher-value work**
  - **Synertec's traditional business continues to provide revenue, earnings and cash flow to enable further development of proprietary technology and improved platforms for greater efficiency, agility and profitable growth**
- **Heavy investment in growth initiatives during the period including**
  - **Further technology development in Synertec's Liquid Natural Gas (LNG) Custody Transfer System (CTS) resulting in a provisional patent application**
  - **Strategic international tendering and business development activities**
  - **Opportunity to collaborate with a major LNG shipping operator to build and test Synertec's patented technology in LNG CTS, opening huge opportunities in the rapidly growing LNG marine market**
  - **Synertec's expertise in complex pharmaceutical & biotech manufacturing facility design, including a research and vaccine manufacturing facility capable of providing a rapid response to global epidemics/pandemics such as novel coronavirus**
- **Further diligence undertaken on local and international corporate development opportunities**
- **Total Reportable Injury Frequency Rate in H1 FY20 of zero**

## Operating activities

Synertec's first half performance was in line with management expectations, despite a sequential decline from earlier periods during which Synertec had recognised significant revenues associated with several large and strategically important projects awarded in 2017 and 2018. The timing of contract awards and delivery relative to the Company's reporting date had a significant impact on overall revenue versus operating cash flow.

Although the deferral of some highly anticipated key project opportunities has impacted financial performance for the period, Synertec is pleased to report that a significant revenue contribution continued from its highly regarded core expertise in the water, pharmaceutical and biotech sectors, demonstrating the importance and value of well diversified revenue channels and long-term customer relationships.



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### **(ASX:SOP - ASX Announcement (continued))**

The result also reflects significant expansion of gross margin (compared to FY19) as the business pivots towards new higher-value work. Delivery of a significant volume of contract variation work, at the customer's request, on one of the Company's largest pharmaceutical projects contributed significantly to revenue during the period, however margins from this work were anticipated to be higher. This project is expected to complete in Q3 of FY20.

The Company forecasts the rise in working capital deployed during H1 to begin to return to more typical levels during H2 as net operating cash flow improves following the completion of this project (which has 90-day payment terms). The business has carefully managed this project financially and technically over almost two years and is delivering a world-class outcome for its customer on time and budget, which has presented further opportunities for Synertec.

**Synertec Managing Director and CEO, Mr. Michael Carroll commented, "Our work to ensure delivery of the highest quality on a challenging brownfield site has strengthened our relationship with this customer and has presented us with further exciting international growth prospects. As a result, we have invested significantly in advancing these opportunities during the period, which are now entering their final stages of determination."**

Elsewhere in the pharmaceutical and biotech sector, Synertec is providing detailed design services to a 20-year customer of Synertec which is a large critical Australian research organisation involved in the rapid global response to the novel coronavirus outbreak.

Mr. Carroll said, "Our expertise will support a new multipurpose facility that can produce a variety of biologicals for clinical trials, compliant with cGMP, TGA, FDA and EMA regulations to allow the worldwide use of its outputs. This type of complexity and high degree of industry regulation plays perfectly to our competitive advantage in this sector and is on-point for our strategy."

### **Key project completions and awards**

**Synertec maintains its strong reputation of delivering intelligent and pragmatic products and solutions in complex environments both on time and budget for its customers.**

During the period, the Company successfully completed important projects in Australia's critical infrastructure for key customers including Metro Trains Melbourne, Chevron Australia, Jemena and Melbourne Water. These successful project deliveries are translating into immediate further opportunities with these customers, as industry recognition builds for Synertec's unique ability to identify and deliver innovative solutions.

As a result, Synertec is pleased to have recently won contract awards with customers in Victoria's critical infrastructure sector which include the design of a major upgrade to Veolia's liquid waste treatment plant; and providing expertise to the Rail Systems Alliance (RSA) of Metro Trains Melbourne. This expertise and knowledge of the major Melbourne rail project was developed by Synertec during automation projects across both the existing underground network upgrade and the \$11 billion Melbourne tunnel project.

Mr. Carroll commented, "We are excited to support Veolia's growth in Victoria and look forward to providing the engineering design services for this major upgrade to a critical piece of Victorian infrastructure.

*"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."*



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## Strategic investments

The operating result also reflects several significant strategic investments across the Company's target sectors which are expected to deliver sustainable long-term growth. These investments are yet to be endorsed by revenue as some large-scale international bids for which Synertec is well-positioned, are taking longer than expected to reach final decision.

Commenting on the Company's H1 FY20 performance Mr. Carroll said, *"In H1 FY20, Synertec began to transition from a period of strong procurement and construction activity, into a phase of consolidation of new design project and consulting opportunities. We are a growth business, and we continue to invest diligently and strategically in local and global business development initiatives and tenders."*

***"We have ambitious goals for a relatively small organisation, and in order to deliver on those, we have always said it would require a truly global reach. During this period, having laid a lot of groundwork, we began to genuinely achieve expansion of Synertec into international markets, taking our business into Europe, North America, Asia and the Middle East."***

*"The results of our investment to date are clear and have delivered awards during the period of new projects and high-value services in the LNG and water industries. These new project awards reflect the strength of our relationships with long-standing customers, as well as our ability to cultivate relationships in strategic growth markets by providing compelling value, on demand."*

## LNG global mega-trend - key target growth market

**Synertec's target market of floating LNG production, storage and bunker vessels is rapidly growing and is aligned with the Company's niche area of capability in LNG CTS. Synertec is familiar with the unique engineering challenges this market presents and has further invested in it during the period.**

Mr. Carroll explained, *"In our target growth market of LNG, we continue to see a huge opportunity for Synertec's growth in the strategic niche of LNG CTS and related products and services due to industry planned spend in the hundreds of billions of dollars on new and existing facilities over the next 5-10 years. We have delivered several highly successful LNG CTS projects and our team continues to work on positioning Synertec as the technology provider of choice. We are in the early stages of a global mega-trend and we see very few, if any, businesses globally which can provide the systems, products and solutions of the quality which Synertec has delivered."*

***"Engagement with key industry players in Europe and Asia has yielded an opportunity to collaborate to further develop our unique patented LNG CTS technology. As a result, Synertec is now on the radar of major international companies involved in building and operating LNG ships, storage, regasification and bunker. We strongly believe this experience will tremendously increase the quality and success of future tendering."***

The increase in trading of LNG between countries and vessels, and monumental changes in regulations covering ship emissions effective from 1 January 2020 are driving an immediate unmet need for more LNG storage and transmission from floating facilities. There are currently more than 200 floating LNG production projects in planning and over the next three years there is expected to be the greatest number in history of floating production storage and offloading (FPSO) project sanctions in any one period.

**This presents a huge opportunity for Synertec with its best-in-class LNG CTS technology which can be installed on both new and existing LNG vessels. Synertec is also exploring ways of presenting this technology under various financial models to minimise clients' capex outlay and provide Synertec with longer-term revenue streams.**



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## Corporate development

**Synertec continued to heavily explore strategic inorganic growth opportunities which would provide a unique vertical integration of products in its target markets. The Company expects to continue working through these and other opportunities in 2020 in order to deliver the growth targeted in Synertec's strategic plan.**

*Mr. Carroll commented, "We are excited by the potential revenue and cost synergies and complementary extension of capability which these businesses would bring to Synertec. In addition to this, the strategic international partnerships that we have secured (Trelleborg Group and Babbage Consultants) have bolstered our ability to bid and serve large international projects more efficiently and are improving access to our growth markets overseas."*

## 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 its customers.**

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 ultimately improve service delivery and value 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."*

## From the Chair

Synertec's Chair, Ms. Leeanne Bond commented, "Our ability to replicate, expand and commercialise our high-value proprietary intellectual property in target growth markets such as water, LNG and critical infrastructure is compounding with every engagement. Based on our customers' feedback and their demands for more access to our people to take on more projects within their operations, we know this unique approach is adding value to our customers and will ultimately translate to value for our shareholders.

*"We remain very confident that our technology, competitive advantages and growth strategy, which we believe we have communicated consistently to our shareholders since listing on the ASX in 2017, will underpin our medium-term target of \$40 million in annual revenues with above-industry margins.*

*"I also think it is important to note that Michael, the Board and management have personal investments in Synertec, ensuring alignment between the Company's leadership and our shareholders.*

***"Above all, we are most proud of the ongoing reduction in our Total Reportable Injury Frequency Rate (TRIFR) for H1 FY20 to zero. Synertec pursues continuous improvement in its commitment to workplace safety on all jobs and at all locations."***

-ENDS-



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**For more information and all media enquiries, please contact:**

Mr. David Harris  
Chief Financial Officer & Company Secretary  
Phone: +61 (3) 9274 3000  
Email: [david.harris@synertec.com.au](mailto:david.harris@synertec.com.au)

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.