



Securities Investors Association (Singapore)

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Issuer: ISOTeam Ltd.

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Meeting details:

Date: 27 October 2021

Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. In the joint message from the chairman and the CEO, it was said that the challenges faced by the group as a result of the pandemic are unlike any that the two of them have encountered in more than 20 years in the business.

The border controls have led to a manpower crunch and the price of essential raw material has increased exponentially due to supply chain disruptions. The COVID safe management measures have also reduced workers' productivity and the group is left to face with the risk of stop-work orders should any of its workers be tested positive for COVID.

Nevertheless, the chairman and CEO maintained that the group has continued to tender for new projects to beef up its order book, *"like what we have always done through both good and bad times"* (page 8 of the annual report).

- (i) **Can the board/management help shareholders reconcile the operational risks (as highlighted above and in the joint message) and the group's continued participation in tenders?**
- (ii) **How does management determine the tender prices to ensure that tenders, if won, would be profitable and would not result in losses for the group? What are the risks that the group will end up in a situation of "do-more, lose-more" given the risks of stop-work orders and the unpredictable cost pressure in manpower and raw material?**
- (iii) **How much flexibility does management include in its contracts to protect the group from external/COVID-19 related costs increases that are beyond the group's control?**
- (iv) The use of drones to inspect the external façades of HDB blocks was highlighted as a means by the group to increase its productivity (page 8). **Has management secured all necessary permits for the use of unmanned drones at its construction sites?**
- (v) **Does management see any silver lining during the pandemic?**

Q2. The chairman and CEO highlighted that the group has always been forward looking and has an enviable track record in many of the government's infrastructure projects. In FY2021, the group further cemented its partnership with Sunseap Group and completed the deployment installation of the largest floating solar farm in the marine coastal environment at the Straits of Johor, off Woodlands.

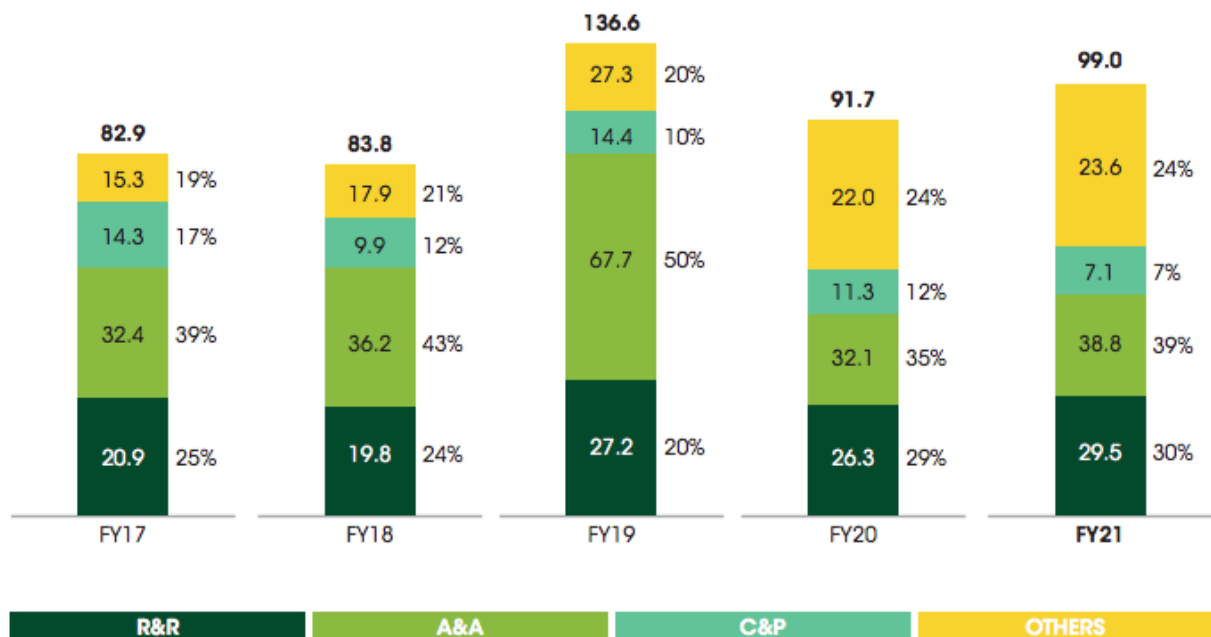
There are also opportunities in:

- URA's Landscaping for Urban Spaces and High-Rises ("LUSH") programme
- HDB Green Print programme
- Ongoing public sector infrastructure upgrading projects, including Neighbourhood Renewal Programme; the expanded Home Improvement Programme; and the upgrading of older MRT stations

The group's successful IPO in July 2013 was built on more than a decade of Repairs & Redecoration ("R&R") and Addition & Alteration ("A&A") experience. Since the IPO, it has diversified into Coating & Painting ("C&P") and "Others" which included bike sharing, interior design and home retrofitting.

A 5-year snapshot of the breakdown of the group's revenue can be seen on page 6 and reproduced below:

REVENUE (\$'M)



(Source: company annual report)

- (i) **Can management elaborate further on the growth drivers in R&R and in A&A?** From the Financial highlights, revenue from R&R and A&A increased gradually although there was a big jump in A&A revenue in FY2019 which quickly normalised in FY2020. **Has the group consolidated its position in the R&R and A&A markets and gained additional market share?**
- (ii) **Is management sufficiently focused on R&R and A&A in the past 3-5 years given the group's ongoing evolution/diversification?**
- (iii) **In particular, would management elaborate further on the business case of SG Bike? What is the strategic value of SG Bike? Does management expect SG Bike to turn into a significant revenue and profit generator for the group in the mid-long term? What is the targeted ROI on SG Bike in the board approval process?** From the consolidated statement of comprehensive income, the loss attributable to non-controlling interest was \$(959,000) (FY2020: \$(2.4) million) although the figure would include the results from Zara@ISOTeam Pte. Ltd., SG Bike Pte. Ltd and ISO-Homecare Pte. Ltd..
- (iv) **Similarly, as the group looks for opportunities in new programmes such as LUSH, HDB Green Print, how does management balance the need to participate in new growth areas and the need to be selective in committing management's time and capital into segments which have long runway and can scale up meaningfully and profitably?**
- (v) **As a partner "working" with Sunseap, does the group develop and own any intellectual property? For example, in the construction and installation of offshore solar farms, is the group just a sub-contractor carrying out installation according to Sunseap's project plans or does the group offer its expertise to provide Sunseap with a turnkey solution?**
- (vi) **Are there any business opportunities and/or current working relationship with Taisei Oncho Co., Ltd?** Taisei Oncho Co., which is headquartered in Tokyo, Japan and listed on the JASDAQ Securities Exchange, is an established mechanical and electrical ("M&E") engineering firm that is primarily involved in design and contract work for air conditioning, plumbing, electrical installation work, maintenance and renovation services. Taisei Oncho holds a 17.94% stake in the company.
- (vii) **In addition, the company announced that it has plans to restructure its commercial interior design business when it announced the proposed disposal of the Pure Group entities (see Qn 3). Would the board be reviewing the group's diversification strategy and its results, especially in areas with seemingly low barriers of entry (e.g. interior design)? Should the board provide more guidance to management to be more selective in its diversification and only allocate capital to new services where the group can scale up meaningfully (relative to the group's current size)?**

- (viii) The group currently operates with a headcount of 302 employees (FY2020: 366), following 91 resignations in FY2021 alone (FY2020: 18). **How does management ensure that the group has sufficient and experienced human capital to compete effectively in the group's operating segments? How is management looking to address the issue of "intense competition in the market for a smaller pool labour" (page 27)?**

Q3. On 12 October 2021, the company announced that the disposal of the Pure Group entities has been completed for \$4.5 million in cash. The proposed disposal was first announced on 17 September 2021 and SGX Regco had queried the company over the proposed disposal.

The Pure Group was only just acquired on 21 January 2020 for a consideration of \$12.0 million settled in cash (page 106) with an additional \$12.0 million to be settled by Consideration Warrants based on the target companies achieving the profit targets.

- (i) During the acquisition of the Pure Group entities, the completion date was delayed twice. **What were the reasons for the delays in the acquisition? With the benefit of hindsight, could the delays be viewed as an early warning sign that there are difficulties and/or challenges in the due diligence process?**
- (ii) **How much of the lower-than-expected financial and operational performance of the Pure Group entities could be attributed to COVID?**
- (iii) The company has provided the seller with contingent consideration arrangement of up to \$12.0 million in consideration shares if the Pure Group entities achieved a profit target of \$3 million and \$5 million in FY2020 and FY2021 respectively. **Did the board consider introducing a claw-back mechanism of the \$12 million cash payment during the deal negotiation if Pure reports any losses in the financial years ended 30 June 2020 and 30 June 2021?**
- (iv) **Instead of a \$12.0 million cash payment as the first tranche, did the board try to negotiate for a part-cash and part-shares as the first payment to the seller?**

In Note 16 (page 104 – Investment in subsidiaries), the company has invested more than \$52.4 million in subsidiaries and recognised impairment of \$15.96 million as at 30 June 2021. This is before the completion of the disposal of Pure Group which took place on 12 October 2021.

The impairment losses on goodwill in the past years are \$(2.299) million in FY2021 and \$(5.802) million in FY2020 (restated). For the acquisition of Pure, the company recognised goodwill of \$12.34 million (page 107).

- (v) **Does the board consider it timely to review the group's M&A track record and finetune its acquisition strategy so that M&A leads to long term sustained value-creation for all shareholders?**
- (vi) **What is the guidance given by the board to management on deal structuring, especially in ensuring that the group does not overpay for its acquisitions and that the terms are fair and balanced to recognise the upside and to protect the group from the downside?**

^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](https://www.sias.org.sg)

Join our mailing list [here](#) to receive latest news and upcoming events.

[^] Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation
(<https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation>)



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