All right, everyone. Thanks for joining us this evening or this morning, depending on where you are around the world. But we've got a good one for you today.
We're speaking to Andrew Bennie, the CEO of Advanced Energy Holdings.
The ticker code here is AIH.
This is a business that's all about material science, so it specializes in the protection of critical assets and infrastructure in some of the world's most, I guess, demanding industries.
So, think of offshore oil rigs, think of offshore wind farms, think of deep sea cables, think of ports, all of these kinds of things.
Anywhere where there is equipment that needs to be protected from various environmental stresses. If I can really dumb this down a bit, we're using science here to create some really tough plastics and foams and rubbers, and we're going to wrap that around all kinds of big machines to sort of stop them, insulate them from the outside, or insulate the outside from them in some way, shape, or form. And when you're talking about assets and infrastructure that's worth quite a pretty penny, this is pretty important stuff, not just for the life cycle of the asset itself, but also for its just nominal performance and optimal operations.
So the business itself is brand new to the ASX.
It only listed in October of last year, but the origins of the business go well back, back to about 2005, I believe. And it's a big business.
We're talking about a company that's got 800 staff in various locations around the world. Last year it did 330 million in annual revenue, and it's profitable too, which is always worth a shout-out.
Twenty-five million in net profit as of the last year, and there's a big fat order

book in front of this company as well, well in excess of $200 million.
And so, things are looking really interesting and, yeah, I'm really
keen to dive in and learn more about the business.
The final thing to say before I welcome Andrew to the screen is that
none of this, as you know, is advice.
We're all care, no responsibility here.
Oh, and also as well, if you do have any questions, please avail
yourself of that Slido link. We would've sent it out to you as an email.
It's also there on the site. So if any questions come up throughout the chat, be
sure to pop them in that, and I'll put them to Andrew when we get the chance.
But, with that out of the way, Andrew, thanks for your time today.
Yeah, no problem. Nice to join you.
Congrats on the listing.
Yeah, thank you very much. It's flown by since the end of October.
Yes.
It's good.
Yes. Good and bad, right?
It's nice to get a little bit of extra attention as a listed
company, and it's nicer to have a bit of easier access to capital, but then you
have to deal with people like us sort of badgering you all the time.
So it's not
all great.
But hopefully I can make this a little less dry than the typical
conversations you might have. And, as I said to you off-air, what I
really want to do here is try and build the foundations up so
we have a good base of understanding here.
So I tried my best to give a very high level view, but if
I was to run into you at a barbecue or a dinner party and sort of say, "What's the

business about?"

What's the elevator pitch? How would you describe it?

I think I'd take what you said. I thought it was great.

Essentially we're a business, as you said, we're material science.

We make products that protect things.

We protect against fire, we protect against explosion, we

protect against mechanical failure,

and it's all in areas where the cost of failure is massive.

Offshore wind, oil and gas,

anything like that.

And therefore, as a consequence, we're operating in niches that are very well

protected, high levels of IP, very difficult to get your product

qualified, and therefore, as a result, not too much competition

in those niches that we operate in.

Interesting.

And as a business, we are diversifying

away from oil and gas. We're doing a lot more communication cables and

things like you talked about. But our heritage is

oil and gas, and in particular deep water oil and gas.

Yeah.

So, current hotspots,

the Americas, west coast of Africa, all those deep water

environments.

Yeah.

And our equipment's designed to go

up to around about 3,500 meters under the sea.

Amazing.

And it's designed to fit and forget, so it never comes back.

It's there for life, a field, 25, 30 years.

Yep.

I'm keen to dig into what you said there with the not much

competition.

Niches are great, right?

Yeah.

In a lot of different ways. But what is the

reason for that? Is it just very high barriers to entry?

Is it the IP that's sort of required?

Is it the manufacture of these things?

What

in your view limits that competitive threat?

It's a little bit of everything, but predominantly it's the qualification of the

product. So if I take one of our products, we do a coating

material for sub-sea infrastructure that essentially keeps the oil

hot so it doesn't block the structures.

And if you can imagine, you've put something 3,000 meters down on the

seabed and it blocks up, it's a big problem to fix.

Mm.

So to qualify your material, one, you've got to

design it, formulate it, test it. That testing takes

one to two years in duration, costs multimillion dollars,

and when you've done it, it still might not work.

And you've got to qualify that, and then you've got to get it approved by the oil

companies, and that creates this massive barrier to entry, and

you have this IP,

type approvals against standards and things like that, which means it's very

difficult for somebody to just go, "Do you know what?

Tomorrow I'm going to sell that." Because they just can't.

Yeah.

And then you also, once you've got something that works, the consequences of

failure being so high, people-You know, no one ever got fired for

buying an IBM computer, did they?

I love that.

So they buy the same thing that works.

I use that a lot. Yeah.

Yeah. So it's the same sort of thought process, really.

Yeah. The other dimension to that too, is reputation

absolutely is important when the stakes are so high, but

also just from a pure cost perspective, I suppose some of these

projects are multi-billion dollar.

So it seems like a silly thing to sort of try and penny pinch on

what is a percentage of the total is, is probably a rather small expense.

Yeah. I mean, they just announced the final investment decision on

Bonga Southwest, which is an offshore field offshore Nigeria, and that's 21

billion US dollars.

Wow.

And our share of that will be tens of millions, probably.

Yes.

But our technology is enabling technology.

That field will not work without our product.

Interesting.

That's a lot of money to pledge for it not to work.

Do you reckon that gives you a degree of pricing power?

Well, to a degree, but there is enough competition to keep us honest.

Right.

And,

it's not like a zero competition. So, and our

customers are good at that. It's what they do.

Yeah.

So yeah, there are some

cost pressures and competitive pressures.

So,

how many products are we actually talking?

I was having a squeeze through some of the material.

I want to say a lot, but maybe you can quantify it for us a bit.

Oh, yeah. I try to think about it in terms of chemistries.

Right.

So we're experts in phenolic epoxy,

polyurethane,

rubber, and silicone technology, and we can apply that material science

expertise to anything.

Right.

So, we have things from

cable protection systems, we have things that hold

small pipes to large pipes. We have insulation materials, multiple

products, and that. So we've got a huge product portfolio.

Mm-hmm.

We can do boat fenders, quayside fenders, but it all comes back

to this core chemistry, so we can adapt it to anything,

which is the beauty of our business in a way.

We've got these core pillars of technology that we can apply and we can

utilize in different industries.

Like communication cables is a new area for us, which

we're looking to build out, which we got some good

orders this year, but that's fairly new to us.

We're doing a little bit more in defense than we used to.

But it's just based on that core technology.

Yeah, that is interesting. So I'm sorry, I'm going to ask a bunch of

dumb questions here, but

hopefully it sort of helps flesh out things for everyone.

So do you manufacture all of this yourself too, or is this more you pass this on to

a contract manufacturer? Or how do you

deal with such a wide variety of applications?

I mean,

my inner 12-year-old wants to imagine a factory, but I'm sure it's far more

complex than that.

No.

We do tend to make most of them. We're pretty vertically-

Right

... integrated as well.

Right.

So one way to think about it, most of our orders are engineered to

order, so everything we do is slightly different and engineered, but

the building blocks are the same, if you like.

Right.

So if we are to make a cable protection product,

it's using the same equipment, the same materials as a bend

stiffener that stops a pipe sheering off as it

enters into a structure or a cable protection system for a wind

farm. It's all the same building blocks using the same equipment in the

factory, but it's engineered to order, so it comes out looking slightly different.

That's fascinating. So I guess part of the

operational challenge or,

I guess, skill set that you guys have built up is, is being able to sort of

optimize the throughput of that manufacturing capacity to make sure that
you've got umpteen orders in front of you,
which ones do we do, in what order, when are deliveries?
Is that kind... And with a retooling sort of phase in between each
one? Have I got that basically right?
Yeah. Pretty much. Labor is a very small element of what we do.
It's maybe 5 to 10% of the cost of a product.
Right.
But the having sort of things like tools is very important and the
capacity to do it. So, for example, we've got
a very large warehouse full of tools that we've acquired over the years, and we've
probably got $50 million worth of tools-
Yeah
... that we catalog and we know somebody might have ordered something three
years ago, so we can go and find the tool and make it again.
Mm-hmm.
So over that time, you build that sort of capability.
So we've probably got a tool to fit all occasions for
polyurethane products of some description or other.
And so where is that
manufacturing capacity at in terms of its capacity?
So let's say you had the, for want of a better term, the problem of a
bunch of orders coming in, which is a gold-standard problem to have, right, as
a business.
Yep.
But there is only so much throughput that's there.
Do you feel as though what the infrastructure you've got sort of gives you
a bit of

buffer, a bit of room to sort of grow

into things, or are we looking at a requirement for a bit of

CapEx at some stage?

Not at this point. We think we have around the

capacity to do 160% of what we posted in 2025.

Oh, wow. Okay.

Product by product.

Yep.

So we're not running

24/7 on all products. We're doing day shifts,

so that's the easiest way to flex what you've got.

So we've got plenty of capacity. So CapEx for us is pretty low.

We normally spend around about, say, $10 million a year on CapEx, but most of

that is geared towards new products, and the equipment to

manufacture new products.

Yep.

Very little. About $3 million of maintenance CapEx a year.

Wow, that's interesting.

Okay, so

when you guys

get an order, what are the nature of these orders?

This is so far removed from our day-to-day experience as sort

of consumers. You don't just walk into a shop and pick it up off the shelf.

There's a

tendering period, there's

signing of contracts and all of that kind of stuff.

Give us the broad picture of how that works and when the money sort of comes in

from when the ink is dry to when it hits the bank account, and how

all of that kind of works.

Yeah, sure. So,

I'll look at a typical oil and gas project.

So there's a huge amount of visibility about what projects are

coming down the track.

Mm-hmm.

So when an operator is looking to

sanction the money for the development, he'll go to a contractor who will go

and get prices on a budgetary basis so he can set his budgets.

And once that's done, they'll do detailed engineering, then they'll come

back out for more prices to various suppliers.

Then they'll fix the design, and then they'll formally come out for design

and final bids. That process can take a year to two years to get-

Yeah

... to that point.

Yeah.

And then when they come out to final bid,

and you bid the project,

normally a project can take a year, 18 months from when you've got it.

So you've done your work, you know what it's going to look like, and then when you

win the contract,

you then go into an engineering phase,

then you go into manufacturing and the delivery phase.

And what we try and do is get paid throughout that process, so we're cash flow

neutral.

Yeah.

But we do get a range.

We get better terms on some contracts.

Some contracts we don't get paid till the end.

But it kind of balances out. But overall, we
generally get a neutral cash flow throughout the course of the project.
So it's normally paid by milestones, maybe a bit on order, a bit on the
design, a bit on the receipt of key raw materials, things
like that, and then final documentation at the end.
That's really nice. I was half thinking it might be sort of something you've got to
just have this huge amount of working capital, you sort of carry the risk and the
cost up until at the end point. Sometimes when you're dealing with these very, very
large counterparties, they throw their weight around. So that's great.
Does that mean that you get a little bit of visibility?
I mean, and I really don't want to sort of...
I'm not trying to fish for any kind of number or anything here, but
as you're a listed company, the question you'll get asked-
Yeah
... all the time is, "Give us the outlook." And but
just as an aside, for the record, I'll advocate for
saying you don't need to do that, as much as people want.
As much as people like to tell you that you have to, you really don't.
Yeah.
The amount of times that we've seen companies sort of hoisted by their own petard,
really.
Yeah.
And it's kind of, not for any malfeasance, it's just sort of like people ask,
people give their best guess. It falls short by 3% and the
market loses its mind, and it's a nonsense game that we
sort of go through. So I'm very much one for,
I think a lot of participants in the market get just too close to things and
they miss the broader picture. So I'm not trying to sort of go down that
angle, but just as a general sort of trying to get a better

understanding of the business, where you sit today,

do you get that 12 to 18 months visibility in terms of what-

Oh, yeah

... the business is likely to do?

Oh, yeah. Most definitely.

Our pipeline of opportunity spans around about three years.

Right.

And that is projects where people are

deciding whether the project is feasible or not, are down to

final bids, which are going to get placed as an order in next two or

three months.

Yep.

And that's really substantial. That's well over $1.2

billion of opportunity that we can see in front of us.

And then coupled with that, we look at

the public announcements of our customers.

So, you're looking at Technip or Saipem or Subsea 7.

Yeah.

All of which are saying, "We've got backlogs of over two years." So

for us,

they're all our top 10. They're all part of our top 10 list of customers.

So we know that they've got work that they have not yet placed on us.

So we get a lot of visibility and a lot of

transparency in what's coming down the line.

And I think that's just a function of these large infrastructure projects.

Yeah.

They take such a long time. They're very well signposted.

You can see them from afar and you can then

look at what bids you've got and where you're positioned, and as it moves
through the pipeline down to
a level where you think you're going to get the order.
Yeah.
Super interesting. So,
I've moved away from
my screen here, but when, I think it was a $220 odd million
order book, when investors read that, is that work that has been
effectively secured, or is some of that still in tender and
yet to be seen? Or how does that work?
How should we interpret that number, I guess?
When we say order book, that means we have a contractual commitment to
deliver product for that value.
Right.
We only put in the order book anything where we are absolutely fixed and firm, and
we've got the contract for it.
Oh, that makes you a little bit unique. Okay. Yeah, nice.
Tell us a bit about the... You sort of mentioned some of your bigger customers
there.
Tell us a bit about the
diversification for you guys in terms of
exposure to particular customers, but also
to various sectors as well.
Yeah, sure. So,
we
don't have too much concentration customer-wise.
Our biggest customer
speaks for about 16% of our revenue.
Okay.

And that's pretty consistent year in, year out.

Yep.

Diversification, we've actively-sought to diversify since about

2017,

which was the after-effects of the oil price crash.

So we've got a much broader customer base than we used to have.

But again,

as I said, we've got a big focus on oil and gas.

We deal with all the big boys, and there aren't that many of them.

Yeah.

So some move up the customer list, some move down dependent upon what work they've

got at the time and where they are in their project cycle.

So the diversification was

partly to sort of help smooth out some of the lumpiness and

probably a little bit of column A there, but the other part of it just being

you saw opportunity elsewhere, I guess.

Yeah. As I said before, we've got all these

technology pillars and all these chemistries that we could apply to

anywhere else. So we have. We've diversified.

A decade ago, we were 90% upstream

production oil and gas-focused business.

Yep.

Now we're about 55% upstream oil and gas with a lot

more LNG, a lot more industrial, and a marine

business that sits alongside that using those technology

pillars, which is

more legs to the stool.

The more legs you got, the more stable you are as a business.

And we are trying to build in resilience for any cycles or anything like that.

Yeah.

Another thing I'll quietly advocate for is, I know

on the market,

people love consistency. They love these staircases that go up and to the right.

Of course, it makes sense. But I think a lot of the

time investors miss great opportunities because

we just have these 12-month reporting periods, or six-month, or three months,

depending on sort of where it's at.

And sometimes they're just businesses that just

work on big projects in sectors that can be cyclical, and

investors have a very hard time, I think,

me included, I shouldn't try and exclude myself from this, to

distinguish between what is the normal to and fro of an industry and the

activity that's there, and what might be

better defined as a structural decline in the

business, i.e., is it just a sort of a lull in the work at the moment or are

things in trouble? And obviously that makes a great deal of

difference for a whole bunch of reasons.

Yeah.

But from an investor's point of view, it's not a terrible thing because when the

market sort of freaks out about six months of something that was down a little

percent and there's absolutely nothing wrong with the business, it

strikes me as an area of very

great opportunity. So I only just ask it because I

think forewarned is forearmed. Is it, despite

the diversification in sectors and customers and the rest of it,

is that something that we should expect as investors, it's just going to inherently

sort of be a little bit up and two steps forward, one step back kind of thing?

Or maybe I'm barking up the wrong tree.

Maybe it is something that you can engineer to be relatively

consistent.

There will be fluctuations half to half.

Yep.

And we've done some work on this, but before we listed, we never really cared.

Yes.

It's going to change.

So now we've looked at it. So we went back 11 years, and

one year we did 50/50.

Right.

Half one, half two.

Yep.

Seven of the years we did a bigger second half than we

did first half.

Mm.

From a revenue top line 40/60.

Yep.

And then the balance of the years were the other way around.

Mm.

And

we don't really understand why. It's just the way that the projects fall.

Yep.

But as an investor, you shouldn't be concerned because, as I said, we've got so

much capacity that if-

Mm

... the first half is down and the guidance is still there,

we're not short of capacity to catch up if the work is

there.

Yeah.

So yes, there are fluctuations half to half.

Yep. Great.

So for this year, for example, we are

expecting a better second half than first

half.

I just lost your video there, Andrew.

Make sure-

Am I back?

There you are. There you are. Yep, all good.

Yep.

Okay. Yeah. Great.

I'll get through the dumb questions.

We'll get to the more interesting stuff in a minute.

But I guess the other one is

why list? And I can see just on the material there's opportunities, sort

of organic growth opportunities and the rest of it.

I guess

the view from the board and management was there's an opportunity here, and

being a listed entity, you're better able to sort of prosecute it.

Is that a fair assessment?

Yeah. We

wanted to grow.

We think we're pretty good at acquisitions.

We think we can bed them in quite well.

Mm.

We've had some good success.

Yep.

We've done a lot of work destined for Australia, but
through engineering contractors in Korea or China or wherever.
Mm.
So we saw opportunity that way, and we also felt that being listed on a primary
market
was good, and we also felt that the market understood us with its background
and resources and that type of thing.
Yep.
And we were prompted to look in Australia because of
our interest in Matrix,
which I know if anybody's looked at our ASX announcements, we just
as of today entered exclusivity with for an acquisition.
I saw. Congrats.
So yeah. So that was our primary interest.
You got a bit of dry powder there by the looks of it, too.
Yes, we did. That was
one of the key things. We
generated what we thought was around about $100 million of dry powder.
Yeah.
But then obviously with earnings and things, you're building on that all the time.
Yeah.
So
even with the Matrix... acquisition going forward on an
all-cash deal. We've still got powder for further acquisitions as well as we
move forward.
Yeah. Always a nice position to be in.
Tell me, with the acquisitions, what is it that you're looking
for?

I suppose the answer is, it always depends, and each one is
individual, but by and large, is it as a foothold
into a new industry or, sorry, a
sector, or
is it a new technology potentially that you're acquiring, or perhaps it's a new
geography, or probably a combination of all three and some other things?
Yeah. So one of the things that we've successfully done, we've grown around
about 20% per annum since 2008 organically.
And what we've been successful at doing is cross-selling, where
we've been able to take our products and sell it into another territory.
So for an acquisition, what we're looking for is something that's got a geographic
focus-
Mm.
... where we're not particularly strong.
Some products that we don't actually have, so that we can take them and sell
them in the rest of the world where we are strong.
Yeah.
And the ability for us to sell our existing products into that
territory. If we can-
Mm
... tick all those three boxes, then it's a really good
acquisition.
Right.
And then obviously, the one we're contemplating with Matrix is a market
consolidation, which has got a whole separate set of drivers.
But the Matrix thing sets us up for a platform for Australia anyway, which
we don't currently have.
Yeah, nice.
Yeah, did I read this right? 800 people in the organization.

Give us-

Yeah

... a sort of a bit of a cross-section there. Are we looking at engineers?

Are we looking at chemical scientists, salespeople, or the

usual, I suppose? But what does that pie chart look like?

We are a pretty well-educated workforce.

There's a lot of people

in the team with degrees or second degrees.

A lot is engineering. We have a lot of material scientists,

some chemical engineers, mechanical engineers,

just general chemist, formulation chemists.

Yeah.

And that's

really

the ESOS as a business really. It's the ability to

develop and engineer the products for when we win the contracts.

Then we have quite a few people overseas.

The bulk of the people, about maybe 500, are in the UK.

The rest are in our overseas territories and again, the same sort of mix.

A lot of engineers, a lot of project managers, and people like that.

Yeah.

Yeah, and

the workforce, shop floor-wise, maybe 250,

300, and then we have a team of installers that travel the world

installing our products of maybe 100 people or so.

When you see businesses that have a

very smart workforce like that, very capable, very intelligent, very

well-credentialed people, they tend to be people that have options.

I might be
highlighting something that's not an issue for you guys, but it is like there's
that retention sort of component because there's the degree,
which is great-
Yeah
... but there is also the institutional
knowledge that is built up from having worked with Advanced Energy
for so long. You know the people, you know the processes.
So it is always a balancing act
between trying to sort of attract and retain the best people and also,
it's a business, so you can't just throw unlimited sums of money at it.
I don't really know what the nub of my question here is other than I suppose- ...
how do you handle all of that?
Yeah. Retention is a key thing. I think we're the sort of
company that people either love it or hate it.
We
are pretty fast-moving and there's lots of opportunities.
We're not rigidly bound by lots of processes, so that if you
want to try something, you can try something.
If you want to work in a very structured environment, we're probably not the place
for you. So what we-
Right
... find is if somebody stays a year or two, they stay for a long time.
And we try and develop people. We've
sponsored about 15 or 20 MBAs in our time, where we
identify someone who's future management potential for the
business. So we try and invest in our people,
give them good opportunities, opportunities around the world, and
help them to further their education.

And we do get, if somebody's been here two years plus, then we generally

get good retention-

Yeah

... and we are an organization that they want to work in.

Yeah. It's one of those things you always read as an investor, how important

culture is, and the more I've been doing this, the more I kind of it's almost

everything, right? Like, a business is just a group of people, and

there's something, it's

hard to define. It's easy to see when it's just

there, and it just makes

for such a better business when you've got people who are sort of driven.

They've got a purpose. They want to work.

Especially when you get the guys, and I say

this

in the most positive way, the nerds, right?

Who just love to get in there and start messing around with stuff and tinkering

and building and it's the most fun you can possibly have.

And,

I think when you've got all of that, it's a very special thing.

So, yeah, more of a comment than a question.

Yeah. For us, it's about trying to get an entrepreneurial

spirit so that when somebody-

Yeah

... sees an opportunity, they believe we can solve the problem.

Yeah.

As opposed to coming along going, "Oh, they got this opportunity.

That's really difficult to do" or-

Yes

... "We'll lose loads of money." They go, "I've got this opportunity.

This is going to be fantastic. We can make a fortune."

Yeah.

We'd rather have lots of them and then weed them out,

than everybody being negative about what our market is

selling us.

Absolutely.

We basically givea problem is we'll give it a good

go.

Yep.

And then we're successful, not all the time, but we're pretty

successful. 80, 90% of the time we can engineer a way to a good solution.

I know enough engineers, Andrew, to know that there's nothing that's more exciting

than a good problem. So-

Yes.

And I get it. I totally get it.

Are there any, and again, not to sort of over-egg this particular pudding,

but

the world is changing very fast. There's

transitions in all kinds of different sectors and

industries and technologies. Would you say that there are any sort of

notable,

for want of a better term, macro tailwinds, or

structural industry tailwinds that are sort of changing?

I

reading some of your material there before and

with the build-out of a lot of these offshore wind farms, I suppose that

might be an example of that. There's a lot of stuff happening in energy at the

moment, too. So I'm not trying to draw out anything that might not be there, but

is there anything there that you'd point an investor's attention to?

Yeah. So yeah, wind farms for us are growth area,

and certainly where we're based in the UK, the UK's pretty dedicated to

wind farms.

Mm.

They've modified their contract terms to make it more attractive.

So as a country, we're pretty dedicated to that.

What we tend to see is that's true in a lot of European countries as well, and

then some high-density areas like Taiwan and Korea, where we see

those sorts of projects.

So we see growth there.

We also see a longer-term, 2030 and

beyond growth for floating offshore wind, which is a

great opportunity for us because-

Mm

... a floating offshore wind turbine is five times as much product as a fixed

one. So-

Right

... we get to sell more.

Yeah.

UK's got a few, Korea's got one.

And certainly energy itself

it's not going away. It's going to continue to

grow.

Yeah.

And one of the things that a lot of people don't realize is that just to

stand still in daily oil production, you've got to replace 8 to 10% of what's

being produced-

Mm

... because it just

fades away. So you've got that constant capital cycle.

Yes.

And then there's a couple of good things in our favor.

As I said before, deep water's our sweet spot.

Yeah.

Going back a decade, deep water was a really expensive resource to develop.

Mm.

It's now the second cheapest next to drilling a hole in the Middle

East.

Wow.

But given what's going on in the world, people are looking for access to their

oil, and therefore-

Right

... deep water developments we see and we feel are

going to develop at an increasing pace and is now a real sweet

spot for the major oil companies, and also

it matches our product profile as well.

That's super interesting. I meant to ask you this before, so with the

undersea cables, they're

set and forget kind of thing. But for a lot of the other stuff, I suppose there is

a sort of life cycle to it.

Is there a

proportion of your revenue you could point to, it's not the right

term for this kind of business, but more of a recurring nature in terms of

revenue as things need replacing or?

Yeah. We tend to look at recurring revenue from a

client-by-client point of view-

Right

... that we get a lot of work from the same client for the same

thing, and we've worked with a lot of clients for many, many years on the same

thing.

Yep.

Maybe about 10% of our revenue is things related to the

maintenance of a field. Most of our products are there for the

duration.

Right.

But if there's a mechanical failure or something and it comes back, then people

require more raw materials and more of our product.

But it is quite a small part, to be honest.

Yeah. I was going to ask you this as well.

What about the R&D side of things? You are right now enjoying the

fruits of previous R&D efforts.

Yeah.

And it's great to have those IP protections, but they don't last forever, and

people develop other solutions. So again, there's no right or wrong answer to this,

but it is one of those difficult balancing acts is like

R&D sows the seeds to future revenue, but you could

easily... It's a bottomless pit in a lot of ways.

As the CEO of the company, how do you try and balance that

tension? How do you think about it?

Yeah. We've

always developed one or two new products every year since

we set out. So we've always got this constant investment in

R&D. We don't do very much research. Most of it is development.

Most of it is market-led. So we have a really

well-defined process of gate
stages where we have to go through that validates whether the development's worth
it or not.
Mm.
We spend around about $3 million a year on the people
element of developing new products, and then a
further $4 million normally around on equipment
to commercialize those products as when they're developed.
Well, from my point of view, I try to make sure they're as much based on the market
as possible. So if a client comes to us and says, "We've got a problem, can you
solve it?" If it's a one-off-
Mm
... problem, we'll say, "Give us a contract and we'll solve it."
Yeah.
But if it's something where we think we can leverage it to other customers who
may have the similar problems, we happily do that work and
develop a solution, and then create a product out of
it.
Yeah.
But it's kind of the DNA of the business. That's what we always do.
We're always looking for those new opportunities to develop, and we have
the people and the skills,
and we are spending time on up and coming products
for new problems.
Yep. Interesting. I
know it's more of a board level kind of question, but
the
policy for dividends-I'm sure you've
gotten the memo with Aussie investors, we love our franking credits and our

dividends.

That being said, again, let me just be clear here that I

think

the proper North Star for an investor to look at it is really just sort of like

if a company has a very high return investment opportunity, they should most

definitely keep the cash and reinvest it, because you do

far better than that. And that dividends is really for excess or surplus

cash flows that you don't have an immediate high return

opportunity for. So I don't want to suggest that

we're fishing for it or anything like that, but what is the view towards

dividends?

Well, current view is that we're focused on M&A growth.

Yep.

So we're reinvesting what we generate.

Yep.

But in a two to five-year time period, we would like to start to

introduce a dividend.

Yep.

And that's certainly true, as a lot of managers are shareholders, and they'd like

to see some ongoing dividends. But we

are currently focused on delivering some M&A.

Yeah. It's actually surprising the number of companies you see that sort

of list take on debt, raise equity, and pay a dividend.

You kind of think, "What are you guys doing?" Right?

Anyway, it's a little bit weird.

I should have asked you at the very start, Andrew, maybe, because I noticed that

you're speaking of impressive resumes. Yours is nothing to sneeze at as well.

Do you want to give us a bit of a rundown as to your sort of your background and

your history with the business?

Yeah, sure.

So if I go back to the very beginning, I'm a chemical engineer

by training and background.

I've been in the oil and gas industry since 1998.

Then I spent a bit of time as CFO and

got better at doing the numbers.

Worked at a company in various

roles as managing director, CFO. Then Simon

Shepard, who's our CTO, we did a management buyout in 2008.

We started off as a $6 million business, and there was 12 of us

in a converted railway shed, as it happened.

And then we've grown from there.

Got some high net worth individuals, put some money in.

Then they checked out and we did private equity, then we bought the private equity

out, and now we're listed.

So it's a long journey.

Honestly, it's so impressive. How was the private equity

experience?

Interesting

and frustrating. So they invested in 2014, just as the oil

price crashed and stayed low for a long time.

So they were very supportive during all that process, but we did miss

opportunities because we didn't have access to markets.

Yeah.

And there was a lot of assets that we could've bought at that

stage at

really quite cheaply that would've grown massively by now, but we didn't

have that opportunity.

Yeah.

And that was one of the major factors in coming to the market, having

access-

Yeah

... to capital for opportunities as they come up.

Yeah.

Because that's one thing we're not short of.

But overall, it was a good experience.

Our timing wasn't the best, I would suggest.

No. You can't control for that. Everything looks obvious in

hindsight.

Yeah.

That is such an impressive journey.

I mean, 12 people to where you are today.

What do you

attribute that to? Because when you

do have a lot of opportunities, I think a lot of the time,

oftentimes it feels like the best skill is in saying no and

being very fussy with what you

take on.

But yeah, I don't know, broad question,

what do you

attribute that success to, that growth to?

Well, I think we touched on it before.

It was our ability to develop products and take the risk on developing

products, and trying to help

big companies solve their problems.

Yeah.

When we started off, we worked on a field in Angola, and
one of the contractors sent a bunch of people to have a meeting.
We only had one meeting room, and they sent so many people, two had to sit in
reception because they couldn't fit in.
But we were punching above our weight-
Yeah
... and we managed to successfully do that, and we got that contract and
we moved on and we built a reputation.
And now, I think a lot of people
think of us when they've got a difficult problem to solve, which is great.
Yeah. That's the other thing, well, I've certainly noticed with companies
that operate in niche spaces, we touched on it before, reputation is
sort of everything there. And I suppose that's probably something else
to put down next to the IP and the knowhow and that.
It's something else to sort of put there, is very...
There's no shortcut to building that. And once you've got it, it's very valuable.
But it's also something that can go pretty quickly if you're
not careful with it. Sometimes you sort of see
more mercenary kind of operators will come in, they'll strip everything to the
bone. They do this and they do that, and they just take a wonderful business and
they destroy it. And you can kind of understand how it
happens because,
as a listed company, your incentive struct...
Well, it
tries to change you, right? Because it goes from, "Hey
Andrew, you're wonderful at building this big business and thinking longer term,
but no, actually, all we really care about, what's revenue in the next six months,
and what are you going to do to do that?" And
people tend to sort of reach for the easy levers there.

And the interesting thing is that they're actually very effective short term.
You can actually do a lot to really juice things, and
then the chickens don't sort of come home to roost till later on.
I guess my question here is,
howHow are you finding the experience
so far as a listed business, and do you feel as though some of those pressures
are being put on you by some of these analysts or
are they giving you enough rope to sort of run things the way you want to?
I think in a way
what's made the difference is that we could sit around a table in the office
and
basically 80% of the shareholders would be there-
Yeah
... so we could have a cup of coffee and decide what we're going to do.
Yeah. Nice.
So we're still kind of following that philosophy, but we're now keeping a lot more
people informed about what we're doing.
Yeah.
I don't think we feel... We feel more obligated to
deliver in a way because we're representing a lot more shareholders-
Sure
... so that's a sense more pressure-
Yeah
... than just representing ourselves.
But I think we've been pretty much
left to manage the business as we see fit so far,
but we're just trying to keep everybody as informed as possible.
We're very conscious that we are the other side of the world, so we are doing our

best to communicate to our major shareholders as much as we
possibly can.
Yeah. But I love that. That is all you can do.
I tend to find is to just, yeah, be honest,
transparent, and if you do that, you do really well.
Again, I only say this, Andrew, because we speak to hundreds of
companies and
I do know that there is a lot of pressure there and you
see so many sort of lose their way again because of these sort of
different incentive structures that are there.
So it does--
Almost a mission of mine is just to always just
advocate for the pushback,
and it sounds like you're all over it anyway.
So
investors are a noisy lot and they're an impatient lot and they're a short-sighted
lot, and sometimes they- ... don't know what's good for them.
So
when you see someone who's been in the seat for a long time and had a lot of
success and you sort of meet that different mindset, it can
sometimes butt heads. But, yeah, it sounds like you're all over it.
Mate, listen, I don't actually have a lot of other questions.
I guess something to ask you is what didn't I ask you,
that perhaps is something you think investors
should be aware of?
Oh, I think you've covered
virtually everything, I think. As I said, the only thing
is we
look at our announcements, we're moving forward with M&A,

and we've still got a really substantial pipeline of things to look at.

Yeah.

And we're not short of opportunities in that space.

So

we've got really big ambitions to continue to grow and add complementary

businesses. There are a lot out there.

Yeah.

And we think we can continue the journey that we're already on.

Well, I'm really looking forward to staying

across it all. As I said, I know you're new to listening, but it only really

just came on my radar recently. I think one of our members mentioned it, and yeah,

it's definitely very interesting.

So we wish you the best of luck and we'd love to stay up to date as well.

We won't bother you too much, but maybe in another 12 months or so, we can do a

follow-up if you're up for it.

Yeah, definitely. Thank you very much for your time. Much appreciated.

Excellent. I know it's a very different time of day where you are, too, so I'll let

you go get your morning coffee.

All right. Thank you very much.

All right. Thank you.

Yeah. Cheers.