

Appendix 1 release



30 August 2021

SMW Group Limited - Preliminary Full Year Results to 30 June 2021

Preliminary announcement for the year ended 30 June 2021

Preliminary unaudited full year report on consolidated results of SMW Group in accordance with Appendix 2 of the NZX Listing Rules.

This report has been prepared in a manner which complies with generally accepted accounting practice and gives a true and fair view of the matters to which the report relates and is based on **unaudited** financial statements.

The accounting policies used in the preparation of these financial statements are consistent with those used in the interim financial statements for the six months ended 31 December 2020.

SMW Group Limited completed its acquisition of the Australian company All Industrial Network ('AIN') on 8 July 2020. Immediately prior to this transaction, AIN acquired Alertvale Pty Ltd ('Alertvale') and BAE Engineering & Solar Pty Ltd ('BAE'), both Australian mining services businesses.

The statutory financial results are set out in the table below. The SMW Group incurred a net loss after income tax of \$5.5 million as a result of the adverse market conditions associated with the COVID-19 pandemic and the unfavourable economic impacts on the coal sector within Australia. The results for the year ended 30 June 2021 are prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and also include several one-off costs associated with the integration and re-branding of the two operating business units. A summary of the underlying financial results is included below to facilitate an understanding of the underlying operational performance of the SMW Group and promote comparison with the wider industry.

Financial Summary	Year ended	Year ended
	30-Jun-21	30-Jun-21
	\$'000	\$'000
	Statutory	Underlying ¹
Revenue	52,003	52,003
EBITDA ²	(673)	3,776
NPATA ³	(5,245)	(796)
NPAT	(5,460)	(1,011)

1. Underlying profit reflects the statutory profit adjusted for the one off costs associated with the transaction that occurred on 8 July 2020.

2. EBITDA refers to earnings before interest, tax, depreciation and amortisation and is a non-IFRS measure

3. NPATA refers to net profit after tax adjusted to exclude the amortisation of intangible assets and is a non-IFRS measure

A reconciliation between underlying net profit after tax and statutory net profit after tax is detailed below:

	Year ended 30-Jun-21 \$'000
Statutory NPAT	(5,460)
Share-base payment expense ¹	1,033
Listing costs now deemed issue of share capital on acquisition ²	964
Transaction costs ³	2,046
One-off non recurring integration costs ⁴	406
Underlying NPAT	<u>(1,011)</u>

1. This expense relates to the shares issued to the Company directors and management including the tax obligations associated with the issue of these shares

2. Listing costs now deemed issue of share capital on acquisition represent the cash payment to made to the pre-transaction owners and the shares issued to pre-transaction shareholders

3. Transaction costs relate to advisor fees incurred as part of the transaction

4. The costs associated with the rebranding and integration activities associated with the the operating business units

Note: the normalisation adjustments between Statutory and Underlying NPAT total \$4.4 million. This total adjustment would equate to the difference between Statutory and Underlying EBITDA and NPATA

In accordance with NZ IFRS, SMW Group's acquisition of AIN, and AIN's acquisitions of Alertvale and BAE, both constitute reverse acquisitions. For accounting purposes Alertvale is deemed to be the acquiring entity of both reverse acquisitions and the financial statements presented are a continuation of Alertvale including comparative financial information.

Relevant matters in relation to the reverse acquisitions are as follows:

- Given the reverse acquisition nature of the transaction for accounting purposes, SMW Group has applied the continuation method of accounting which results in all comparative period information relating to Alertvale.
- Under continuation accounting, SMW Group is effectively presenting its financial results on an historical cost basis, whereby the assets and liabilities of the deemed acquirer (Alertvale) are recognised at their previous carrying amounts. No adjustments are made to reflect fair values and no new assets (including goodwill) and liabilities of the deemed acquirer are recognised at the date of the acquisition. The intangible assets recognised on acquisition consist of goodwill and customer contracts and relationships solely attributed to BAE.
- SMW Group's acquisition of AIN does not meet the definition of a business combination under NZ IFRS 3. It has been recognised as a share-based payment arrangement under NZ IFRS 2. Consequently, the shares issued to SMW Group's pre-transaction Shareholders are treated as share-based payments and expensed on the date of the reverse acquisition.
- The cash payment to SMW Group's pre-transaction Shareholders and the transaction costs associated with the reverse acquisition are also expensed on the date of the acquisition under NZ IFRS 32 as they are not transaction costs directly attributable to the issuance of new equity.

Given that the comparative financial information relates to Alertvale as the deemed acquirer, no discussion on the comparison between the two reporting periods has been included as the comparative information, albeit prepared in accordance with IFRS, is not like for like in nature.

No dividends paid, recommended or declared during the period 30 June 2021.

The Company has a formally constituted Audit & Risk Committee of the Board of Directors.

Consolidated statement of profit or loss and other comprehensive income - unaudited

	2021	2020
	\$'000	\$'000
Revenue	52,003	48,488
Other income	4,059	2,413
Expenses		
Changes in inventories	1,358	(1,327)
Raw materials and consumables used	(12,259)	(9,413)
Administration expenses	(5,307)	(3,689)
Freight & cartage	(578)	(430)
Employee benefits expense	(31,262)	(24,880)
Motor vehicle expenses	(1,210)	(1,060)
Depreciation and amortisation expense	(2,661)	(1,803)
Plant & equipment hire	(459)	(425)
Travel & accommodation	(460)	(602)
Other expenses	(6,263)	(1,332)
Impairment expenses	(139)	(210)
Loss on disposal of property, plant & equipment	(156)	(7)
Finance costs at amortised cost	(1,360)	(952)
Profit/(loss) before income tax expense	(4,694)	4,771
Income tax expense	(766)	(1,333)
Profit/(loss) after income tax expense for the year attributable to the owners of SMW Group Limited	(5,460)	3,438
Other comprehensive (loss) / income		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Loss on the revaluation of equity instruments at fair value through other comprehensive income, net of tax	(22)	-
Other comprehensive (loss) / income for the year, net of tax	(22)	-
Total comprehensive (loss) / income for the year attributable to the owners of SMW Group Limited	(5,482)	3,438
	Cents	Cents
Basic earnings per share	(10.29)	3,370,588.24
Diluted earnings per share	(10.29)	3,370,588.24

Consolidated Statement of Financial Position - unaudited

	2021	2020
	\$'000	\$'000
Assets		
Current assets		
Cash and cash equivalents	240	628
Trade and other receivables	10,745	7,544
Inventories	527	208
Contract assets	735	1,177
Other assets	545	584
Total current assets	<u>12,792</u>	<u>10,141</u>
Non-current assets		
Receivables	22	25
Financial assets at fair value through other comprehensive income	-	149
Property, plant and equipment	5,976	4,789
Right-of-use assets	9,219	7,978
Intangibles	8,512	215
Deferred tax	3,314	2,729
Total non-current assets	<u>27,043</u>	<u>15,885</u>
Total assets	<u>39,835</u>	<u>26,026</u>
Liabilities		
Current liabilities		
Trade and other payables	11,886	2,805
Borrowings	5,178	1,833
Lease liabilities	3,120	1,479
Income tax	1,886	1,581
Employee benefits	1,397	1,103
Contract liabilities	245	788
Total current liabilities	<u>23,712</u>	<u>9,589</u>
Non-current liabilities		
Payables	5,878	-
Borrowings	870	-
Lease liabilities	10,589	9,755
Deferred tax	3,217	2,214
Employee benefits	330	237
Total non-current liabilities	<u>20,884</u>	<u>12,206</u>
Total liabilities	<u>44,596</u>	<u>21,795</u>
Net assets/(liabilities)	<u>(4,761)</u>	<u>4,231</u>
Equity		
Issued capital	6,391	-
Reserves	(969)	22
Retained profits/(accumulated losses)	<u>(10,183)</u>	<u>4,209</u>
Total equity/(deficiency)	<u>(4,761)</u>	<u>4,231</u>
	Cents	Cents
Net tangible assets per share	(0.49)	(67,058.82)

Statement of Changes in Equity - unaudited

	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2019	-	22	1,195	1,217
Profit after income tax expense for the year	-	-	3,438	3,438
Other comprehensive (loss) / income for the year, net of tax	-	-	-	-
Total comprehensive (loss) / income for the year	-	-	3,438	3,438
<i>Transactions with owners in their capacity as owners:</i>				
Dividends paid (note 30)	-	-	(424)	(424)
Balance at 30 June 2020	-	22	4,209	4,231
	Issued capital \$'000	Reserves \$'000	Retained profits \$'000	Total deficiency in equity \$'000
Balance at 1 July 2020	-	22	4,209	4,231
Loss after income tax expense for the year	-	-	(5,460)	(5,460)
Other comprehensive (loss) / income for the year, net of tax	-	(22)	-	(22)
Total comprehensive (loss) / income for the year	-	(22)	(5,460)	(5,482)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	549	-	549
Deemed issue of share capital on acquisition (note 28)	391	-	-	391
Issue of ordinary shares as consideration for business combinations, net of transaction costs (note 28)	6,000	-	-	6,000
Reserve arising from business combinations under common control (note 29)	-	(1,519)	-	(1,519)
Distribution to owners of Alertvale Pty Ltd as part of a reverse listing	-	-	(8,593)	(8,593)
Dividends paid (note 30)	-	-	(338)	(338)
Balance at 30 June 2021	6,391	(970)	(10,182)	(4,761)

Consolidated Statement of Cash Flows - unaudited

	2021	2020
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	58,121	57,138
Payments to suppliers and employees (inclusive of GST)	<u>(49,370)</u>	<u>(47,596)</u>
	8,751	9,542
Interest received	-	2
Finance Costs	(1,360)	(952)
Income taxes (paid) / refunded	<u>(505)</u>	<u>(228)</u>
Net cash from operating activities	<u>6,886</u>	<u>8,364</u>
Cash flows from investing activities		
Payment for purchase of business, net of cash acquired	(2,557)	-
Payment for purchase of Alertvale Pty Ltd	(4,739)	-
Payments for property, plant and equipment	(1,750)	(718)
Payments for intangibles	<u>(150)</u>	<u>(94)</u>
Net cash used in investing activities	<u>(9,196)</u>	<u>(812)</u>
Cash flows from financing activities		
Payments from / (payments to) related parties	-	(284)
Proceeds from / (repayment to) borrowings - debtor financing	3,345	(4,323)
Repayment of borrowings - bailment finance	-	(984)
Repayment of lease liabilities - NZ IFRS 16	(1,423)	(418)
Repayment of finance leases	-	(1,125)
Dividends paid	<u>-</u>	<u>(424)</u>
Net cash from/(used in) financing activities	<u>1,922</u>	<u>(7,558)</u>
Net decrease in cash and cash equivalents	(388)	(6)
Cash and cash equivalents at the beginning of the financial year	<u>628</u>	<u>634</u>
Cash and cash equivalents at the end of the financial year	<u><u>240</u></u>	<u><u>628</u></u>

Notes to the preliminary financial information

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all the new or amended Accounting Standards and Interpretations that are relevant and effective for current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. The two main areas of judgement, estimate and assumption that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Going concern

The financial statements have been prepared on a going concern basis.

At 30 June 2021 the Group's liabilities exceeded its assets resulting in a negative equity of \$4,761,000. The Group also had a working capital deficiency of \$10,920,000. Additionally, the Group incurred a loss from continuing operations after tax of \$5,460,000. In the same period Group had positive net operating cash inflows of \$6,886,000.

The net liability position of the Group at 30 June 2021 results from:

- Accrued deferred vendor consideration payments (\$7,123,000). The acquisition of Alertvale and BAE by AIN was partly settled through debt facilities with Scottish Pacific (BFS) Pty Ltd while the remaining consideration has been accrued as deferred vendor payments.
- Fees paid to external advisors relating to the transaction which have been settled through operating profits; and
- The reduction in operating profit of the Group due to the adverse market conditions associated with the COVID-19 pandemic and the unfavourable economic impacts on the coal sector within Australia resulted in a reduction in customer orders, project delays and cancellations and in turn a reduction in revenue, particularly in the second half of FY2021.

The Directors of SMW Group are of the opinion that the going concern basis remains appropriate after considering the following mitigating factors:

- The Group has historically made positive operating cash flows which includes net cash from operating activities of \$6,886,000 for FY2021.
- At 30 June 2021, the majority vendors have agreed to defer their deferred vendor consideration payments until such time as the Group has sufficient funds to make these payments. At 30 June 2021, the Group continue to have ongoing discussions with the remaining vendors on deferral of their outstanding payments.
- The Group has requested a payment plan with the Australian Taxation Office (ATO) to pay its outstanding debt at 30 June 2021 over a four year period. While no formal agreement has been reached the Group believe that it will be able to secure a payment plan with the ATO.
- The Group has prepared a cashflow forecast and based on this forecast the SMW Group will be able to generate sufficient operating cashflows to pay debts (including the outstanding tax debt payment plan) as and when they fall due post the deferral of the deferred vendor consideration payments.
- The Group has secured several large projects towards the end of FY2021 which will commence in FY2022. These projects will run over a number of years however the annual expected profit contribution from these projects is approximately \$1.1 million. These projects were not included in the Group's cashflow forecast.
- Leave provisions included in current liabilities of \$1,397,000 are not expected to be fully settled within the next 12 months.

The Directors believe the consolidated entity is a going concern and will be able to pay its debts as and when they become due and payable, this assumes the ongoing operations deliver the matters described above.

Impairment of intangible assets

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows

Audit Status

The report is unaudited. The 30 June 2021 audit is ongoing.