

# Austin Engineering Ltd

FY15 Results Presentation



**WESTECH**



**austin**engineering<sup>LTD</sup>

# Key Items

- Revenue and normalised\* EBITDA (\$15.0m) for the year was in line with statutory EBITDA for the PCP (\$15.2m)
- \$40.9m of non-cash impairment charges were booked in December 2014, reflecting subdued market conditions and \$6.9m of restructuring costs and Westech legal fees
- Operating cash flow improved \$10m reflecting operational improvements and more prudent cash management processes
- Net Debt levels, excluding fx translation on USD loans, reduced by \$3m over the year
- Senior debt was reduced by \$45m in July and August 2015 from the proceeds of the capital raising
- Improved outlook to \$20m normalised EBITDA for FY16 on the back of higher base-loading within the group and current order / tender books

*\* normalised means before impairment expenses, one-off costs, restructuring costs & Westech legal fees*

# FY15 Financial Performance

	FY14 \$m	FY15 \$m	Annual % Change
Revenue	209.9	210.4	0%
Gross Margin %	35%	36%	3%
Normalised EBITDA	15.2	15.0 *	-1%
Depreciation	(10.5)	(11.0)	5%
Amortisation / Impairment	(0.9)	(42.0)	4567%
Interest Income	0.1	1.3	1200%
Interest Expense	(3.9)	(6.1)	56%
Tax (Expense) / Credit	0.9	0.3	-67%
Operating Cash Flow	(6.5)	3.6	10.1

	Jun-14 \$m	Jun-15 \$m	\$ Change
Net Debt	90.3	94.0	3.7
Working Capital	33.9	22.1	(11.8)

\* normalised means before impairment expenses, one-off costs, restructuring costs & Westech legal fees

# FY15 Financial Performance

- A flat Revenue and normalised EBITDA result was achieved versus the PCP
- GM% improving to 36% was a pleasing outcome and results from efficiencies gained despite pressure on price
- \$40.9m of non-cash impairment charges were booked in December 2014, reflecting subdued market conditions and \$6.9m of restructuring costs and Westech legal fees
- An increase in interest expense due to higher margins on bank debt
- Operating cash flow improvement of \$10m vs PCP due to operational improvements and advance payments received
- An increase in Net Debt of \$3.7m (impacted heavily by adverse movement in AUD:USD of \$6.7m). Excluding fx, Net Debt reduced by \$3m. The USD debt has since been substantially repaid via proceeds from the recent Capital Raising
- Working capital has reduced by \$12m (35%) due to cash management improvements, advance payments received from customers and reductions in stock

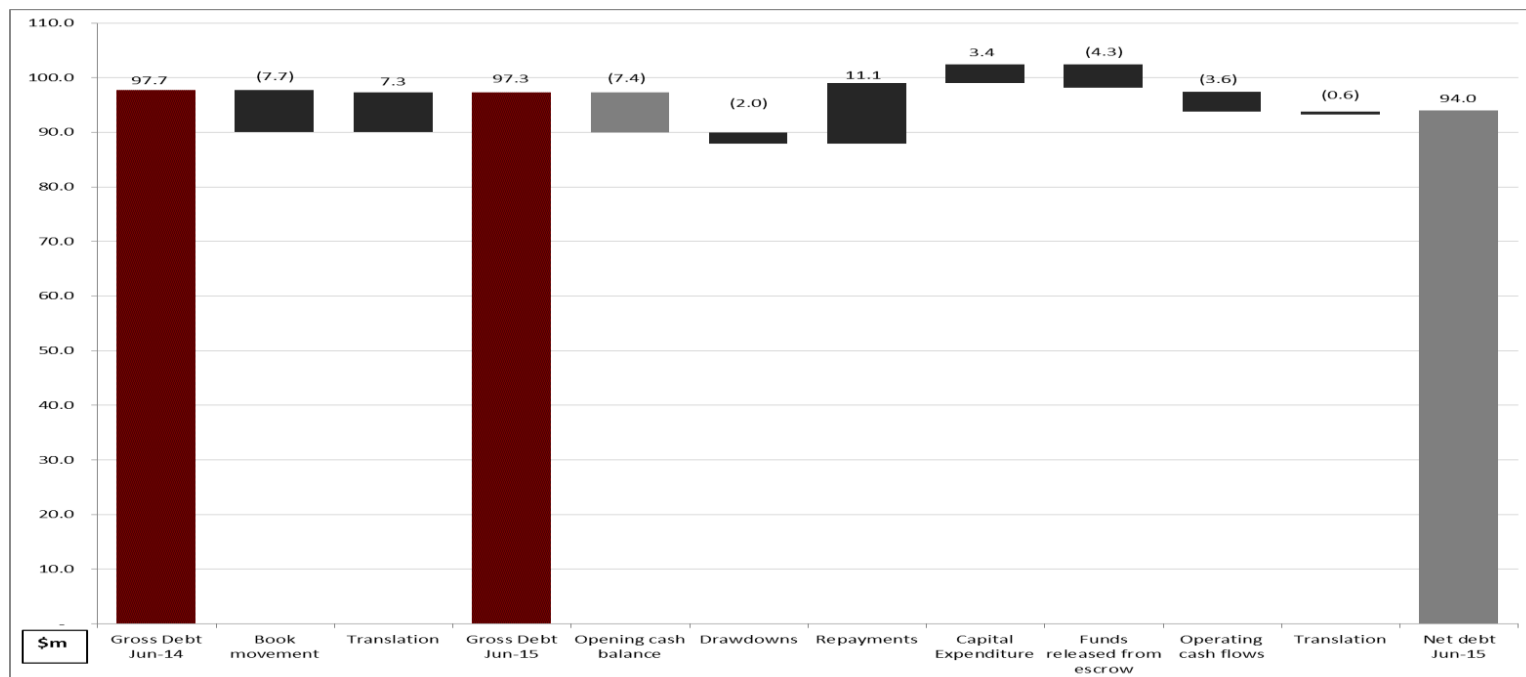
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# Reconciliation of normalised EBITDA and NPAT

	EBITDA	NPAT
	\$m	\$m
Statutory Results	(32.8)	(49.3)
Restructuring Costs	3.6	2.5
Impairment Charges	40.9	40.9
Legal costs *	3.4	2.2
<b>Underlying Results</b>	<b>15.0</b>	<b>(3.7)</b>

- Legal costs associated with defending patent infringement claims against Westech in the USA. Westech has denied the infringement allegations and asserted that such patents are invalid. The parties have subsequently asserted various counterclaims, and Westech disputes all of Hagenbuch's claims and alleged damages and continues to vigorously defend these claims. The Company has thoroughly investigated Hagenbuch's claims and believes them to be without merit.
- Restructuring costs arising from the banking review affected EBITDA and cash flow negatively

# Debt



- The Net Debt result of \$94.0m includes adverse net fx translation of \$6.7m. Excluding fx Net Debt was \$87.3m and this compares to \$90.3m in June 2014
- Note the majority of the adverse fx translation differences were caused by US denominated debt which has since been substantially repaid as part of the \$45m reduction in Senior debt

# Working Capital

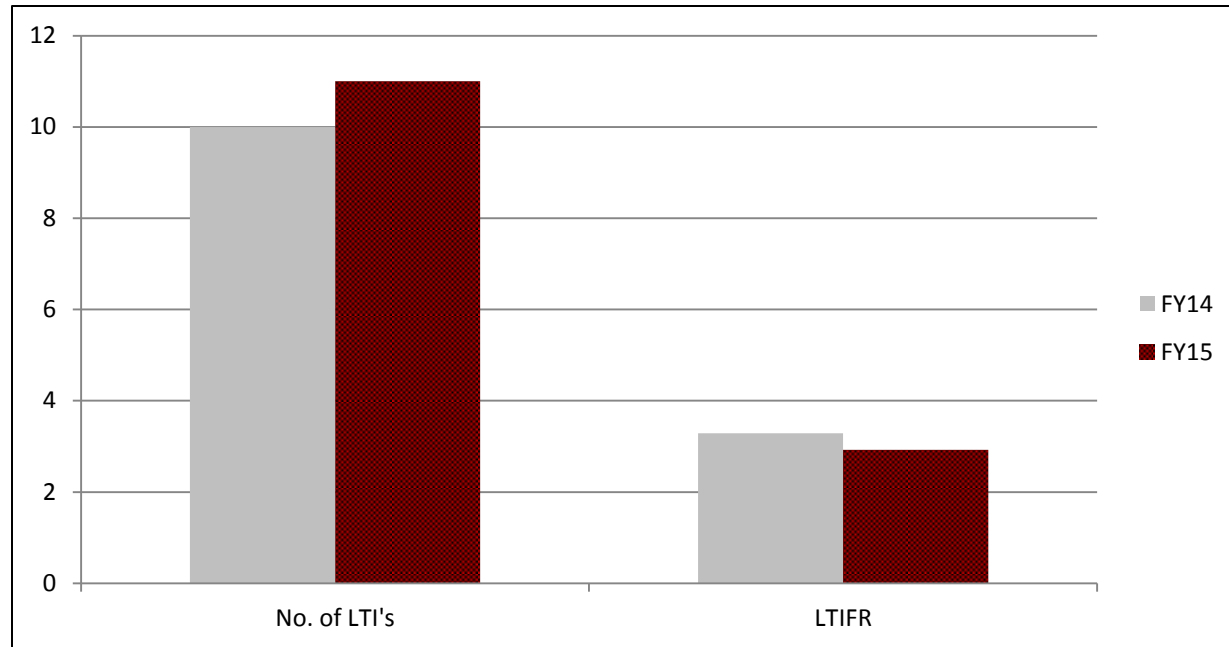
	\$m
Working Capital at 30 June 2014	33.9
Receivables	4.1
Payables	(11.4)
Inventories	(4.5)
<b>Working Capital at 30 June 2015</b>	<b>22.1</b>

- \$11.8m (35%) reduction in working capital during FY15
- Inventories have reduced due to the stock reduction program as well as write-downs in Peru in December 2014
- The increase in Payables is due to an increase in advance deposits received from customers and reflects more prudent cash management processes

# Debt Reduction Strategy

- The company undertook a \$51.6m capital raising in July, which consisted of a \$31.6m rights issue and a \$20m subordinated loan. The proceeds of the capital raising were used to reduce senior debt by \$45m by mid-August
- Senior debt refinance process is underway





- A continued focus on zero harm has yielded improved safety results in FY15
- The Global LTIFR for FY15 was 2.9 which is an improvement from 3.3 recorded for FY14

# Segment Results

	FY14 \$m	FY15 \$m	Annual % Change
<b>Revenue:</b>			
Australia	125.7	106.8	-15%
Americas	79.5	87.5	10%
Middle East	0.4	0.0	-100%
Asia (Indonesia)	4.3	16.1	274%
	<b>209.9</b>	<b>210.4</b>	<b>0%</b>
<b>Normalised* EBITDA:</b>			
Australia	8.3	2.0	-76%
Americas	7.1	7.2	3%
Middle East	0.0	0.0	0%
Asia (Indonesia)	-0.2	5.8	3750%
	<b>15.2</b>	<b>15.0</b>	<b>-1%</b>
<b>EBITDA % Margin:</b>			
Australia	6.6%	1.8%	-72%
Americas	8.9%	8.3%	-7%
Middle East	7.5%	0.0%	0%
Asia (Indonesia)	-4.7%	36.3%	880%
	<b>7.2%</b>	<b>7.1%</b>	<b>-1%</b>

*\* normalised means before impairment expenses, one-off costs, restructuring costs & Westech legal fees.*

# Operational Review

## Australia

- FY15 produced a substantially lower result than FY14
- Overall mine production levels continue to increase and continue to defer major capital replacement programs
- East Coast operations results reflected continuing difficult market conditions in the coal industry
- Business activity within the iron ore industry in WA was also affected by cost reduction measures across the industry, and although expenditure from iron ore miners is still occurring, it is at reduced levels which led to the WA operations of Perth and Pilbara Hire experiencing a weak H2 FY15 which resulted in lower FY15 results than FY14
- COR Cooling produced a result on forecast but well below FY14 due to reduced spending from customers

# Operational Review

## Australia (con't)

- WA has been successful with a number of orders (total of 42 truck bodies) to be delivered in H1 FY16 and currently has high levels of repair work
- East Coast have won orders in May/June which have provided a good level of work through to November
- East Coast tendering is still reasonably buoyant and the company is working to procure orders for post November work
- COR Cooling was successful with 2 long term contracts for service and supply of parts in the Pilbara and Hunter Valley
- Pilbara Hire needs to win additional work to produce an FY16 result similar to FY15 and has some good prospects internationally to achieve this.
- A continuation of new product offerings has enhanced Austin's range of products
- Despite the downturn Austin has added a number of new clients to its base

# Operational Review

## Americas

- The Americas segment produced a normalised result in line with FY14 although the mix of work in FY15 was far different to FY14
- The La Negra operation experienced a major turnaround, especially in H2 FY15, and produced a significantly better result than FY14
- The Collahuasi contract at La Negra is producing an important base load for this operation. La Negra was also successful in securing a number of new manufacturing jobs towards the end of FY15
- The Calama maintenance operation continued with the long term contracts on hand
- Additionally the Calama operation has a number of tenders in progress. The Company is confident in winning its share of these which will position this business very well for the future

# Operational Review

## Americas (con't)

- Servigrut produced a strong result for the year and has ongoing long term contracts in place, including the recently won 5 year extension with El Abra mining group
- Westech (USA) on a normalised basis (excluding legal costs) produced a weak result due to very soft demand in the USA. This impacted profit in Q4 of FY15 and is expected to continue for at least Q1 of FY16
- Westech growth into the Mexican market has yielded its first orders during FY15 with more currently in the pipeline
- There is still a healthy level of enquiries from the Canadian Oil Sands, for Westech specialised products, but delays to decisions by customers have affected results
- The Peruvian business suffered in FY 15 from current and new mine expenditure being cut back severely. The recently announced Las Bambas contract will provide essential base-load for this operation in FY16 & 17

# Operational Review

## Americas (con't)

- The Colombian operation reported a positive EBITDA for FY15 after producing losses in FY14
- Final negotiations are underway to establish a formal 3 year contract with a large Colombian miner across 2 mines. This work is currently being completed on a temporary contract
- Earlier in the year the operation was successful in signing a new long term contract for port services with Prodeco
- Following the success of these on-site contracts, Prodeco has issued its first manufacturing work to the Company for 3 tray bodies to be delivered by August 2015
- The Company's first order from Cerrejon is a major opportunity
- Significant tenders in the region including Cobre Panama and Cerrejon provide potential for further growth in FY16 and beyond

# Operational Review

## Asia

- The Indonesian operation produced a record result for the year via orders for Indonesian and African projects
- Expecting a weak first quarter of FY16 as orders on hand commence October 2015
- Tendering at good levels



# Outlook

- Austin enters FY16 with a solid base-load in many of its businesses. This is an important concept for Austin as this base-load provides the platform to take advantage of the operational leverage within Austin and achieve higher margins
- Earnings guidance for FY16 is approximately \$235m of revenue and approximately \$20m of normalised EBITDA, which is approximately split 40/60 between H1 and H2
- Austin enters FY16 with a strong forward workload for H1 in most of its large manufacturing facilities (with the exception of USA)
- Tenders and quoting opportunities are also at high levels
- Continuation of new products being designed and released provide prospects for new revenue growth

# Outlook

- Maintenance continues to be a very important part of the Company's base revenue. This is important strategically as it leads to increased work
- Once these maintenance contracts are attained, the Company can demonstrate its ability to offer further solutions to these customers for increased productivity, which in turn creates more production for its workshops
- Austin will continue to focus on our strategic model of design, manufacture and service
- Austin Engineering strategic model of products and locations is still sound and will deliver significant uplifts in revenue and profit with any increase in the market place
- Senior debt reduction of \$45m has taken place during July & August
- Further debt reduction planned over the next 6 months

# Austin's Principal Products



Off-highway  
dump truck  
bodies



Buckets



Water tanks



Service modules



Tyre handlers



Ancillary  
attachments



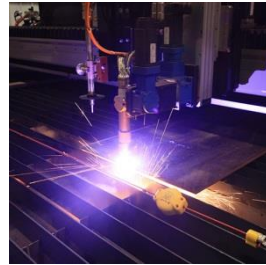
Industrial cooling and heat  
transfer systems (COR Cooling)

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# Austin Principal Services



Equipment  
repair and  
maintenance



Specialised  
fabrication



Painting and  
blasting



Specialised  
machining and  
line boring



On-site maintenance and shutdown  
services (Pilbara Hire)

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# Austin Brands

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The Austin Engineering brand encompasses design and manufacture of mining and earthmoving equipment, along with the provision of support services, from four Australian operations (Brisbane, Hunter Valley, Mackay, Perth), an Indonesian operation and Peruvian operation.

**austin**ingenieros

The Austin Ingenieros brand represents the company's operations in Chile and Colombia, providing design and manufacture of mining and earthmoving equipment, along with the provision of support services.



Austbore's core capabilities include general machining services, the overhaul of track frames and other mining equipment and mobile line-boring services. Austbore work closely with the Austin Engineering Mackay operation in supply of their services.



As the only national service provider and manufacturer of industrial cooling and heat transfer equipment, COR Cooling is a market leader working closely with some of the world's largest companies in the mining, marine, transport and associated industries.



Perth-based John's Engineering & Cranes Pty Ltd (JEC), was one of Australia's longest established manufacturers of Mining and Earthmoving attachments and off highway truck bodies. The JEC branded range of products are now designed and manufactured by Austin Engineering operations globally.



Pilbara Hire Group provide full turnkey, on-site repair and maintenance services throughout Western Australian mine sites, with a particular focus on mobile mining and fixed plant equipment.



Servigrut is a significant and successful supplier of heavy equipment lifting, transportation and site services to the mining and industrial markets in Chile.

**WESTECH**

Western Technology Services, or Westech, is one of the world's largest non-OEM designer and manufacturer of off highway dump truck bodies. Based in Wyoming USA, the Westech branded range of products are now designed and manufactured by the Austin Engineering Group globally.

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