WATPAC

Watpac Limited

30 June 2017
Full Year Results Presentation

23 August 2017

Full year group snapshot

WATPAC

Capital

- Strong liquidity
- Conservative gearing
- Capital management options
- Deployable capital for strategic flexibility:
  - Adjacent sectors
  - Capital-intensive projects with higher margin potential

Earnings

- Muted underlying result due to cost escalation pressures and specific project issues
- Overshadowed other strong project results in Construction
- Improved underlying earnings in Civil & Mining

Asset Values

- Non-cash impairment charge recorded against Civil & Mining plant & inventory assets
- Strategy to still seek full value through utilisation
- Recent signs of sector recovery (activity levels & project pipeline)

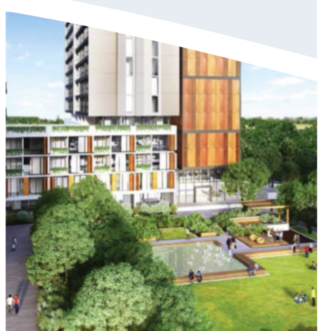
Work-in-hand

- Quality of workbook evolving (consistent with strategic project selection)
- Key projects secured in targeted sectors:
  - Health & Science
  - Education
  - Defence & Secure Environments
  - PPPs
- Forecast financial contribution from existing workbook to FY21

Future Investment

- Pre-contract resources
  - risk management,
  - project selection, and
  - anticipated increased volumes
- Resources focussed on project time and cost elements
- Design management capabilities to capture more value for all stakeholders
- National centres of excellence – champion best practice and innovation

Herston Quarter - SRACC (Qld)



Ryde Garden (NSW)

Vic Schools II PPP (Vic)

Imperial/Majestic (WA)

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Financials

Group financial summary

	$M	FY17 Statutory	FY17 Significant items	FY17 Underlying	FY16 Statutory	FY16 Significant items	FY16 Underlying	Change FY17 v FY16 Underlying
Revenue	Turnover	1,108.7	-	1,108.7	1,223.1	-	1,223.1	(114.4)
Earnings	EBITDA	(10.3)	33.7	23.4	(5.5)	38.9	33.4	(10.0)
	EBIT	(30.7)	33.7	3.0	(27.1)	38.9	11.8	(8.8)
	NPBT	(33.2)	33.7	0.5	(30.4)	38.9	8.5	(8.0)
	NPAT	(31.4)	32.5	1.1	(21.4)	29.4	8.0	(6.9)
Shareholder Returns	EPS (cents)	(16.89)	17.47	0.58	(11.41)	15.70	4.29	(3.71)
	Post-tax return on equity	(15.76%)		0.54%	(9.25%)		3.48%	(2.94%)

- Group revenue of $1.1 billion slightly down on pcp (FY16: $1.22B)
- Statutory Net Loss Before Tax of $33.2M, Statutory Net Loss After Tax of $31.4M
  - Includes $29.6M in pre-tax impairment charges against Civil & Mining plant and inventory; $4.1M in pre-tax costs relating to new business expenditure
- Underlying Net Profit Before Tax of $0.5M, Underlying Net Profit After Tax of $1.1M
  - After tax result includes positive impact of FY16 R&D tax credits
- Underlying Result in FY17 adversely impacted by prolonged cost escalation pressures, particularly in residential sector, affecting Construction segment profitability

Adjustments to statutory earnings

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Civil & Mining plant and inventory impairment ($29.6M)

- Historically low work-in-hand levels, as well as pressure from low second-hand market values triggered an assessment of book values under the 'value in use' methodology
- Adjustment to inventory represents value of critical spare part items associated with production equipment – hence link to plant valuations
- Adjustment driven by accounting standard requirements, however management will still seek to recover full value from plant, taking advantage of recent signs of sector recovery

New Business costs ($4.1M)

- Expenditure related to bid preparation for a large correctional facility opportunity in regional NSW and proposed East Coast civil infrastructure acquisition
- Neither are considered part of underlying operations
  - correctional facility opportunity ~$1B construction value and required separate delivery team
  - civil infrastructure sector provided diversification in adjacent market
- Appetite remains to consider other opportunities in future, development of valuable IP from both processes

Segment performance

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	Segment ($M) (excludes unallocated items)					
	Construction		Civil & Mining		Property	
	FY17	FY16	FY17	FY16	FY17	FY16
Revenue	954.8	1,043.5	148.9	166.5	7.3	8.0
Profit / (loss) before tax – underlying	11.8	26.0	7.1	(0.8)	(0.4)	0.1
Profit / (loss) before tax – statutory	11.8	26.0	(22.6)	(39.7)	(0.4)	(2.6)
Profit / (loss) before tax margin (%) – underlying	1.2%	2.5%	4.8%	(0.5%)	N/A	N/A

- Construction revenue decrease consistent with recalibration of work-in-hand to preferred sectors and timing of major new project awards
- While remaining profitable, financial performance of the Group’s Construction segment impacted by cost escalation pressures predominantly on residential projects awarded in previous periods
- Decrease in Civil & Mining revenue mainly reflective of complete elimination of iron ore mining contracts from workbook (FY16 revenue contribution ~$10M)
- Civil & Mining underlying result improvement reflects operational efficiencies during FY17 in delivering active mining projects

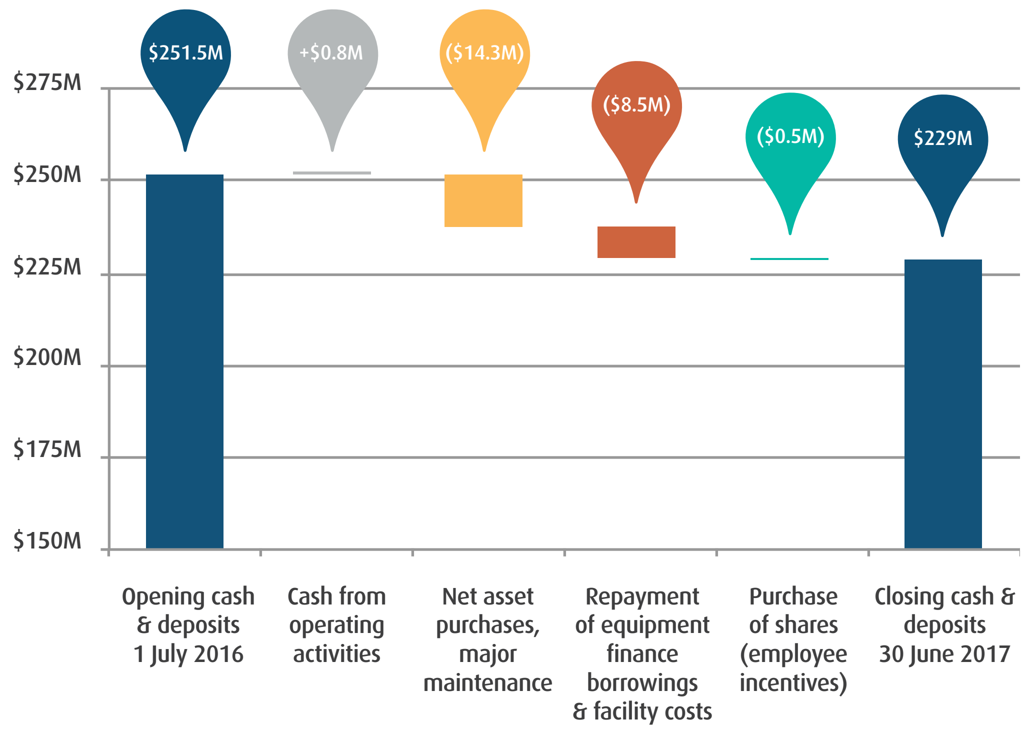
Financial position

- Gross cash of $229M (30 June 2016: $251.5M)
  - Decrease mainly attributable to normal working capital movements as a consequence of the current workbook project cycle
  - Positive operating cash flow reflective of strong management disciplines
- Current ratio of 1.27 broadly consistent with pcp balance (30 June 2016: 1.29) despite decrease in gross cash balance and impairment of stock assets
- Plant, equipment & spares inventory movement resulted from prescribed 'value in use' analysis despite anticipation of increased activity over medium to long-term

	$M			
	30 June 2017	30 June 2016	Mvmt $	Mvmt %
ASSETS				
Cash at bank and deposits	**229.0**	251.5	(22.5)	(8.9)
Trade and other receivables	**157.4**	141.8	15.6	11.0
Inventory (property development)	**12.5**	17.1	(4.6)	(26.9)
Inventory (stock and spares)	**10.4**	14.4	(4.0)	(27.8)
Plant and equipment	**84.1**	115.2	(31.1)	(27.0)
Intangible assets (Goodwill)	**17.7**	17.7	0.0	0.0
Other assets	**23.7**	21.9	1.8	8.2
Total assets	**534.8**	579.6	(44.8)	(7.7)
LIABILITIES				
Creditors and payables (current)	**293.5**	301.4	(7.9)	(2.6)
Borrowings	**11.5**	18.5	(7.0)	(37.8)
Provisions	**18.6**	19.7	(1.1)	(5.6)
Other payables (non-current)	**11.8**	9.2	2.6	28.3
Total liabilities	**335.4**	348.8	(13.4)	(3.8)
Net assets	**199.4**	230.8	(31.4)	(13.6)

Cash flow analysis

- Headline cash and deposits balance reflects normal working capital movements plus unique circumstances of 333 George St dispute
  - Withheld funds recovered August 2017 following successful adjudication under security of payments legislation, although dispute remains on foot with date of final resolution uncertain
- Funds on term deposit increased ~$12M following net investment during FY17
- Repayment of equipment finance borrowings further reduced gearing levels – represents future leverage opportunity



Capital position

- Strong net liquidity position at 30 June 2017 of $92.9M ($91.9M at 30 June 2016)
- Capital management objectives:
  - Calibrate investment in Civil & Mining business to reflect work-in-hand
  - Convert majority of remaining property assets to cash (circa 24 months)
- Surplus capital preserved
  - Provides growth opportunities in both existing operations (new projects) and adjacent sectors (e.g. infrastructure)
  - Provides opportunities for other capital management initiatives

	$M		
	Construction	Civil & Mining	Group
Net liquidity *	77.3	15.6	**92.9**
Other current assets	1.5	10.2	**11.7**
Non-current assets	20.1	75.2	**95.3**
Other liabilities and provisions	(26.5)	(3.9)	**(30.4)**
Total tangible assets	**72.4**	**97.1**	**169.5**
Intangible assets	41.4	-	**41.4**
Total capital allocation **	**113.8**	**97.1**	**210.9**
Debt capital	-	11.5	**11.5**
Equity capital ***	**113.8**	**85.6**	**199.4**

* *Net liquidity includes cash and term deposits, trade and other receivables (current) and trade and other payables (current).*

** *Total capital allocation in Construction and Civil & Mining segments includes allocation of Property and Unallocated assets.*

*** *Includes surplus capital allocated for future growth.*

Finance Facilities Summary

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Facility	Utilised $M	Facility limit $M *
Syndicate Bank Guarantees	67.4	164.2
ANZ / Westpac Bank Guarantees	3.6	3.6
Surety Bonds	128.0	245.0
Equipment Finance	11.5	21.5

* *Total core bank guarantee facility limit of $170M is reduced for value of bank guarantees issued by previous syndicated facility bank that remain outstanding.*

- Considerable bank guarantee and surety bond issuing capacity maintained
- Capable of supporting growth through projects requiring considerable upfront security (e.g. social infrastructure PPPs)
- Continued strategic application of equipment finance debt levels
  - ~15% gearing of Civil & Mining plant asset carrying values at 30 June 2017
  - Remains source of potential future debt funding if desired

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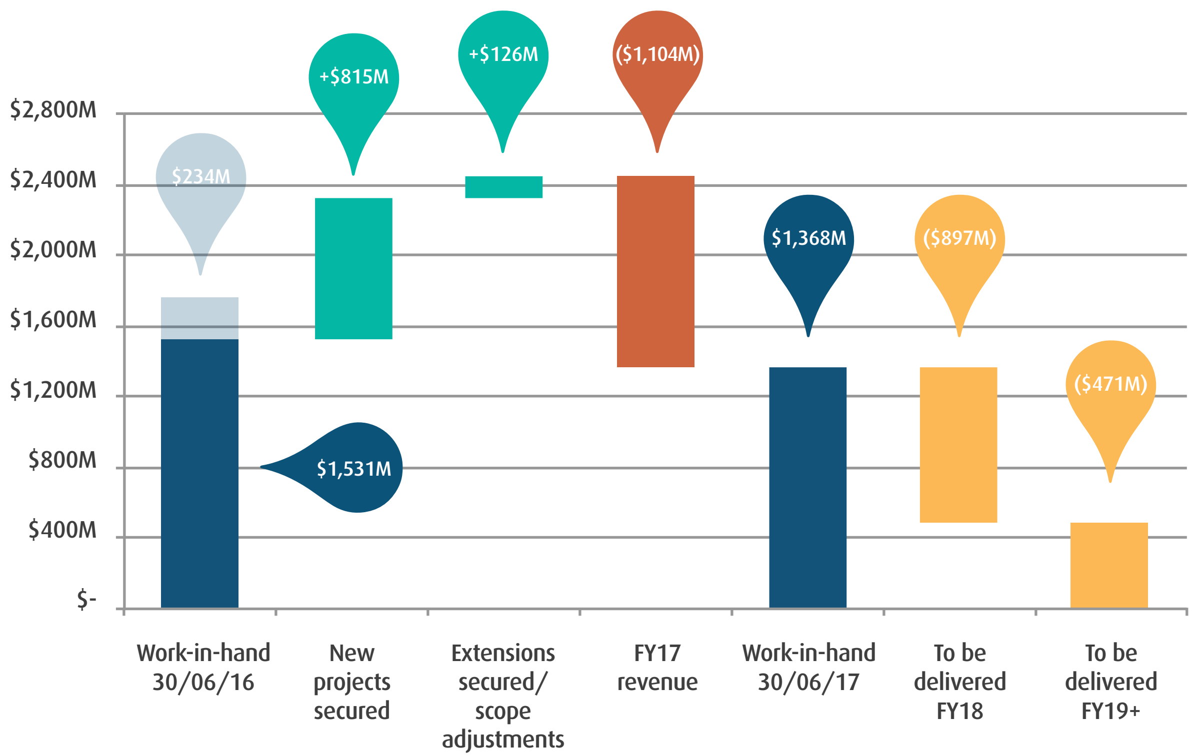
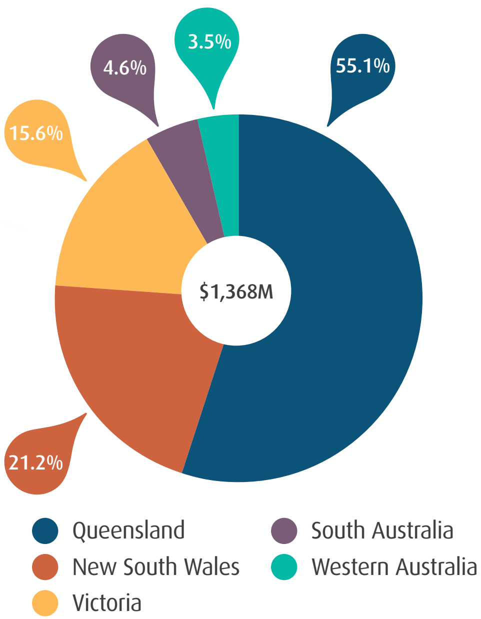
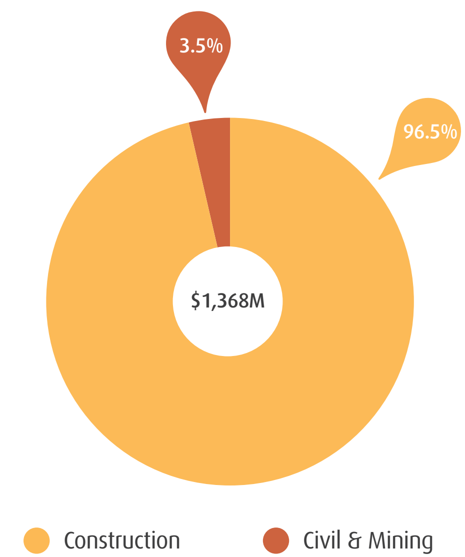
Operations

National work-in-hand volumes

- *Geographically diverse, with genuine national footprint*
- *Construction to drive near-term earnings; Civil & Mining targeted to improve with enhanced activity levels in resources sector*
- *Client deferral of ~$230M project in Qld, coupled with $187M education opportunity secured 7 July 2017 means underlying work levels broadly consistent year-on-year*







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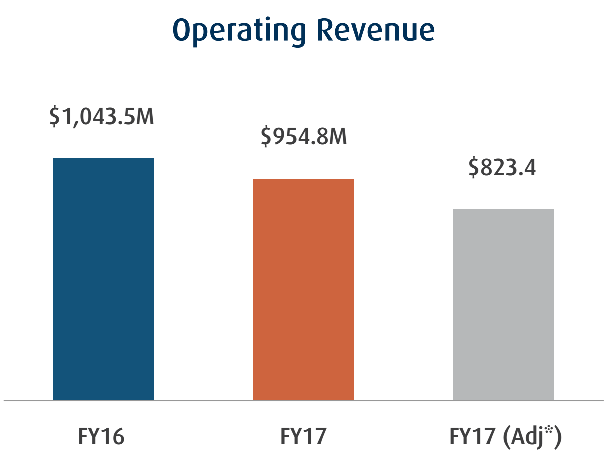
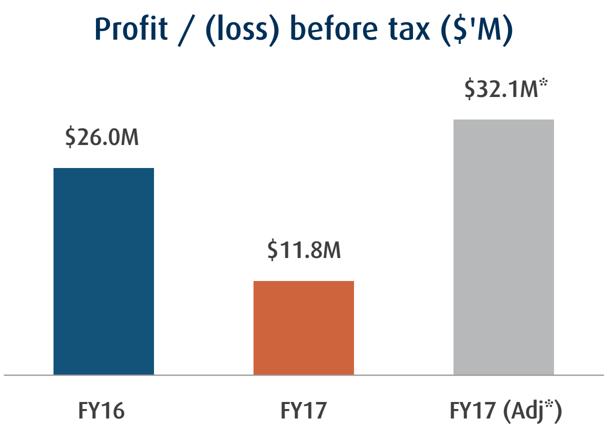
Construction segment

Cost escalation impacts earnings;

New work strategy, resourcing & risk management respond

- Demand for subcontractors remains high, however more sensible and normal pricing appears to be returning
  - New resources added to address subcontractor pricing risk, scrutinise and improve methodologies nationally
- Adjusted FY17 profit before tax highlights the impact projects which suffered from adverse subcontractor market movements had on profitability
- Visibility on opportunity pipeline in Health & Science, Education and Defence & Secure Environments sectors
- Selective tendering responsible for improved workbook quality, with further enhancement expected over short to medium term





* *Adjusted to exclude projects where subcontractor pricing impacts considerably exceed those typically experienced over the long term*

FY17 Construction result

Impact and responses to cost escalation

- Adverse impacts on FY17 earnings highlights importance of rebalancing workbook toward preferred sectors
  - Process well underway as at 30 June 2017; significant wins and project value under execution in Health & Science, Education, Stadiums & Recreation
- Impacts most keenly felt in Qld and NSW where exposure was greatest
  - Vic turnover in FY17 predominantly Education (Vic Schools II project) and Health & Science sectors
- Preferred sectors provide opportunity to leverage expertise, access to capital and design management capability; avoids competing solely on price
- Overhead structure, process and system maturity facilitates measured and prudently-managed risk taking

FY17 Construction result

Previously Identified Loss Projects

333 George Street

- FY16 margin impacts included flood event, latent conditions, site access and variation design delays
- Practical Completion achieved 2 December 2016
- Cash previously withheld by client
  - Recovered (plus interest and costs) in August 2017; final commercial resolution still outstanding
- Project result recorded at Balance Date accounts for all known circumstances

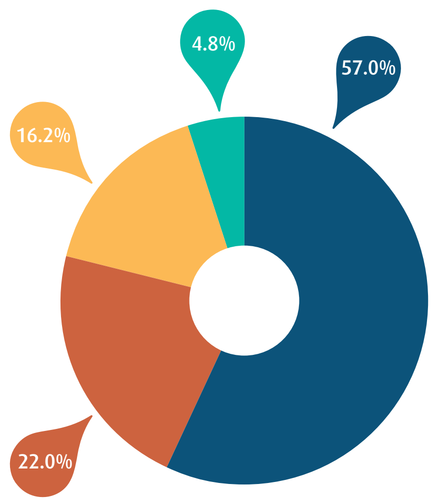
ANSTO Nuclear Medicine Facility

- Project approaching Practical Completion with detailed testing, commissioning and training in process
- No further financial deterioration during FY17 despite delivery of complex milestones within a highly technical scope plus a variety of commercial issues
- Contractual position with client recently settled

Construction work-in-hand

- *Health & Science profile expanding as a result of recent project success*
- *Reputable, sophisticated Residential & Accommodation sector clients*
- *Education and Other (stadiums) forecast to grow based on recent contract wins & preferred status appointments*

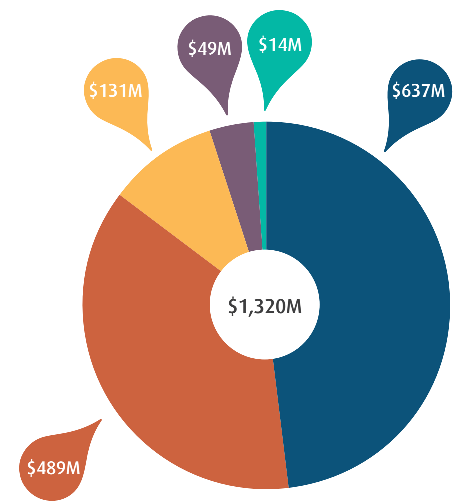
Construction Work-in-hand by Region



Queensland
New South Wales
Victoria
South Australia

Reflects region of management team – projects may be undertaken in other regions

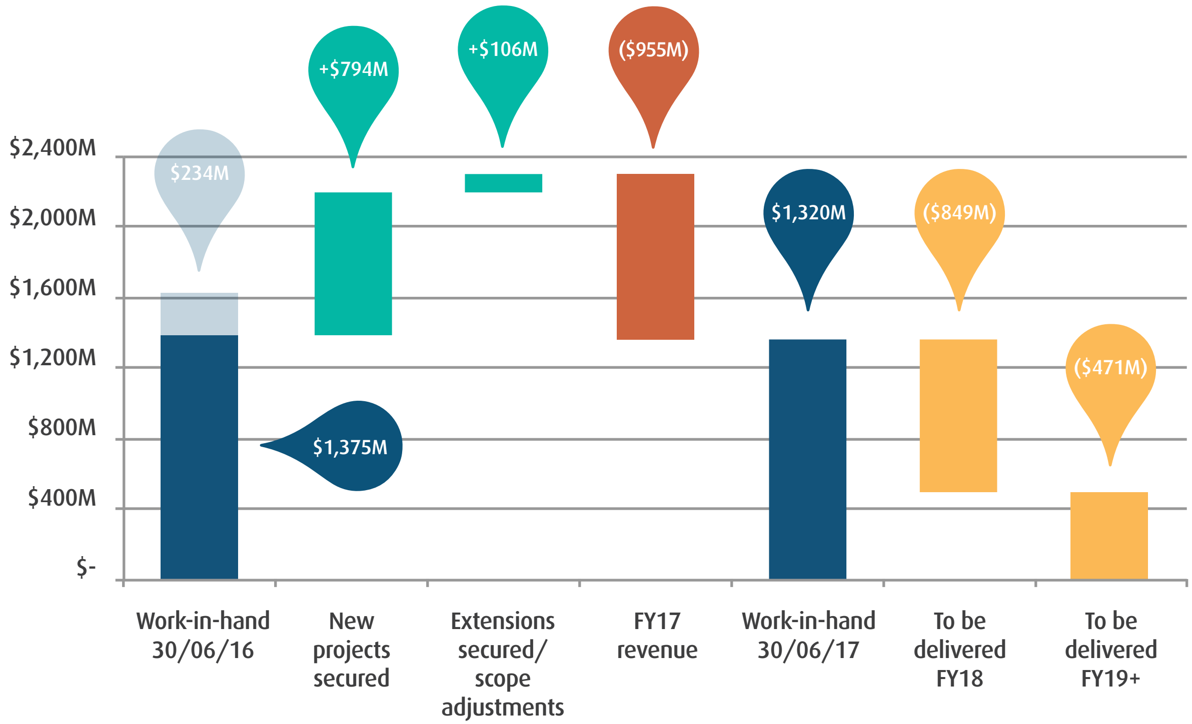
Construction Work-in-hand ($M) by Industry Sector



Residential & Accommodation
Health & Science
Education
Defence & Secure Environments
Other

Residential and Accommodation sector includes hotel construction, of which the Group is currently delivering three

Construction work-in-hand and delivery profile



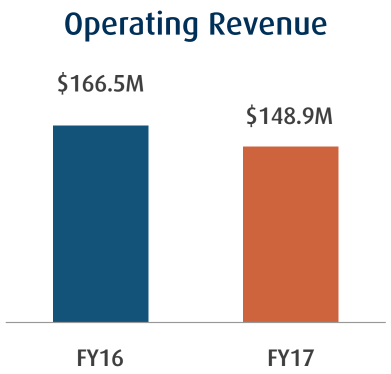
- Solid volumes secured to FY19 and beyond
- Substantial win ($187M) secured 7 July 2017 for Parramatta 'Schools of the Future', further bolstering education credentials and forward work volumes
- 'Preferred' status on a further $125M of work in the Health & Science sector and ~$250M in stadiums

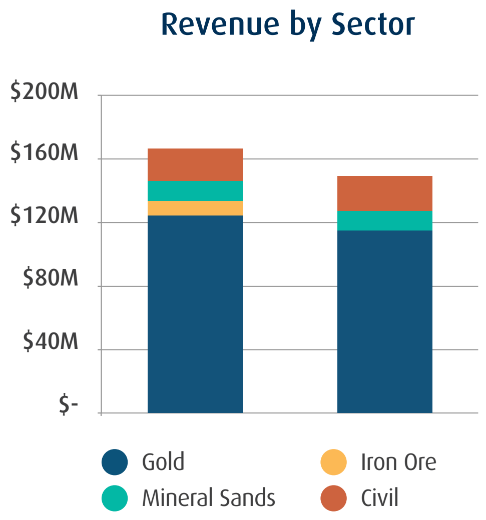
Civil & Mining segment

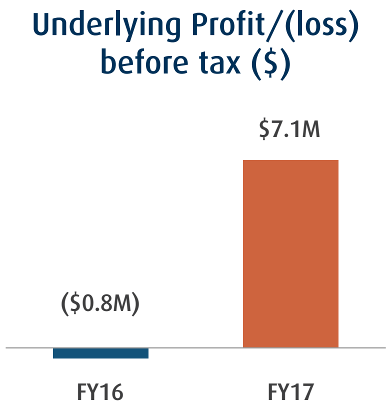
Civil & Mining: FY17 underlying result exceeds expectations

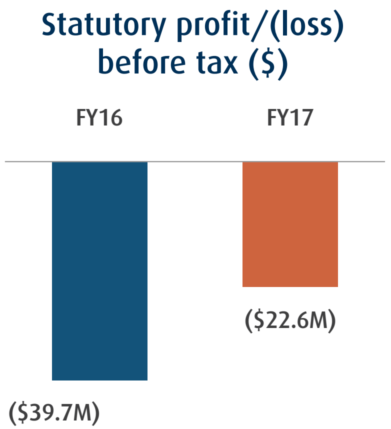
Result reflects improved underlying operational performance

- Improved earnings in FY17 from ~10% lower revenue base
  - Elimination of iron ore contracts
  - Enhanced overall financial performance across active projects
  - Productivity and cost control discipline
- Decrease in secured work levels since prior years however:
  - High current tendering activity
  - Proven ability to secure & deliver work profitably
  - Plan to fully realise plant values at pre-impairment levels through utilisation
- Recognition of impairment charge a function of low secured work volumes at 30 June 2017 (notwithstanding pipeline of new opportunities)

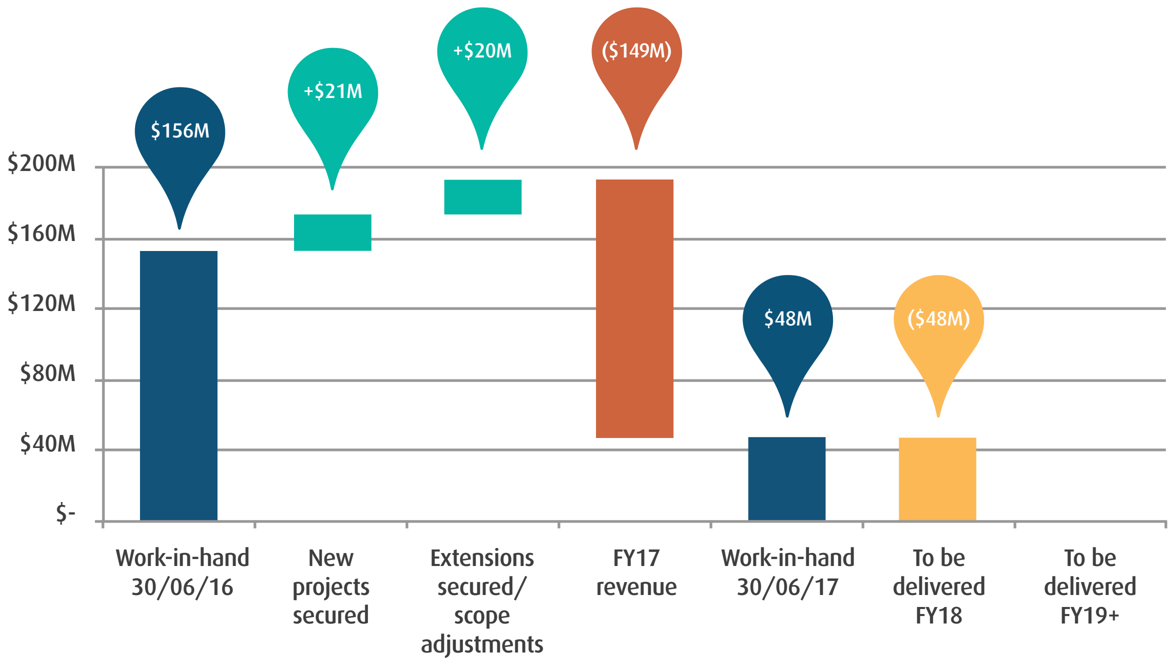




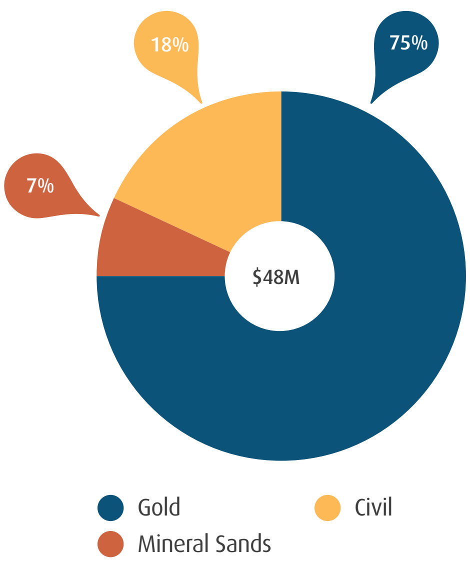




Civil & Mining work-in-hand and delivery



Work-in-hand by Sector



- Historically low secured work volumes, however high current tendering activity taking place
- Adaptable, well-maintained plant fleet capable of deployment on a range of metalliferous commodities – e.g. gold, mineral sands, copper, lithium, bauxite in addition to traditional civil projects
- Tendering resources bolstered by overhead investment to replenish secured work and grow small but profitable Civil business

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Strategy and outlook

Outlook

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Construction

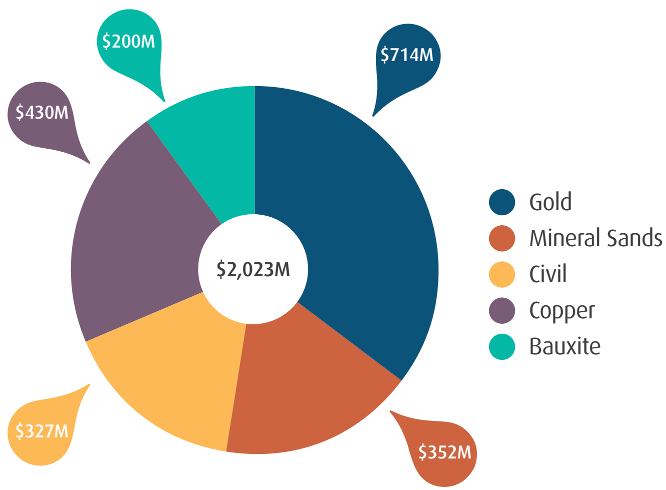
- Strong credentials across a number of targeted sectors that have the following characteristics:
  - higher barriers to entry
  - application of specialised experience and know-how
  - greater latitude to compete beyond price
- Other near-term strategies currently in the process of execution:
  - improve internal program and cost management competencies; additional personnel resources with an emphasis on efficiency and consistency; encouraging the adoption and sharing of best practice nationally;
  - establish national operational centres of excellence, focussing on both demonstrated and innovative building methods;
  - on-going development of in-house design management capabilities for greater overall project value capture across a broader range of activities in the project value chain.
- The immediate pipeline of opportunities across all operating regions feature projects meeting Watpac's selection criteria and providing an appropriate risk / return outcome for the Group

Outlook

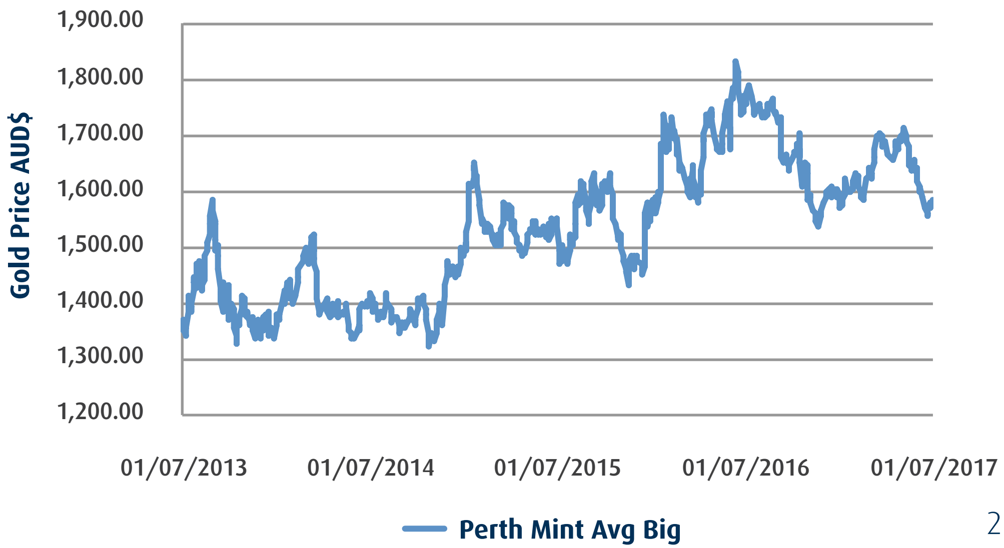
Civil & Mining

- Despite FY17 asset impairment charges, more opportunities over the coming 12 months anticipated in sectors where Watpac are well-credentialed and competitive
- Wealth of recent gold experience is fortuitous given favourable AUD pricing at present, supporting activity levels in the sector
- Anecdotal evidence suggests that investment in exploration and mine development is increasing, particularly in WA's Southern Gold Fields region centred on Kalgoorlie where Watpac currently maintain a presence on a number of mine sites

Current 12 Month Pipeline by Sector



Historical Gold Spot Price



Appendix

Corporate information

Board of Directors	Role
Richard McGruther	Chair
Peter Watson	Deputy Chair (appointed 7 July 2017)
Johan Beerlandt	Non-Executive Director *
Garret Dixon	Non-Executive Director
Linda Evans	Non-Executive Director
Bronwyn Morris	Non-Executive Director
Carlo Schreurs	Non-Executive Director
Martin Monro	Managing Director

* *Mr Johan Beerlandt has indicated his intention to resign from his position as a Director, effective 23 August 2017, with Mr Rik Vandenberghe nominated to take the vacant position from this date*

Senior Executives	Role
Mark Baker	Chief Financial Officer and Company Secretary
Russell Hall	National General Manager Civil and Mining
Nick Saclley	National General Manager Construction

ASX:WTP (31 July 2017)	
Listed	29 August 1985
Total shares on issue	186,055,907
Market Capitalisation	$109,772,985
Share price (closing 31 July 2017)	$0.59
Share price (52-week high/low)	$0.945/$0.525

Shareholder registry (31 July 2017)	Percentage held
BESIX Group SA *	27.04
Commonwealth Bank of Australia and subsidiaries *	7.35
Adam Smith Asset Management *	5.87
Balance shareholding	59.74

* *In accordance with the Company's register of substantial shareholders*

Capabilities

WATPAC

Watpac is a leading national construction and mining contracting company employing approximately 900 people across Australia. Watpac's operating business units span a variety of market sectors as shown below.

Active Sectors

Construction

- Health & Science
- Stadiums
- Education
- Specialty
- Defence & Secure Environments
- Commercial
- PPPs
- Residential & Accommodation

Civil & Mining

- Roads
- Surface Mining
- Bridges
- Crushing & Screening
- Rail & Ports
- Open Cut
- Dams & Reservoirs
- Drill & Blast
- Bulk Earthworks

Key Projects


Herston Quarter ($373M)

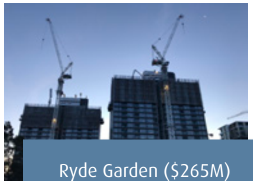

Parramatta Schools ($187M)


QLD Schools ($383M)


VIC Schools II ($291M)


NQ Stadium (<$250M)

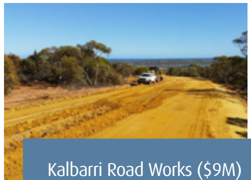

Swickers ($65M)

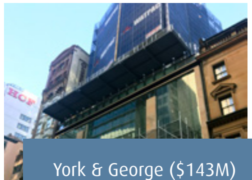

Ryde Garden ($265M)


Axehandle ($92M)


Imperial Majestic ($46M)


Mary Lane ($190M)


Kalbarri Road Works ($9M)


York & George ($143M)

Disclaimer

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