

19 August 2021

Syft Technologies Limited (SYF)

The company will hold its Annual Shareholders Meeting at **1.00pm Thursday 2 September 2021**.

The location is **Turanga – TSB Space, 60 Cathedral Square, Christchurch**.

Company Overview

The company is the world’s leading provider of Selected Ion Flow Tube Mass Spectrometry (SIFT-MS). It grew out of research at the University of Canterbury and its instruments are now used in a wide range of applications. Covid disrupted the business, in particular preventing overseas travel to support customers, however the previous establishment of global sales and support offices mitigated this to some extent.

The former CEO Doug Hastie resigned during the year and the Chair Alan Munro took on the role in the interim with a new CEO Alex Fala commencing 1 March 2021.

Current Strategy

The company’s strategy is to continue to be the world’s leading provider of SIFT-MS technology.

Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

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Governance

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	See comment below.
Director share ownership	A	No disclosure whether Directors are required to own shares.
Executive Remuneration	A	See comments below.
Golden parachutes/handshakes	A	Not disclosed.
Director Independence	A	See comment below.
Board Composition	A	See comment below.
Director Tenure	G	See comment below.
ASM Format	A	Physical meeting only – see comment below.
Company Sec independence	A	NZSA expects disclosure around the reporting of the role to the Board and that the role does not receive performance incentive payments.

Directors Fees: Generally good disclosure, although (unusually) the total Director Fee Pool is not disclosed.

Executive Remuneration: NZSA expects full disclosure of the terms and conditions of the CEO's remuneration. We note that payments made to former CEO Doug Hastie, including short and long-term incentives, are disclosed, with no payment made in 2021. For incentive schemes, NZSA prefers disclosure of the measures, targets and level of achievement that form the basis for the scheme.

NZSA also expects disclosure as to the nature of any termination payments.

While SYF had no short or long-term incentive scheme for its new CEO (Alex Fala) as at balance date, this was disclosed as a 'subsequent event' in the annual report.

Director Independence: We note that the Board comprises a majority of independent directors, but there is no definition of what constitutes "independent".

Board Composition: The company also does not provide a skills matrix to assure investors around the individual capability attributable to directors. Given their relatively recent appointment dates, this may be particularly critical information for shareholders.

Director Tenure: We note that one Director was appointed in 2013 (Michael Bushell) and is up for re-election. We have commented on this under the Resolutions. Two Directors were appointed in 2019 and two in 2020.

NZSA looks for evidence of 'staggered' Board appointment dates to ensure that risk to investors of future knowledge transfer is minimised. While not currently a concern, the company will need to manage future reappointments to ensure that whilst it refreshes and renews the Board it does not lose institutional and historic knowledge.

ASM Format: The company is holding a physical-only ASM. We expect companies to plan for hybrid (i.e., physical, and virtual) meetings to ensure as many shareholders as possible can attend. While we

recognise the impact of Covid-19, a hybrid meeting still allows for a virtual contingency in the event of any lockdown in New Zealand.

Audit

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Generally good disclosure although no disclosure around the work the Auditor is not permitted to undertake.
Audit rotation	A	See below

Audit Rotation: Whilst the company ensures the Lead Audit Partner is rotated at 5 years it does not disclose if the Audit Firm is rotated at 10 years. Like many NZ-listed companies, it also does not disclose the appointment dates of the Lead Audit Partner or Audit Firm.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Whistleblowing	R	See comments below
Political donations	G	No donations made.

Whistleblowing: We could not find disclosure of any whistleblowing policy, nor whether one actually exists. NZSA expects disclosure on this matter.

Financial & Performance

Policy Theme	Assessment	Notes
Dividends and Imputation	n/a	There were no dividends paid
Capital Raise process	n/a	There was no capital raising

SYFT Technology's share price fell from \$1.15 to \$0.90 (as of August 16th) over the last 12 months – a 22% decline. This compares unfavourably with the NZX 50 which increased by 9% in the same period. The **Performance Factor** for SYF is -2.32.

Metric	2021	2020	Change
Revenue	\$28.8m	\$30.9	-7%
NPAT	\$0.9m	\$0.8m	15%
EPS ¹	\$0.013	\$0.011	16%
Gross Profit Margin	46%	42%	9%

PE Ratio	71	104	
Inventory Turnover	2.08	3.08	-32%
Current Ratio	2.13	2.99	-29%
Debt Equity	0.90	0.29	210%
Operating CF	\$4.9m	\$6.9m	-29%
NTA Per Share ¹	\$0.24	\$0.25	-4%
Dividend Per Share ¹	n/a	n/a	n/a

¹ per share figures based off actual shares at balance date (not weighted average)

Revenue declined by 7% due to covid related restriction from \$30.9m to \$28.8m, however SYF were able to increase their Gross Margin percentage from 42% to 46% and thus deliver an increase in NPAT of 15% from \$0.8m to \$0.9m.

This places the company on a PE of 71, high by market comparators but down from 104 in 2020. SYF are looking to grow and new Leases of \$13m have added to this capability.

Inventory turnover declined from 3.08 to 2.08, whilst the NTA per share also declined slightly from \$0.25 to \$0.24.

Operating cashflows were strong, coming in at \$4.9m. Although well positive, this was down \$2m on 2020's \$6.9m. To further aggravate matters, trade and other receivables declined by \$2.5m during the year.

On the 30th July, Syft Technologies announced to market that they continue to be optimistic about their revenue performance in the current financial year and are targeting material growth, which will support further investment in global sales capability and product development.

"The sales pipeline is also building nicely in US and Europe as COVID travel restrictions ease, and we are able to meet prospects and customers in person."

The company operates local sales teams in both geographies.

Resolutions

1. That the Board is authorised to fix the auditor's remuneration for the coming year.

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. To re-elect Deshitha (Des) Edirisuriya as an Independent Director.

Des Edirisuriya was appointed to the Board in May 2019. He has a background in R&D, manufacturing operations, quality management systems and business improvement methodologies and has acted as a consultant in recent times. He is the General Manager Business Excellence for Fisher and Paykel Healthcare.

We will vote undirected proxies **IN FAVOUR** of this resolution.

3. To re-elect Michael Bushell as an Independent Director.

Michael Bushell was appointed to the Board in June 2013. He has worked in Corporate and Commercial banking and finance for 38 years, the last 14 as a partner in a private finance company. He was part of an independent advisory board to Syft set up in April 2011 and has been involved regularly with Syft and its board on an on-going basis.

If he is re-elected, he will have served 11 years at the end of that term. NZSA policy is that Directors should not serve more than 9 years to allow for refreshment and renewal of the Board.

In this case as the other Directors are very recent appointments, we believe it would be appropriate for him to continue in office for an additional term to ensure the institutional and historic knowledge of the business is preserved.

We will vote undirected proxies **IN FAVOUR** of this resolution.

Resolutions 4 to 11 below are proposed by Doug Hastie the former CEO. We note the Board does not support any of the resolutions.

The full details of each resolution are set out in the Notice of Meeting together with a commentary from the Board. Mr Hastie's commentary on each resolution was sent to shareholders.

Resolutions relating to the Board:

4. That the Board takes notice that the shareholders do not support Al Monro as the Chairman of the Board of the Company.

5. That Al Monro be removed as a director of the Company.

6. That the shareholders have no confidence in the current Board of the Company regarding their management of the Company.

We have read the various commentary around Resolutions 4,5 and 6.

We will vote undirected proxies **AGAINST** resolutions 4, 5 and 6.

7. To amend the Constitution regarding Director appointment rights.

We have read the various commentary around this resolution. It proposes that a shareholder who holds 10% or more of the shares would be entitled to appoint one director to the Company and to remove any director so appointed.

Although the company is not listed on the NZX this proposal is contrary to the NZX Listing Rules, and compromises the rights associated with minority shareholders.

For these reasons, we will vote undirected proxies **AGAINST** this resolution.

8. Subject to Resolution 7 not being passed, that Mr Doug Hastie be appointed a director of the Company.

We have read the various commentary around this resolution, and would be concerned about the nature of Board relationships should Mr Hastie be elected.

We will vote undirected proxies **AGAINST** this resolution.

Resolution 9 relates to establishing a Board sub-committee to recruit new Directors

We have read the various commentary around this resolution.

We will vote undirected proxies **AGAINST** this resolution.

Resolution 10 relates to planning and seeking an NZX listing within 12 months.

We have read the various commentary around this resolutions. The company was listed on the Unlisted Securities Exchange in April 2017.

NZSA believes a listing on the NZX would offer shareholders benefits around trading their shares and introduce a new level of corporate governance discipline. History has shown that companies with robust corporate governance are much more likely to produce superior returns to shareholders.

However, we believe that the resolution is too specific in terms of promoting set timelines. Had the resolution only supported the development of a plan to an NZX listing, NZSA would have supported the resolution.

We would exhort the SYF Board to consider an appropriate plan for an NZX listing and communicate this to shareholders.

We will vote undirected proxies **AGAINST** this resolution.

11. That the shareholders oppose the decision for the Company to have borrowed funds under the Business Finance Guarantee Scheme.

We have read the various commentary around this resolution.

We will vote undirected proxies **AGAINST** this resolution.

Proxies

Please note you cannot vote or appoint a proxy online. You must complete the Proxy Form sent to you and either scan and email to investor@syft.com (please put the words “Syft Proxy Form” in the subject line) or mail to Syft Technologies Limited, PO Box 28149, Christchurch.

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **1.00pm Tuesday 31 August 2021.**

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

STANDING PROXIES - AUTOMATICALLY APPOINT NZSA AS YOUR PROXY

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<http://www.nzshareholders.co.nz/shareholders-standing-proxies.cfm>

The Team at NZSA