

# Q Technology Group Limited

CEO and investor presentation – AGM 30 November 2017

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# 2017 – a year of repair

## Leaner focused team

Moved from a branch stock holding structure to a more efficient centralized procurement and distribution model.

Removal of branch level management layer, stripping cost from the business.

New CFO with operations/stock management focus.

New Victorian sales manager with National sales responsibilities.

## Better products

Relaunch of QAlumiaPro product range into the base-level volume market.

## Better processes

Improved procurement process and focus on supplier management.

Focus on selling stock on the shelf.

Improved stock management - centrally controlled with improved head office and branch focus.

Improved new product release procedures.

# 2017 financial result in context

- 30 June 2016 abnormal year end adjustment of \$1.75m to provide for slow moving stock plus other one off June 2016 P&L adjustments, as well as \$635k tax benefit write off. Final 2016 NPAT after one off adjustments was a loss of \$3.45m.
- 2H 2016 positive EBITDA before one off June 2016 year end adjustments.
- FY 17 sales and gross margin lower than 2016 due to:
  - focus on selling older stock on the shelf to generate cash at lower selling prices
  - stock shortages of key base-level volume products
  - lack of general product on the shelf including CCTV and alarms due to cash constraints impacting ability to pay suppliers
  - resultant lack of sales momentum and lack of proactive customer management
  - lack of availability of mid market VMS stock due to supplier issues

# Major supplier impact

Base-level products launched in Dec 2015 generated:

- Sales growth from \$0 sales to \$27k a day in 6 months.
  - Sales up to \$498k in the month of June 2016 at 26.0% margin.
- 
- After converting many customers to new products, a dispute regarding return of stock resulted in a lack of product to sell.
  - Inability to negotiate any assistance.
  - Breakdown in relationship.
  - Loss of customers and sales.

# Working capital focus

- There has been significant focus from the new CFO to improve working capital, in particular stock levels and stock management in 2017.
- \$2.8m in working capital has been freed up from balance sheet this financial.
- Notably stock has reduced (\$3.1m) from 183 days at 30 June 2016 to 127 days at 30 June 2017 with further improvement expected.
- Creditors have also reduced from 134 days at 30 June 2016 to 95 days at 30 June 2017 reducing pressure from suppliers to pay overdue invoices.

## Comparison

Days	June 16	June 17
Trade Debtors	4,372	2,101
Inventory	6,123	3,049
Trade Payables	-5,037	-2,516
	<b>5,458</b>	<b>2,634</b>

# 2018 mission

- To provide a complete range of products and services - for base-level, medium and high-end solutions in CCTV.
- To extend the range of intrusion and alarm product availability.
- To strengthen partnerships with suppliers.
- To improve customer satisfaction relating to timely delivery.
- To provide an acceptable return to shareholders.



# Management's BIG 5 immediate objectives

1. Increase sales to budget expectations.
2. Increase gross margin percentage.
3. Improved product management strategy.
4. Continued improved stock management.
5. Strengthen management controls and communication.

# Actions to support management's BIG 5

## **1. Increase sales to budget expectations**

- QAlumiaPro Relaunch
  - Planned relaunch in November of the QAlumiaPro base-level range incorporating the best technical cameras and NVR's at a competitive entry level price to achieve volume sales.
- Website.
  - Specification complete, developer chosen, project commenced, launch November 2017 allowing customers to place order requests on-line.
- High-end VMS (Video Management System) sales
  - Maintain the increase in high-end business e.g. Flir DVTL sales increased 20% 2017 v 2016
- Promote intrusion and alarm sales with new smart home security solution in Q4

# Actions to support management's BIG 5, cont.

## 2. Increase margin %

- New price book released 1 April.
- Improve charging for professional services activities
- Continuous management review of margins vs the price book
- Stronger margins from QAlumia products

# Actions to support management's BIG 5, cont.

## **3. Product management and supplier strategy**

- Key suppliers and branding confirmed for next 12 months
- Regular supplier contact to ensure no misunderstanding
- Improved product release process
- Improved procedures and information flow to support web site and price book
- Improved tech support and service team, with new structure

# Actions to support management's BIG 5, cont.

## **4. Continued improved stock management**

- Reduce stock by selling stock on the shelf
- Continued reduction in stock days cover, 95 days short term target in FY18
- No main warehouse stock at offsite locations
- Target to send 50% of stock to interstate customers in FY18
- Reduce freight costs and improved freight recovery through new operating platform
- Improved service department warranty stock levels and controls

# Actions to support management's BIG 5, cont.

## **5. Improved management controls / other actions**

- Appointment of Andrew Phillips (former CFO) as Chief Executive Officer and Howard Whitesmith (former NED) as Managing Director
- In-depth quarterly branch reviews by CEO/MD
- Weekly sales meetings, including project pipeline
- Regular review of exchange and inventory costing rates
- Cost cutting - Rent WA, Rent QLD
- Improve efficiency of service department to include 1300 #

# Summary

- 2017 has been a year of repairing the balance sheet and the business.
- Historical poor procurement and product release processes significantly impacted cash flow and the ability to purchase and hold stock which also impacted supplier relationships.
- The impact of major supplier dispute in 2017 was considerable.
- Notwithstanding QSS has a high caliber team committed to delivering results and growing market share.
- The issues of 2017 (and prior) have been addressed and a plan of action to rebuild a better business has commenced.
- 2018 management team strong on execution ability
- Stronger Board oversight of objectives & implementation

# Contact

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