

POWERMATIC DATA SYSTEMS LIMITED

(Company Registration No.: 198900414E)

(Incorporated in Singapore)

RESPONSE TO QUESTIONS FROM SHAREHOLDERS

The following questions were received from shareholders before the Thirty-Fifth Annual General Meeting to be held on 25 July 2024. The Board of Directors has responded as below.

Financial Statements

Questions

1. Why did deposits received declined 31% from SGD 4.5 mn in 2023 to SGD 1.4 mn in 2024?
We are worried this decline indicates a permanent substantial loss of business and earnings power.
2. Why did revenue from US customers decline 42%?
3. Why is the freehold office unit at Harrison Road not impaired too?
According to FY2023's Q&A, the freehold office unit used by the group at Harrison Road is carried at SGD 1.77 mn under PPE.
4. Are the 2 major customers in FY2024 the same major customers in FY2023?
 - a. If possible, could you let us know whether they are distributors?
 - b. Because if they are distributors, then it would make sense that they are the top customers. This would help allay our concerns about customer concentration.
5. The company's revenue in the past few years has increasingly been coming from the Top 1 or 2 customers with the Top 1 share rising from 16.4% to 31.2% between FY2020 and FY2024 while the Top 2 share crossed 40% in both FY2023 and FY2024. Did the top customer change from time to time and, if not, is the customer concentration expected to continue in the near term?
6. How did the group manage to improve margins despite a decline in revenue?
7. What is the SGD 721k loss on deconsolidation of subsidiary in note 8 referring to?
Note 18 shows full allowance for impairment has been made for the investment in Complex Inc (US) before FY2024.

Responses

Between FY2021 and FY2023, arising from the global acute shortages of key components, especially chipsets, the delivery lead time was between 12 months to 36 months. Customers who place orders with us are required to pay a deposit. Due to the long delivery lead time the deposits from customers accumulated significantly – as in FY2023. However, when the shortages eased in mid-FY2023, the delivery lead time was shortened considerably and these deposits were offset against the amount due from these customers – as in FY2024.

Our revenue is mainly project driven and some projects may span over two or more financial years. A European customer had placed orders with us in FY2021 and deliveries spanning over the next four financial years. This customer contributed significantly to revenue in FY2022, FY2023 and FY2024.

Our customers include leading players cybersecurity applications, health care, logistics and transportation and industrial automation. The two major customers are the same in FY2024 and FY2023 and they are not distributors.

The composition of revenue and product mix varies between financial years. FY2024 saw an increase in products with higher margins and service income – for example product certifications and procurement.

Impairment provision amounted to \$548,000 was made for the building cost of the freehold office unit. Please refer to page 69 #1 of the Annual Report 2024.

The investment in Compex Inc (USA), a wholly-owned subsidiary, was fully impaired at the company level before FY2024. Despite this, its financial performance was consolidated into the Group's financial statements until its dissolution through a member's voluntary winding-up. Upon the completion of this dissolution, Compex Inc was de-consolidated and an adjustment on de-consolidation was recorded.

Property Redevelopment

Questions

8. Page 11 of the announcement dated 3 Jan 2024 stated: "By way of illustration only, the Existing Use Property Valuation ascribes a valuation to the Property of approximately S\$757 per square foot, while buildings having approved usage for food production have recent transacted sale prices ranging between S\$1,300 to S\$2,100 per square foot." Has the supply of food factories increased lately resulting in price softening?
9. Can the group pre-sale the investment property and use the proceeds to finance the development?
10. When will a profit forecast on the investment property be available to shareholders?

Responses

The Company commenced marketing the project (7 and 9 Harrison Road) on 12 July 2024. The pricing varies between units based on the area and orientation. Based on feedback from our marketing agents (we have appointed 3 agents) responses from potential purchasers have been encouraging. Due to relevant authority clearances, we have yet to enter into legal documentation with any purchasers.

Proceeds from the sale of the redeveloped property will be kept in a dedicated bank account set up for the redevelopment of the property.

We will update shareholders via an announcement on the SGX-ST on the progress of the redevelopment and sale of units at the material time.

Wireless business

Questions

11. 2023 annual report: "Despite a positive outlook for the wireless connectivity sector, high interest rates and excess inventory levels have made holding finished goods costly for our customers."
12. How has increased competition affected the group?

13. 2023 annual report: “Despite a positive outlook for the wireless connectivity sector, high interest rates and excess inventory levels have made holding finished goods costly for our customers.”
Is it correct to understand that the underlying demand for the group’s offerings is still healthy, but excess customer inventories have subdued short-term demand? Once the excess inventory has been worked off, demand will return?
14. In FY2023’s Q&A: “... however questions that touches on the Group’s competitive advantages our responses have been brief.”
- a. We agree the group should keep confidential information that can be useful to our competitors.
 - b. That said, to acquire customers, the group must have prepared sales pitches to explain what makes the group better than competitors and why customers should do business with us.
 - c. If you can share the key points in your sales pitches – what makes Powermatic better than competitors, that would really help shareholders in understanding and having conviction in the group’s wireless business.
15. In FY2023’s Q&A, the group mentioned ‘We have imitators but not real competitors’
- a. Could you please help us understand why?
 - b. Maybe a few specific examples will help us understand the group’s competitive advantage and unique offerings.

Responses

Our products in most instances play a key role in our customers’ finished products. We believe that our know-how continues to be relevant to our customers. We provide customized solutions at their product development stage allowing us to anchor ourselves as the preferred supplier. We have been able to pre-empt market/technology changes for example we were ahead in offering wifi 7 compatible solutions.

Most customers’ products have a life cycle between 3 years and 5 years however there are instances where it has been shorter. This has a significant influence on the order quantity placed with us.

The Group operates in a market that is highly competitive. Both the dollar value and growth of the wireless connectivity market continues to be attractive propositions to new entrants. Besides having a strong research and development and engineering capabilities (providing innovative solutions), price competitiveness is equally important. There are instances where we have taken smaller quantity orders or lowered our profit margins to make inroads or further the relationships.

The Group has built a strong reputation as a supplier of customized, innovative, and reliable products, as attested by our customers. Our value propositions appeal to both existing and potential clients. Our research, development, and engineering capabilities are our core strengths, enabling us to offer customised solutions.

Miscellaneous

Questions

16. We thank the current board and management for creating so much value for shareholders. And we hope they can continue for many more years and groom the next batch of management that can continue their legacy.

Could you please share updates on succession planning?

17. The Malaysian plant contributed 33% of shipment to customers in FY2024 and the company expects this to increase. With geopolitical and trade tensions likely to broaden and intensify, what strategies are there to better utilise the plant in China in the longer term? Can the plant and workforce in China be reoriented to target the domestic market without Western technologies?
18. MNCs are continuing to set up their regional HQs, centre of excellence or research centres in Singapore. New ideas may be cultivated and developed by these entities in Singapore. An example is Dyson which has mentioned in early 2024 that it plans to build Wi-Fi in its products. Does the company see any advantage, being based in Singapore as well, to engage these MNCs and capture new opportunities early on?
19. The plan to monetise the company's investment property has helped improved trading liquidity and valuation of the stock. However, more may need to be done to promote the core connectivity business, considering that trading activity may slow again when the property monetisation event is over. Should the company successfully complete the sale of the redeveloped property, it is also useful for investors to understand how the company like to reinvest in its future growth while also returning value to shareholders. Would the company consider formulating and articulating a 5 or 10-year plan to chart the growth of the business in due course?

Responses

Identifying and grooming potential leaders is an ongoing process. Several staff, performing various key functions, have been identified and tasked to undertake critical roles, for example overseeing the operations at the new plant in Kulai-Johor.

To support this process, shareholders have on 22 January 2024 approved an Executives' Share Award Scheme. This scheme, when implemented, will align the interests of shareholders with this pool of key employees.

The plant in Suzhou – Shanghai (PRC) will continue to complement our plant in Malaysia by supplying semi-finished products that require surface mount technology and specialized equipment. Additionally, the Suzhou plant will focus on supply chain management and leverage the availability of skilled technical and engineering professionals.

The Group has a subsidiary in Suzhou to focus on the PRC market.

Our customers include many multinational corporations (MNCs). Some of these have branches or regional HQ in Singapore. However, as our products are often integrated in the customers' products, we often have to work out of our time zone with the designers and product managers at the target end markets. We have found it effective to work this way directly with the decision makers. This means our primary point of contacts with the customers can be around the world.

Management views the current uptick in the share price is due to both the monetisation of the investment property and consistent performance of the wireless connectivity segment. Between the two factors, we felt that the latter hold greater sway given the attractiveness of the wireless connectivity market globally.

Segregation of the two-business segments was driven by the differences in the valuation matrix (net tangible assets vs price earnings ratio) and risk (financial and business). Market would be allowed to evaluate and value the wireless connectivity segment once the monetisation is completed. Should the wireless connectivity segment, which will be the sole business, continue with growth and profitability we believe the market (both shareholders and investors) will accord the Group the appropriate price-earnings multiple and liquidity.

The wireless connectivity segment is mainly project-driven and human capital intensive. Agility and nimbleness are our key strengths. Retention and growing human capital would dominate our growth plans.

BY ORDER OF THE BOARD

Dr. Chen Mun
Chairman and Chief Executive Officer

19 July 2024