



HMY17

2017 HALF YEAR RESULTS PRESENTATION

February 2017

PRESENTERS:
Mr Michael Alscher, Chairman
Mr Peter Barker, CFO

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COVER IMAGE PROJECT: Cardno served as the sole structural engineer for the ExxonMobil Campus, which includes 6 million square feet of buildings and parking garages connected by underground tunnels.



2017 HALF YEAR
RESULTS
PRESENTATION

> **Performance overview**

> Detailed financial review

> Commentary and outlook

2017 Half Year Performance Overview



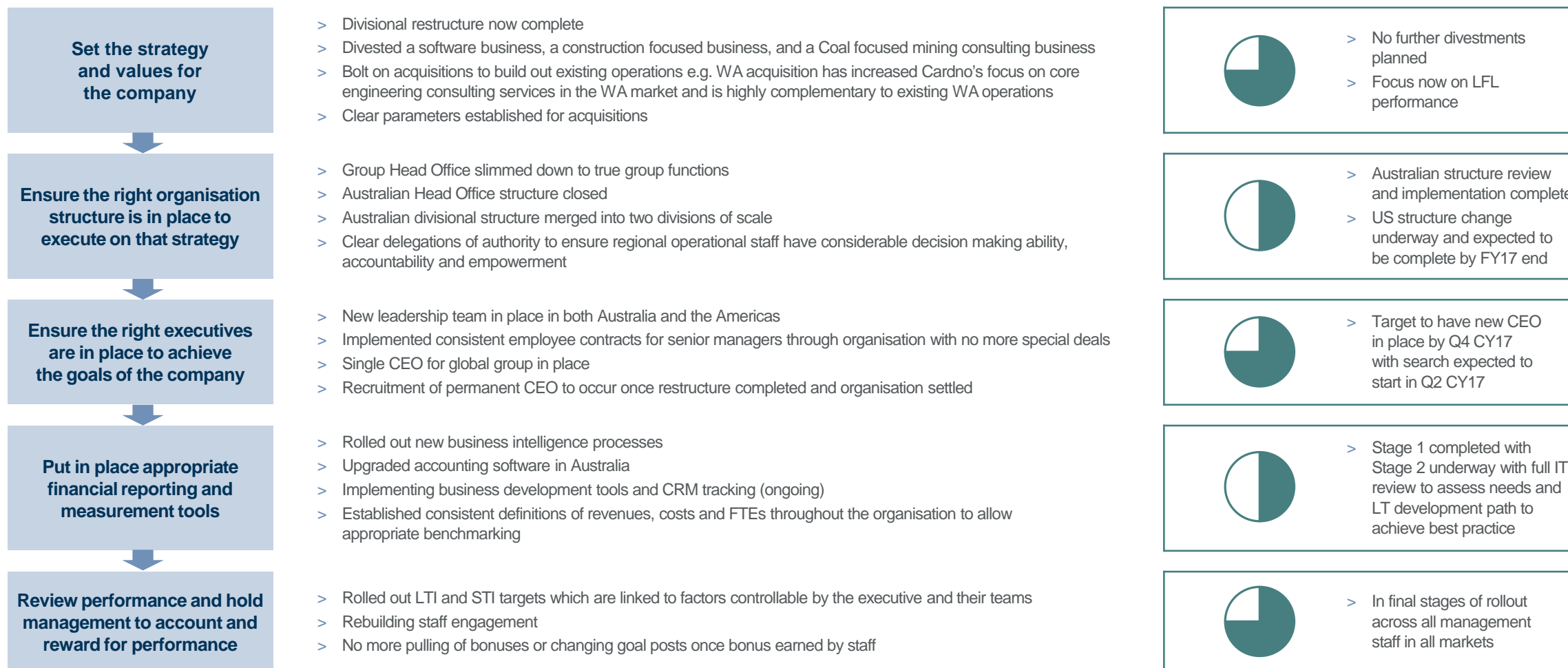
Over the last 12 months significant progress has been made in rebasing Cardno and dealing with legacy issues. The focus is now on shifting Cardno to a growth footing as the company exits FY17.

- > A number of off strategy assets have been divested or closed in the past six months
- > Australian Head Office closed and merged into operating divisions
- > Australian / NZ / PNG organisational structure merged into two regions (North and South) to gain scale and revenue efficiencies
- > Group Head Office restructured to minimise duplication and largely either merged into operating divisions or eliminated
- > Incentive schemes and reporting have been aligned to new structure
- > Focus turning to growth:
 - New Business Development teams created to focus on larger projects with longer lead times (Australia complete; US under review)
 - Bolt-on acquisition completed in WA to complement existing business with second bolt-on acquisition currently under consideration (North America)
- > Capital Structure now amongst the best in industry with close to zero net debt on balance sheet
 - Balance sheet has considerable scope to grow
- > Balance sheet clean up now at end with “no more surprises” expected.
- > In light of the company’s improved capital structure and progress on realigning the business, consistent with the Board’s focus on capital growth, the company intends to begin an on-market buyback with size of buyback based on liquidity and valuation.

2017 Half Year Performance Overview



Consistent with our full year presentation to staff and shareholders, Cardno's focus has been on rebasing the business.





2017 HALF YEAR
RESULTS
PRESENTATION

> Performance overview

> **Detailed financial review**

> Commentary and outlook

2017 Half Year Performance Highlights



Cardno is on track to meet guidance for FY17 with \$23.2m underlying EBITDA in H1 FY17.

- > Fee Revenue has returned to growth, broadly in line with prior year and 1.2% growth over H2 FY16
- > EBITDA from continuing operations was \$23.2m, which was down 34.4% from \$35.4m EBITDA in H1 FY16, but up 182.9% on H2 FY16 of \$8.2m
- > Net Profit after Tax of \$6.5m, up from a loss of (\$30.2)m in H1 FY16. This result excludes \$3.7m of abnormal items (see following slide)
- > Backlog down by 10.4% due to clean up of reporting of backlog. Engineering and environmental businesses are growing. Backlog now reported consistently across the group
- > Cash Flow from Operations down to (\$9.9)m which reflects timing of debtor receipts and creditor payments

2017 H1 Results A\$ million

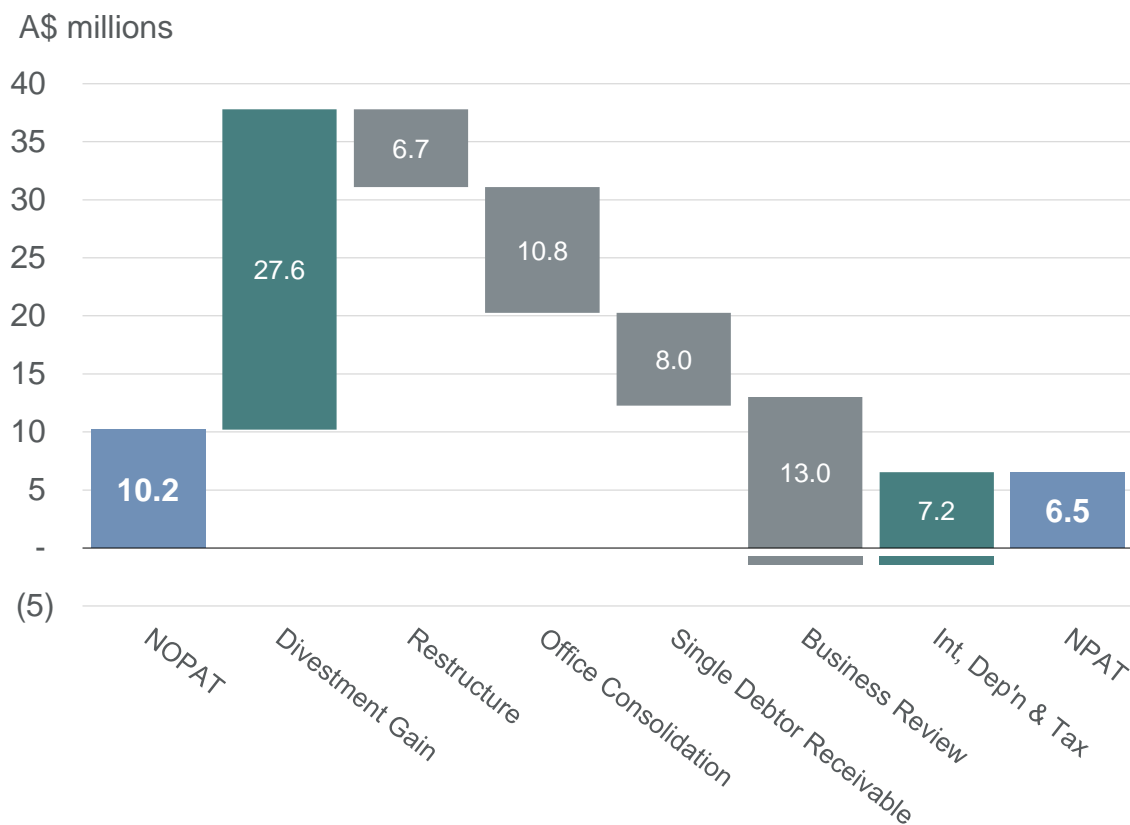
	Reported		
			Percent change year on year
Gross Revenue	\$575.7m	▲	0.6%
Fee Revenue	\$391.4m	▼	1.3%
EBITDA	\$23.2m	▼	34.4%
Net Operating Profit after Tax	\$10.2m ⁽¹⁾	▼	9.8%
Abnormal items	\$3.7m	▼	91.1%
Net Profit after Tax	\$6.5m	▲	121.7%
Backlog	\$762.7m	▼	10.4%
Net Cash Flow from Operations	(\$9.9)m	▼	137.9%

(1) Net Operating Profit after Tax, is a non-IFRS term which reflects the operating position of the business prior to one off and impairment adjustments. A reconciliation of NPAT to NOPAT has been prepared and is shown on slide 7.

2017 Half Year Performance Highlights



The Net Profit after Tax of \$6.5m includes a gain on sale of \$27.6m and \$31.3m of abnormal charges related to divestments, restructuring and balance sheet review costs.



- > Net gain on disposal of discontinued operations: \$27.6m (primarily related to sale of XP Solutions)
- > Restructure costs of \$6.7m:
 - \$3.2m related to redundancy and legal costs in Ecuador as business scaled down with project maturity
 - \$3.5m of group head office and redundancy costs as head office restructured to fit for purpose
- > Business review costs of \$31.8m:
 - \$10.8m provision related to lease costs associated with office closures and rationalisation of infrastructure
 - \$8.0m provision for receivables deemed materially at risk of collection due to a change in business conditions
 - \$13.0m provisions/accruals/writeoffs associated with business reviews;
 - \$1.5m closure of developmental drones business
 - \$2.6m provision associated with the Petroleum and Gas business
 - \$4.2m provision related to multi-year project review
 - \$3.2m provision following review of work in progress
 - \$1.5m indirect tax provision currently in dispute
- > Interest, depreciation and tax benefit of \$7.2m:
 - \$3.8m acceleration of depreciation on obsolete software
 - \$3.7m income tax provisioning for taxes under dispute (including penalties and interest)
 - (\$14.7)m tax effect of underlying adjustments

2017 Half Year Performance Highlights



(A\$ Millions)	2016			2017	H1 17 Change Versus		H1 Change %
	1H16	2H16	FY ⁽¹⁾	1H17	1H16	2HY16	
Total revenue from continuing operations	572.2	593.8	1,166.0	575.7	3.5	(18.1)	0.6%
Fee revenue from continuing operations	396.4	386.7	783.1	391.4	(5.0)	4.7	(1.3%)
EBITDA ⁽¹⁾ from continuing operations	35.4	8.2	43.6	23.2	(12.2)	15.0	(34.4%)
EBITDA margin	8.9%	2.1%	5.6%	5.9%	(3.0%)	3.8%	
Operating profit / (loss) before tax from continuing operations	16.0	(10.8)	5.2	9.8	(6.2)	20.6	(38.8%)
Net operating profit / (loss) after tax⁽²⁾ from continuing operations	11.3	(3.7)	7.6	10.2	(1.1)	13.9	(9.8%)
Effective tax rate	29.4%	65.7%	(46.2%)	(4.1%)	(33.5%)	(69.8%)	
Net operating profit / (loss) after tax and abnormals from continuing operations	4.8	(0.2)	4.7	(21.1)	(25.9)	(20.9)	(539.6%)
Impairment of goodwill	-	(178.2)	(178.2)	-	178.2	178.2	100.0%
Tax impact of impairment losses	-	22.4	22.4	-	(22.4)	(22.4)	(100.0%)
Discontinued operations	(35.0)	(8.7)	(43.8)	27.6	62.6	36.3	178.9%
Net profit / (loss) after tax	(30.2)	(164.7)	(194.9)	6.5	36.7	171.2	121.7%
Net operating cash flow	26.1	30.3	56.4	(9.9)	(36.0)	(40.2)	(137.9%)
Net operating cash flow / NOPAT	230.9%	818.9%	742.1%	(97.1%)	(328.0%)	(916.1%)	
Basic earnings per share (cents)	(15.04)	(64.15)	(79.19)	1.37	16.41	65.52	
NOPAT basic earnings per share (cents)	5.65	(2.56)	3.09	2.13	(3.52)	4.69	

(1) Excludes Discontinued Operations of XP, Mining, ATC and ECS.

(2) Net Operating Profit after Tax, is a non-IFRS term which reflects the operating position of the business prior to impairment adjustments. A reconciliation of NPAT to NOPAT has been prepared and is shown above.

2017 Half Year Segments



Cardno, segment reporting is now presented in four segments.

Americas Engineering and Environmental

- > Region structured as three divisions: Environmental & Science, Infrastructure, Government
- > 1H17 Revenue \$207.7m, EBITDA \$3.0m
- > 79 locations, 1,603 staff

Asia Pacific Engineering and Environmental

- > Managed in two geographic regions: Northern and Southern.
- > 1H17 Revenue \$142.1m, EBITDA \$16.5m
- > 21 locations, 1,315 staff

Portfolio Companies: Construction Sciences, PPI Oil and Gas, and Latin America

- > 1H17 Revenue \$81.6m, EBITDA \$3.0m
- > 23 locations, 930 staff

International Development

- Global operations, three major geographies: Americas, Europe, Asia-Pacific
- > 1H17 Revenue \$144.3m, EBITDA \$0.7m
 - > 4 locations (Cardno offices), 556 staff (**)

NB: Staff numbers include permanent, part time and long term contractors.

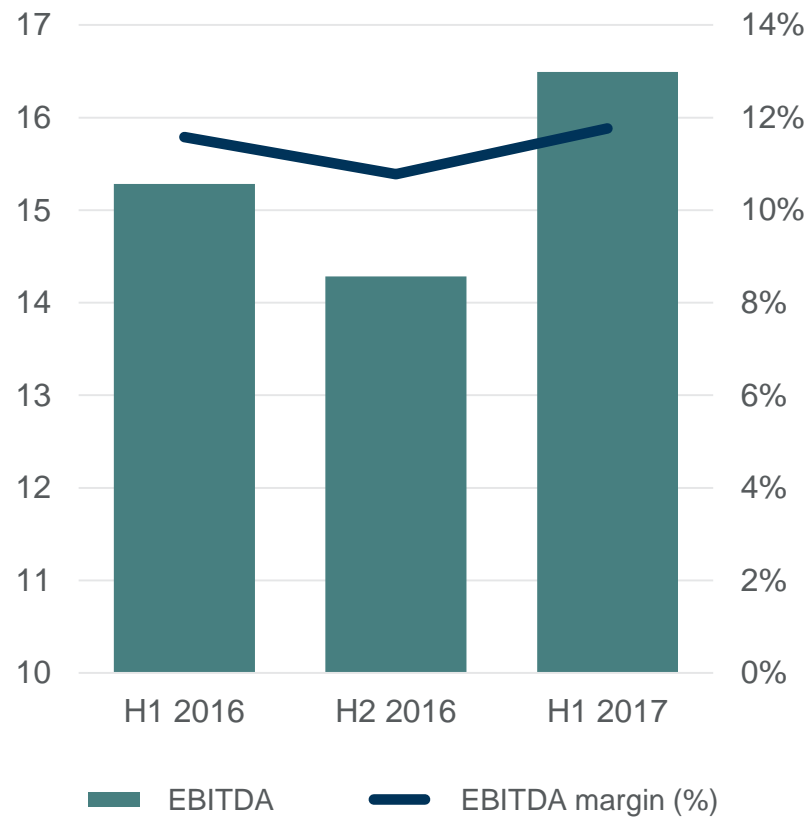
*(**) excludes contractors*

2017 Half Year Segments: Asia Pacific



ASIA PACIFIC EBITDA AND % MARGIN

A\$ million



Asia Pacific continues to perform strongly and demonstrates the quality of our teams, the work performed for clients and management.

- > Gross Revenue in H1 FY17 of \$142.1m. This was 6.9% higher than H1 FY16 and 6.3% higher than H2 FY16
- > EBITDA margin was 11.7%, which is higher than the 11.6% margin achieved in H1 FY16 and 10.8% in H2 FY16
 - EBITDA margin includes all allocations for corporate and group costs
- > A number of restructure actions that have been completed in H1 FY17 will generate benefits from FY18 (for example material rent reduction in head office)
- > Business is investing significantly in major projects expertise with a new dedicated business development team to focus on longer lead time material contracts
- > Successful evolution of the business from resources focus to infrastructure focus

KEY WINS IN H1 INCLUDE:

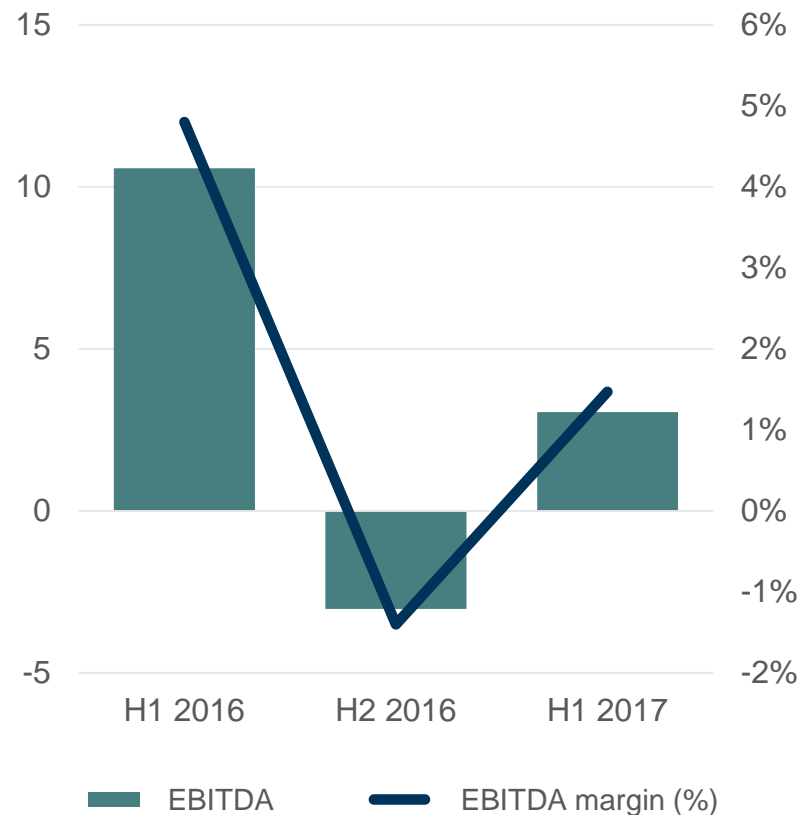
- > Range of engineering and environmental work for HMAS Coonawarra and Larrakeyah Barracks
- > Environmental technical support for WestConnex M4

2017 Half Year Segments: Americas



AMERICAS EBITDA AND % MARGIN

A\$ million



The turn around in the Americas is at an early stage with focus in the last six months on structure, leadership, staff and empowerment.

- > Gross Revenue in H1 FY17 of \$207.7m. This was 6.8% down on H1 FY16 and 4.0% lower than H2 FY16
- > EBITDA margin was 1.5%, which is lower than the 4.8% achieved in H1 FY16 but up from the (1.4)% margin achieved in H2 FY16
- > There remains significant improvement potential in the Americas profit margins. Focus has turned to growing revenue to improve margin (fixed cost utilisation) rather than additional cost reductions at a local level
- > US Head Office structure being devolved into operating units where possible

KEY WINS IN H1 INCLUDE:

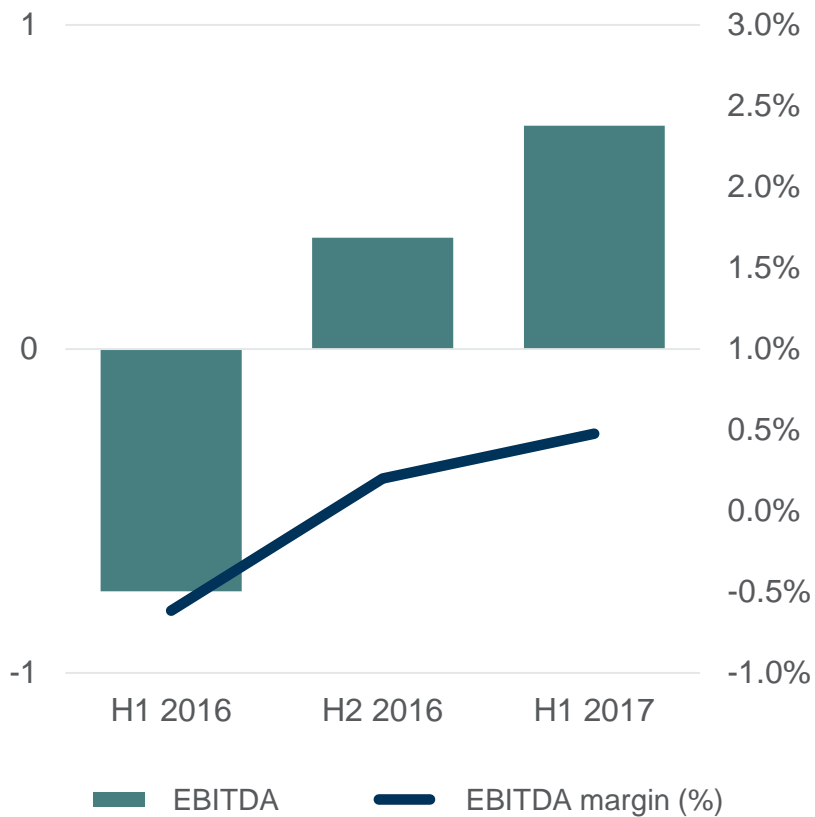
- > Florida Department of Transportation, construction engineering and inspection services
- > US Navy, Encroachment Management Services in Western United States
- > SRM Agreement Evergreen Conversion and Expansion

2017 Half Year Segments: ID



ID EBITDA AND % MARGIN

A\$ million



ID revenue growth has been strong but still needs to carry through to profit contribution.

- > Gross Revenue in H1 FY17 of \$144.3m. This was 22.6% up on H1 FY16 but 16.0% lower than H2 FY16
- > EBITDA margin was 0.5%, which is a low return on sales and was driven by a number of underperforming geographies and projects which will roll off over the next 12 months

KEY WINS IN H1 INCLUDE MULTI YEAR CONTRACTS FOR:

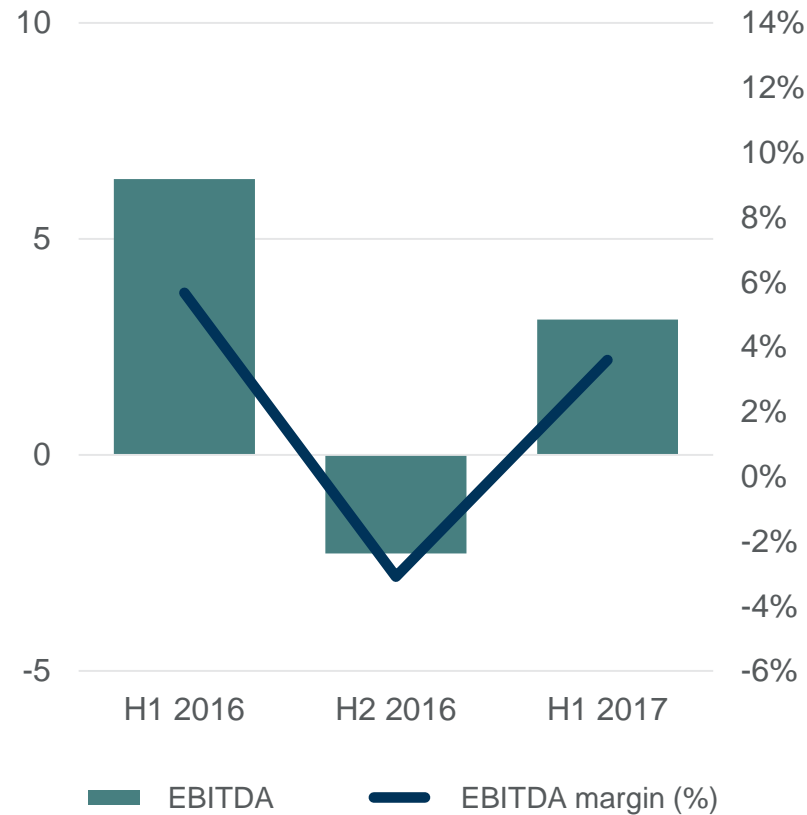
- > MCC, Liberia Fiscal Agent and Liberia Procurement Agent
- > EU, Turkmenistan Support for Further Sustainable Agriculture and Rural Development in Turkmenistan (Phase III)
- > DFID, Mozambique Technical Assistance Project for Business Licensing, Registration and Support Services
- > ADB, Myanmar Enhancing Rural Livelihoods and Incomes Project

2017 Half Year Segments: Portfolio Companies



PORTFOLIO EBITDA AND % MARGIN

A\$ million



The Portfolio companies have started to see a rebuilding of momentum as they have regained decision making ability, accountability and transparent financial measurement.

- > Gross Revenue in H1 FY17 of \$81.6m. This was 21.7% down on H1 FY16 and 18.8% higher than H2 FY16
- > EBITDA margin was 3.6%, which is lower than the 5.7% margin achieved in H1 FY16 and higher than the (3.1%) in H2 FY16
- > Although some sectors (Oil & Gas) remain challenged others (eg. Construction Sciences) are starting to see revenue pick up

KEY WINS IN H1 INCLUDE:

- > Toowoomba Second Range Crossing earthworks and aggregates testing
- > Major O&G client operate cost containment initiative
- > Lundin Gold environmental services in Ecuador

2017 Half Year Balance Sheet



	FY2015 '\$000's	FY2016 '\$000's	H12017 '000's
Cash and cash equivalents	84,750	105,613	79,226
Trade and other receivables	266,513	191,053	190,512
Inventories	154,611	115,305	99,878
Other current assets	41,334	26,328	40,030
Total current assets	547,208	438,299	409,646
PPE	64,851	47,310	38,980
Intangible assets	548,084	322,604	298,891
Deferred tax assets	65,448	118,580	136,885
Other financial assets	7,625	3,770	2,433
Total non-current assets	686,008	492,264	477,189
Total assets	1,233,216	930,563	886,835
Trade and other payables	150,566	125,115	119,957
Loans and borrowings	2,982	2,795	1,833
Other current liabilities	103,982	87,279	92,990
Total current liabilities	257,530	215,189	214,780
Loans and borrowings	393,108	152,425	84,663
Other non-current liabilities	12,970	5,852	15,354
Non-current liabilities	406,078	158,277	100,017
Total liabilities	663,608	373,466	314,797
Net assets	569,608	557,097	572,038
Net debt	311,340	49,607	7,270
Net Debt/EBITDA (lending covenant $\leq 3.0x$)	2.6x	1.5x	0.3x
Interest Cover Ratio (lending covenant $\geq 3.3x$)	13.9x	3.5x	3.4x
Net Asset Value (lending covenant $\geq \$445.0M$)	569,608	557,097	572,038

There has been a significant focus on 'cleaning up' the balance sheet:

- Net debt is now \$7.3m which is down from \$49.6m as at June 30th 2016
 - This improvement in net debt was primarily due to the sale of XP Solutions in the half
 - There were a number of one-off costs in the half related to the restructuring process
- There has been a write off of obsolete software
- The decrease in intangibles from \$322.6m to \$298.9m reflects the sale of XP Solutions
- Includes onerous lease provisions relating to office closures
- Business is in compliance with all covenants with significant head room. Currently there is 0.3x Net Debt/EBITDA



The Board is pleased with the improvement in the strength of the balance sheet and believes that Cardno now has, like for like, one of the strongest balance sheets in our sector globally.

* Interest Cover Ratio is the ratio of EBITDA to Net Interest Expense for the prior 12 months.

2017 Half Year Balance Sheet Strength



	FY2015 '\$000's	FY2016 '\$000's	H12017 '000's	
Net debt	311,340	49,607	7,270	1
Total debt facilities	US\$480m	US\$210m	US\$108.5m	2
Intangible assets	548,084	322,604	298,891	
Trade + Other Receivables – trade payables	115,947	65,938	70,555	3
Net tangible assets	21,524	234,493	273,147	4
Current assets/Current liabilities	2.1x	2.0x	1.9x	
(Cash + Debtors + WIP) / (payables + debt)	0.9x	1.5x	1.8x	5
(Cash + Debtors + WIP) / Debt	1.3x	2.7x	4.3x	5
Net Debt/EBITDA (<i>lending covenant <= 3.0x</i>)	2.6x	1.5x	0.3x	5
Interest Cover Ratio (<i>lending covenant >= 3.3x</i>)	13.9x	3.5x	3.4x	
Net Asset Value (<i>lending covenant >= \$445.0M</i>)	569,608	557,097	572,038	

Our lending partners have been very supportive over the last 12 months and Cardno has been able to review all aspects of its business.

1. Reduced net debt from \$49.6m June 2016 to \$7.3m post XP sale
2. Permanently reduced debt facilities from US\$210m at June 2016 to US\$108.5m post the sale of XP Solutions
3. Trade and other receivables less trade payables has increased from \$65.9m to \$70.6m
4. Net tangible assets increased \$38.7m due to the pay down of debt
5. Liquidity ratios significantly improved

* Interest Cover Ratio is the ratio of EBITDA to Net Interest Expense for the prior 12 months.



The company is now in a position to focus on growing profitability and developing long term growth options for the business.

Cash Flow



	FY2015 '\$000's	FY2016 '\$000's	H12017 '000's
Underlying EBITDA	111,920	43,559	23,231
Other non cash	(5,822)	-	-
Working capital movement	(27,169)	17,517	(25,903)
Net interest paid	(6,950)	(10,387)	(3,584)
Income tax paid	(23,856)	5,698	(3,657)
Net cash provided by operating activities	48,123	56,387	(9,913)
Proceeds on disposal of subsidiaries	-	85,943	57,290
Acquisition of subsidiaries, deferred consideration	(11,187)	(23,857)	(1,429)
Payments for PPE	(24,273)	(19,312)	(4,877)
Other investing activities	283	8,704	485
Net cash used in investing activities	(35,177)	51,478	51,469
Proceeds from issue of shares	6,135	177,038	-
Net change in borrowings	18,379	(262,151)	(65,225)
Dividends	(42,055)	(7,693)	-
Other	(885)	4,808	(1,498)
Net cash used in financing activities	(18,426)	(87,998)	(66,723)
Net increase in cash	(5,480)	19,867	(25,167)
Cash and cash 1 July	85,885	84,750	105,613
Other	4,345	996	(1,220)
Cash and cash equivalents at period end	84,750	105,613	79,226
Net cash from operating activities / EBITDA	43.0%	129.4%	(42.7%)

1. The sale of XP Solutions for US\$49m (prior to transaction related costs) was the primary driver of strong cash flow from investing activities
2. There was a significant repayment of debt, primarily from the funds from the sale of XP Solutions
3. There has been a reduction in net interest paid reflecting the lower net debt position of the business



2017 HALF YEAR
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- > Detailed financial review
- > **Commentary and outlook**

Significant progress has been made in H1



At a group level, there has been a streamlining in the corporate overhead to de-layer decision making and improve accountability.

- > Completed a review of the corporate head office which has narrowed the role and size of the head office
- > Achieved cost savings from the change in the Group Head Office function. A significant proportion of this cost saving will start to flow during FY18 (for example reduced lease costs) due to actions that have been implemented in H1 FY17
- > Put in place clear delegations of authority to ensure regional operational staff have genuine decision making ability (and clear accountability for their cost structures)
- > Refined board reporting and management reporting process:
 - Established reporting/benchmarking to allow key metrics such as headcount, utilisation and overhead to be compared by division
 - Implemented Calumo (a management reporting tool) throughout organisation
 - Upgraded accounting software in Australia (BST) to be consistent with the US BST version
- > Implementing business development tools and CRM tracking
- > Implemented consistent employee contracts for senior managers through organisation
- > Rolled out LTI and STI targets and linked to factors controllable by the executives. Rebuilding trust of staff in incentives
- > Scoped and started work on a global IT strategy – both infrastructure and applications
- > Reduction in net debt to near zero and pay out of one member of the banking syndicate

Significant progress has been made in H1



The organisation has been restructured to focus on divisional decision making units.

ASIA PACIFIC

- > Removed Australian regional office and established two decision making groups: North and South
- > Established central business development group focused on winning major projects
- > Completed small bolt-on acquisition in Perth to increase focus on engineering services in WA

AMERICAS

- > Reviewed Cardno's office infrastructure and looking to optimise for revenue generation and operating cost
- > Restructured operating units into three divisions (Government, Infrastructure, Science and Environment)
- > Divested small loss making mining consulting operation and closed loss making drone business

Significant progress has been made in H1



Cardno has focused on rebuilding the entrepreneurial spirit in its portfolio companies and ensuring appropriate accountability and reward structures are in place.

CONSTRUCTION SCIENCES

- > Separation from core engineering operations substantially complete
- > Focus on new Enterprise Agreements (EAs) to ensure increased workforce flexibility
- > Significant build in pipeline of work vs prior periods

PPI

- > Separation of business from the core engineering business complete
- > Recruitment of additional QA/QC focused people and additional BD focused staff to drive organic growth
- > A number of new client wins starting to occur

LATAM

- > Separation of business from the core engineering business complete
- > Eliminated expensive expatriate staff from business and consolidated management of Ecuador businesses
- > Resized business to reflect current backlog. Returned business to profitability

XP SOLUTIONS

- > Sold XP Solutions for US\$49m in September 2016

FY17 is a rebasing year for the business.

- > Company's prior guidance regarding FY17 full year performance is re-affirmed. This guidance was:
 - The Company expects EBITDA prior to abnormal costs, or costs associated with the restructuring of the business and Caminosca for FY17, to be of a similar order of magnitude to the reported EBITDA for continuing operations in FY16.



The Company expects the process of rebuilding shareholder value to be a medium term project with a focus on business development and management investment to underpin future growth.



THANK YOU

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