

26 November 2020

## The Environmental Group Limited

### 2020 Annual General Meeting

#### Chairman's Address

As with many companies in the 2020 financial year EGL was impacted by significant external events including the horrific Australian bushfires and global COVID 19 Pandemic. Our thoughts go out to shareholders, customers, suppliers and EGL team members who have been affected by these events. We have seen impacts of these events across each of our business units.

In Victoria, EGL was evacuated in March after a positive COVID case was diagnosed in an adjacent office. I thank our management who acted swiftly to ensure the safety of all our staff and to our teams who seamlessly transitioned to a work at home environment within hours. Whilst conditions have now improved in Victoria, most of our team members have not been able to return to the office since March 2020.

In each state, increased safety procedures across many of our customer sites had flow on effect for financial performance. Whilst gross margins have been maintained, restrictions in staff movement including the requirement that technicians only attend one site per day, complete close out of some sites and COVID 19 testing requirements have impacted recovery of costs within the service teams which resulted in increased overheads.

Our service teams in both TES and TAPC are anticipating an uptake in work as confidence returns to the market and access constraints, including interstate travel restrictions are reduced. Management teams have contingency plans in place to accommodate higher demand for technical staff during the end of year shut down periods in addition to the pent up demand caused by the pause to some service work.

As a result of constrained market conditions, the award of some projects has been delayed with customer decision making processes impacted due to uncertain economic environments, including a number of projects that were scheduled to be awarded in the first half of FY21. Fortunately, the strong pipeline of work already awarded, particularly within Baltec IES will contribute positively to improved performance in FY21 results. The board and management teams are now firmly focused on strengthening FY22 pipeline to ensure continued growth across the groups and improved returns for shareholders.

Whilst COVID19 has brought many challenges, there are also opportunities. The systems previously implemented allowed offsite and remote work to continue with little disruption. Additional innovations have also been achieved through this revised work environment with

a greater reliance on collaborative tools, remote monitoring of project work and an acceptance by international clients that in person meetings, whilst beneficial, are not always necessary. The gains made through the increased use of technology and streamlined working procedures will continue to bring benefits into the future.

FY 20 Revenue increased over 2019 results for the group by 12% to \$37.4M although disappointingly with an EBIT of negative \$0.8M before significant items. Whilst gross margin increased to 34.5%, growth in unrecovered costs had a negative impact as previously discussed.

As outlined in the annual report Baltec IES which has been a consistently strong contributor for the group, experienced its first year of losses due to tightening in the gas turbine market. However, the value of contracts already awarded for FY21 will see a return to profitability for this division.

Whilst a combination of global events resulted in lower than anticipated results for FY20 and delayed by 12 months the achievement of our 3-year strategic plan revenue target, this is now well withing out sights.

In conjunction with Sequoia Financial Group, investor roadshows were held during the year resulting in a successful share placement and rights issue in September 2020. The placement achieved the dual goals of reinvigorating the share register with a resulting immediate upturn in trading and provided the ability for the company to reduce the short-term debt facility.

Whilst the placement and rights issue was prioritized over the buyback of unmarketable parcels, this is now underway. This represents approximately zero-point five percent of shares on issue.

Following discussions with a number of shareholders we are pleased to confirm that there will be an additional investor presentation to compliment the release of half year results. EGL is committed to providing return to shareholders and has issued a fully franked dividend in 2017, 2018 and 2019. Whilst the board resolved that given the full year operating results, it was not appropriate to declare a dividend in FY20, a commitment was made to declare an interim dividend following the half year results for FY21 based on positive performance. This remains the commitment of the board.

The board and I see an exciting and positive future for EGL. Our managing director will discuss the results for the first four months of FY21 which are already showing strong performance.

The board continues to assess strategic acquisition and partnership opportunities that will deliver increased returns to shareholders.

In the coming weeks the board will confirm the appointment of a new CEO who in conjunction with a strengthened executive team and additional independent director will supplement the leadership required to drive EGL to the next level of performance.

## Managing Directors Report

Thank you for the opportunity to provide an overview of our progress in FY 21 and our expectations for the remainder of this year.

Detailed company information has been released to the ASX today to enable an understanding and appreciation of the immense engineering skills, business acumen and customer base within EGL. During this presentation I will expand on some of the details in that information.

Last year was a difficult year for many companies and EGL was no exception. The urgent priority was to return the company to profitability despite the continued COVID restrictions particularly in Victoria and in our overseas operations.

To achieve an improved company performance the focus returned to the basic management needs to increase revenue, enhanced gross margins, and reduce operating and corporate overheads.

I will return to discuss the company's financial performance later in my presentation as I would like start by sharing with you an insight into the company structure, composition, and capabilities.

These four companies offer expert advice, engineering, and product delivery to quality local and international clients.

Baltec designs and manufactures equipment for the gas turbine industry; TAPC's important contribution to the environment is to remove harmful gasses, chemicals, and dust from process industries; TES provides essential services and boiler technology designed to efficiently produce steam, hot water, or heat to the commercial and industrial sector; and finally EGL Water which is an exciting new business segment for EGL where successful research and development has resulted in the removal of PFAS from contaminated Water, Leachate and Soil.

Baltec produces diverter dampers, filter houses, silencers, exhaust stacks, Guillotine dampers and heating and cooling equipment for the gas turbine industry. Gas turbines are becoming increasingly important as standby capacity to renewable energy production when the sun doesn't shine, and the wind doesn't blow. They can be started and reach 100% capacity within minutes and provide a viable alternative to battery power which have a 10-year life span and significant environmental challenges in disposal.

Filter houses must clean the air into the gas turbines up to hyper filter standards as even small dust particles will damage the turbine blades. There are significant barriers to entry for new entrants in this market as turbine manufacturers require proven equipment to protect their expensive turbines. The exhaust systems also have significant barriers to entry as they have to direct, silence and control exhaust gasses which are up to 700 Degrees C. Baltec constantly strives to develop new technology to improve the performance of the turbine,

resulting in a recent \$2M order to improve turbine output by up to 10%, providing considerable low cost benefits to the power operator.

TAPC is a leading technology company with a world class reputation in the design and delivery of solutions to reduce pollution from industrial processes. Wet and dry scrubbers remove toxic chemicals and odour whilst electrostatic precipitators and bag houses remove dust particles prior to discharge to the atmosphere. TAPC has recently completed a \$4M design contract where their know how will be a critical element in the building of a new \$500M rare earth metals plant.

TES was acquired just under 2 years ago and has seamlessly integrated into the EGL brand, providing a welcome contribution in revenue and returns. The technical skill sets which are available virtually 24 hours 7 days per week are a useful addition to the provision of maintenance a servicing across the group. The history and reputation of TES is a vital resource in the conservative market in which TES operates. TES boilers provide Steam, hot water, and heating to a wide range of food, hospital, industrial and process industries. TES is continuously refining their boiler technology and have already received orders for their improved boiler design, expected to be delivered early next year. Plans are in place to extend the new product offering range.

EGL Water is one of the smallest but one of the most exciting company's in EGL. We expect to announce the lodging of a preliminary patent for the removal and destruction of PFAS before the end of this year. This research has resulted from years of development in conjunction with our partnership with Victoria University. The preliminary patent will provide intellectual protection in most countries where PFAS is or is expected to be an issue. PFAS is often regarded as the new asbestos as its implications for the environment and health become known. There has been growing concern, successful litigation, and increased government intervention in an attempt to reduce the harmful impacts of PFAS. EGL Water's PFAS Separation and Destruction Technology is a viable solution for treating PFAS in contaminated groundwater, surfacewater, stormwater, wastewater and soil. It's versatility positions itself well as universal tool for the environmental remediation of PFAS contaminated locations. Site visits to prospective clients and the testing of contaminated samples are expected to result in RD&D contracts as a fore runner of commercialisation.

This year's results compared to the same period last year are indicating encouraging improvements however there is still considerable work necessary to produce the success expected by our shareholders. Results for the first four months of last year compared with unaudited first 4 months this year are:

Revenue is up by \$5M and a 40% improvement on the same period last year.

Overheads are reduced by 30% and \$1.3M over the same four months period.

EBITDA is over \$900,000 and an improvement of minus \$300,000 over this time last year.

To achieve these improvements, it was necessary to remove the silos surrounding each business entity which historically created independent marketing, engineering, and project delivery skills. This duplication of personnel assets was costly, inefficient, and suppressed the benefits from the transfer of interdivisional knowledge and development. EGL now

provides integrated advanced engineering, international sales and marketing, and professional project management of even the most complex international contracts.

The new organisation structure illustrates how simplified and streamlined the organisation is now, at the same time as reducing overheads and providing focused marketing and engineering resources.

EGL Marketing now brings together the considerable skills, experiences, customer base and knowledge of each of the divisions to facilitate the sharing of ideas, opportunities, and the vision for EGL. The order intake this year and carry over of work from last year should result in achieving the FY21 revenue target of \$54M, an increase of 40% over last year.

EGL Engineering and Operations harnesses the group's ability to develop and successfully execute bespoke client solutions. The team's unique knowhow in computational fluid dynamics (CFD) thermal and stress analyses, water treatment and advanced technologies in the treatment of air pollutants of dust, chemicals, heat and noise has led to the emergence of significant design and engineering know how as a precursor to major project work. Customers are increasingly aware of the need to minimize the environmental impact of their projects and rely on EGL to provide a cost effective environmentally sound solution. An engineering contract with Hastings Technology Metals Ltd valued at more than \$4M was successfully completed this year and is expected to lead to a substantial stage 2 order. Siemens now place separate engineering orders to quantify the scope and benefits of their forthcoming projects. Engineering design orders have also been received from process and energy producers. Typically, an engineering design order is followed by project orders of up to ten times the value of the engineering design order.

There are several ongoing challenges to achieve the profitability and continuous growth potential within EGL.

In creating focused marketing and engineering teams it is vital to maintain a degree of flexibility between each unit to enable support of the marketing team when there is a need to accelerate the pipeline build. Conversely there will be periods when engineering and operations need augmentation of their team. To encourage flexibility, a select core of experienced engineers from each team have been nominated to be able to move from one team to another. This also provides for continuous interaction and the exchange of information and skillsets.

It is impossible to accurately predict outcomes for the remainder of this year as the recovery from the Melbourne shut down, the continued limitations in interstate and international travel, the threat of a third wave and the increased restrictions in our overseas trading partners has a significant impact on any forecast. There are however several areas which have been optimized and expected to be improved as discussed earlier, namely a 40% increase in Sales, a 30% reduction in overheads and a \$1.2M turnaround in EBITDA in the first quarter.

At the end of December when the results from an additional two months are known and hopefully some progress on the containment of COVID is achieved that will enable further clarification of the expected outcomes for FY21.

### **Mr Adrian Siah – Chair - Audit and Risk Committee**

It is a pleasure to attend my first AGM for EGL, both as director and also a shareholder. My first two months have been busy with the board assisting me in understanding the key details of each of the operating businesses, as well as meeting the divisional heads in one on one sessions.

I am pleased to let you know that the opportunity I saw from the outside before joining the board is just as exciting -in fact, more so- from an inside perspective, with an amazing array of services for its markets and the opportunities of participating at different levels in major projects.

The team at EGL works well together and management and staff all work in a cohesive manner. It is clear that a great culture and work ethic exists and that all staff have the same mission and that is to make EGL the best it can be. This is a credit to the board's hard work in recent times.

Lynn and Ellis have spoken already on the operations and corporate side, so I won't restate their comments. However, I will say that I am looking forward to being part of the growth of EGL through my network of commercial contacts both in locally and internationally and through my relationship with investor and broker networks.

My strong background in accounting and finance will support my role as Chair of the Audit Risk Committee where I will have close interaction with the CFO, Andrew Bush, the Company Secretary, Stephen Strubel and of course, the external auditors. I am positive about our future and I look forward to being part of a great team.

Thank you